

FUTURION

**The Trade Union
Movement in
Society**

Carl Melin

The Trade Union Movement in Society

No man is an island. The trade union pledge is about not selling one's labour at a lower price than what has been agreed upon with one's peers in the labour market. If this pledge is not kept, employers will be able to push wages down and worsen working conditions for everyone. It is, in a way, a price cartel on labour. In theory, it thus imposes a restriction in a free labour market, also leading to higher unemployment rate since the price of labour will be higher than in a free labour market.

A free labour market, on the other hand, would not be a viable market since different actors have different strengths and access to information. Research shows that in actual fact trade unions often improve the way a labour market functions, slow employee turnover and reduce unjustified differences in wages. Moreover, the positive effects of trade unions on society are not only limited to wage formation.¹

Trade unions can also be seen as a solution to the classic *collective action problem*, i.e. if everyone acts on the basis of short-term self-interest, everyone will lose out. In a labour market with perfect competition between potential employees, the price of labour would probably be pushed downwards – at least if there was no job competition – and wages would be kept down. Research also shows that there is a correlation between membership of trade unions and wage trends.² The wage stagnation of low- and middle-income earners that can be seen in several countries can largely be explained by weakened trade unions.³

The incentive to unionise is not solidarity in order to help others, but rather solidarity in order to help oneself, by being loyal to the common cause. In the long term, it does not pay off to solely think about oneself.

The trade union movement, as we know it today, is very much a product of the industrial society. In the past, workers were not organised in any way at all and, in many societies, they were legally tied to various employers in the agricultural sector, for example, through slavery or serfdom.

¹ See among others, Freeman & Medoff 1979 "Two Faces of Unionism", Freeman & Medoff 1984 "What Do Unions Do", Harcourt & Wood 2004 "Trade Unions and Democracy" and Doucouliagos et al 2017 "The Economics of Trade Unions".

² Willman et al 2016 "UK Trades Unions and the Problems of Collective Action" and the cited references. The theory of the collective action dilemma comes primarily from Olson 1965 "The Logic of Collective Action: Public Goods and the Theory of Groups". See also Hermansson 1990 "Spelteorins nytta: om rationalitet i vetenskap och politik".

³ Rosenfeld et al 2016 "Union decline lowers wages of nonunion workers: The overlooked reason why wages are stuck and inequality is growing" and the cited references.

In many countries, including Sweden, the emergence of a strong trade union movement took place at the same time as of the one of political democracy. It was often the same movements and representatives who lobbied for universal franchise as for the right to unionise and improved working conditions. For most of the 20th century, and in particular during the post-war period, the emergence of a strong trade union movement also coincided with greater prosperity and higher real wages for most employees.

There is reason to assume that trade unions have had a substantial significance as regards both the development of democracy and economic conditions in different countries. The intention of this report is to summarise the existing knowledge about precisely that subject. What significance has the trade union movement had, still has today, and will have in the future for democracy and economic prosperity?

Contents of the Report

The following chapters summarise research and other insights concerning trade unions and their importance. Conclusively, research shows that strong trade unions are on the whole conducive to the reinforcement of democracy and greater prosperity. This has meant that several institutions that were previously critical to the trade union movement have revised their stance.⁴

The report does not attempt to provide answers to questions. Its aim is to present and summarise what is known about trade unions' role and importance. No limitations to time or space have been made, in terms of the time period or which countries researches have studied, but instead focus has been the relevance for Sweden and other similar countries, today and in the future. The focus therefore is on the present and on developed democracies, not meaning that the insights lack relevance for understanding what trade unions can mean for other types of countries.

Unfortunately, research on trade unions and their significance is limited. Much of the research that focuses strictly on trade unions is of a historical nature and has investigated the formation and work of individual organisations. Both historical and contemporary research can similarly be found in individual labour market conflicts.⁵ There is, on the other hand, an abundance of economic research which, at least in the past, has mainly viewed trade unions as a sort of supply cartel that have contributed to unemployment and a less well-functioning labour market. In addition, there exists plenty of literature how right-wing politicians have opposed the trade

⁴ For example, it is possible to compare the wording of the OECD Employment Outlook 2017 & 2018 with corresponding documents from the 1980s.

⁵ For example, Schiller 1968 "Storstrejken 1909 Förhistoria och orsaker", Broström (ed.) 1980 "Storkonflikten 1980" and Milne 1994 "The Enemy within: Thatcher's Secret War Against the Miners".

unions in the United States, corporatism and on wage formation in different countries. Studies such as these are often interesting to provide insights but are rather descriptive than analytical in character.

A number of questions are posed at the end of each chapter. These address topics that could be of interest for further research or for discussions on how the trade union movement should approach different challenges for the future.

The Role of the Trade Union in Civil Society and Politics

In the field of democracy research, a great deal of attention is paid to the significance of non-governmental organisations – often referred to as “civil society” – for dynamic and well-functioning democracy. These organisations include churches and various popular movements, both non-profit-making member organisations and economic interest organisations among which trade unions can be counted. Together with free media, independent courts and free universities, these institutions are important elements of liberal democracy.

All these institutions are considered to contribute to the strengthening of democracy while at the same time they can limit majority rule. They strengthen democracy by creating channels for debate, conflict management, representation and involvement, while simultaneously constituting independent centres of power that can sometimes be perceived as obstacles by those in political power. It is no coincidence that authoritarian and totalitarian parties and regimes often try to weaken this type of an independent power centre.

Political theorist Robert Dahl has written about the dilemma of pluralist democracy. Democracy presupposes political equality and also that citizens can organise themselves and try to influence society. The latter means that some groups de facto gain greater influence than others. Well-organised interests gain more influence than those that are not organised. Through unionisation, the interests represented by the trade unions have greater influence than they would otherwise, which can result in, better economic conditions for their members as an example. Critics of interest groups in general, or trade unions in particular, can therefore claim that the organisations in this way imply a limitation of political equality. Others, however, argue that it is easier to organise capital than labour and that trade unions therefore contribute to greater equality, especially if they organise people who would otherwise have little influence. Because trade unions, at least in the past, have mainly organised people with a lower income and weak political power, they have also contributed to a more egalitarian society.⁶

Trade Unions and Political Parties

There are differences both in the role of trade unions in the political system between as well as within countries. These differences have partly historical and partly organisational causes. In several countries, trade unions have constituted important components of political parties and sometimes, as in Sweden, have even been involved in the formation of political parties. In these countries some trade union

⁶ See, for example, Dahl 1983. "Dilemmas of Pluralist Democracy". The question of the struggle of interest between labour and capital will be discussed in more detail in a later section.

organisations can therefore be regarded as actors who not only endeavour to operate against political parties but also as actors within the parties. This applies mainly to left-wing parties and to trade unions that mainly organise manual workers. This is often apparent in the political party's name, for instance *Labour*, *Arbeiderpartiet* or *Socialdemokratiska arbetarepartiet*. But there are also examples of communist and Christian Democratic trade unions, and cooperation with such parties.⁷ The organisation of professional employees in trade unions has mostly been more recent than that of workers and it did not take place at the same time as the establishment of various political parties. This is one of a number of reasons why this kind of "union-political" collaboration mainly applies to trade unions for workers. Such collaboration is naturally facilitated if the members' political views are relatively homogeneous, an aspect which will be discussed in more detail later.

Organisational collaboration and ideological closeness between parties and interest groups is not something unique to trade unions. In Sweden, for example, close ties have existed between the agricultural movement and the Centre Party and also between free churches and the Christian Democrats. Although not a matter of formal organisational collaboration, there are often close personal ties that among other things affect recruitment. Over time, however, these ties have weakened but close links still exist today between business organisations and the centre-right parties.

Cooperation between parties and trade union organisations is not, however, limited to workers' trade unions or Social Democratic parties. In the United States, several white-collar unions actually make part of the coalition that makes up the Democrat Party. It is mainly trade unions that organise government officials that work closely with the Democrats, as Teachers' Unions.⁸

The conditions for conducting union work are very much affected by the legislation of a country. Politicians can both directly and indirectly facilitate or impede both member recruitment and union work. This is without doubt a contributing factor to why there are few examples of trade unions that are completely apolitical, in the sense that they always refrain from assuming a standpoint on political issues, such as labour market policy or the right to strike. If faced with a hostile government, the trade unions are at a disadvantage. The United States is a good example of what such legislation can lead to, like a sharp decline in union membership. It is also clear that trade union organisations on the defensive often adopt a more conflict-oriented behaviour.⁹

⁷ Bernaziak et al 2014 "European trade unionism: from crisis to renewal?".

⁸ Schlozman 2015 "When Movements Anchor Parties: Electoral Alignments in American History".

⁹ Nycander 1998 "Kriget mot fackföreningarna - en studie av den amerikanska modellen"

The role of trade unions as political actors is not, however, limited to questions related to the possibility of unionisation. On the contrary, trade unions have often chosen to get involved in matters they consider to be of importance to their members. It may include work environment issues and labour laws but also taxes. Trade unions with clear interests within a certain industry or profession have often taken action in such matters. Trade unions that organise industrial workers have on several occasions worked to secure a large supply of cheap energy.¹⁰

There are also examples of trade unions not only having taken action as players in civil society but also becoming, more or less an integrated part of public administration. One such example is the Swedish unemployment insurance fund that is regulated, and to a large extent financed, by the state but administered by the trade union movement. This is not unique for Sweden; similar arrangements exist, for example, in Germany's welfare system.¹¹

Corporatism

In political science, the concept of corporatism has often been used to describe a society in which organised interests and the state operate in close cooperation. The example of the Swedish unemployment insurance fund can be seen as a kind of corporatism. In the past, there was a strong element of corporatism in Sweden and the parties in the labour market were often represented on government boards and in government investigations. This has however become less common over time and where it does still exist, in formal ways, the representatives usually have a personal mandate and do not represent an organisation. The decline of corporatism in Sweden was primarily initiated by the employers, who argued that corporatism mostly benefitted the trade unions and their interests.¹²

Opinions differ as to whether close ties between trade unions and political parties are good for the trade unions or not. It is also difficult to compare countries because a country may have both unions with close links to political parties (such as LO, *The Swedish Trade Union Confederation*) and unions that are politically independent (such as TCO, *The Swedish Confederation of Professional Employees*, and Saco). It can be argued that trade unions are able to exert influence through the political parties – as LO does through the Social Democratic party – but at the same time, this can be inhibitive when other parties are in power. If a government or a political party

¹⁰ One example of this in Sweden was when the trade union for paper industry workers lobbied for nuclear power. Because, the manufacture of paper requires large amounts of energy, the price and availability of energy is very important for the livelihood of the union's members. Another example is HTF, the union for the workers on the Finland ferries, which lobbied for Åland to continue to be a tax-free zone for tax-free sales.

¹¹ These "Ghent systems" are described in more detail in the section on rates of trade union organisation.

¹² SAF 1991 "Farväl till korporatism", Rothstein 1992 "Den korporativa staten" and Hermansson et al 1997 "Vad blev det av den svenska korporatismen?".

can always count on the support of a particular trade union, or, if the opposite applies, i.e. the union is considered a political opponent, this may be a constraining factor. There is reason to believe that trade unions that have good relations with several parties are more easily able to make their voices heard. Presumably, a trade union's ability to cooperate with individual parties is also affected by the views of its members. If the overwhelming majority of the union's members sympathise with a particular party, open cooperation will be easier than if that were not the case.

In Sweden, cooperation between LO and the Social Democrat party has been legitimised by a large majority of LO members voting for that party. The most recent parliamentary election seems to have been the first time that a majority of LO members did not vote for the Social Democrats.¹³ In the same fashion, other centre-left parties have often won a large share of votes among trade union-affiliated workers.¹⁴ This can be compared with the white-collar and academic unions whose members have had a wider political span. In Sweden, TCO members have in most elections voted in much the same way as voters in general, while Saco members have been more centre-right.¹⁵

The influence of trade unions seems on the other hand to be related to the organisations' strength and ability to "deliver". Strong trade unions with a high rate of union organisation that can maintain stability on the work front and enter sustainable agreements seem to be attractive negotiating partners for both employers and political parties and governments. No research has been done on this topic either.

There are, however, studies that show that large organisations, including trade unions with many members, take greater social responsibility than weaker organisations do. One matter that has been repeatedly investigated in research on interest groups and organisations is whether different organisations' "specific interests" differ from "general interests". Swedish political scientist PerOla Öberg shows in a study of Swedish interest groups that large organisations, in his case the trade union movement, in Sweden benefit general interests because there is

¹³ Preliminary studies indicate that the Social Democrats have the support of 41 percent of LO members. In all previous parliamentary elections where this has been studied, more than half of the LO members' votes have gone to the Social Democrats. As late as in 2002, the figure was 58 per cent. In the 1950s and 1960s, the proportion was around 80 percent. See, for example, Oscarsson & Holmberg 2016 "Svenska väljare".

¹⁴ This applies, for example, to Labour in the UK and the Democrats in the USA. However, there too, the proportion of members who support these parties has fallen as a result of working-class voters becoming relatively more conservative, while educated people have become relatively more leftist. In the United States, however, there is also a clear difference between working class people who belong to a trade union and those who do not. Many more of the former category vote for the Democrats. See, for example, <https://rewire.news/article/2018/08/13/want-white-working-class-voters-support-democrats-strengthen-unions/>.

¹⁵ See, for example, Oscarsson & Holmberg 2016 "Svenska väljare".

fundamentally no conflict between a group as large as "the wage-earners" and the general public.¹⁶

Trade Unions and Political Participation

Another aspect of the trade unions' role in politics lies at the level of the individual rather than on an organisational level. It is a matter of organising, educating and mobilising people so that they gain greater political participation than they otherwise would have. People who become trade unionists also tend to be more active in other sectors of society. We cannot rule out the possibility that these people would have become interested in social issues anyway even without first being involved in trade unionism, but research shows that trade unions, all else being equal, do have a mobilising effect. The effect is probably greatest among employees who would otherwise have been the least interested in social matters. There is therefore reason to believe that trade unions that organise low-skilled groups are more important for increasing their social involvement than those that organise the educated. This is because we know that education and other socio-economic factors are of great significance for people's participation. In this way, trade unions contribute to greater political equality at an individual level.¹⁷

The effect seems to apply not only to elected union officials; just being a member may be enough. Studies show that there is a correlation between unionisation and voter turnout. Research has shown that a declining rate of unionisation has led to a lower voter turnout among those who are no longer members of a union. The underlying reasons are, however, not fully understood. It may be that people have a greater sense of affinity with society and other people both choose to vote and join a trade union to a greater extent. Another possibility, as shown among others by American studies, is that trade unions have the ability to mobilise their members to vote. This is, for example, common in the United States.¹⁸

Trade Unions and the Fight for Democracy

The majority of current Western European democracies made the political transition in conjunction with industrialisation. Industrialisation also triggered the emergence of stronger trade unions. Many of the trade union organisations that were formed represented population groups that lacked democratic rights and freedoms. For these, the fight for political rights went hand in hand with trade union rights. This is the main historical reason the close ties between trade unions and political parties,

¹⁶ Öberg 1994 "Särintresse och allmänintresse – korporatismens ansikten".

¹⁷ See, for example, Freeman & Madoff 1979 "Two Faces of Unionism", Petersson et al 1989 "Medborgarnas makt", Harcourt & Wood 2004 "Trade Unions and Democracy", D'Art & Turner 2007 "Trade Unions and Political Participation in the European Union: Still Providing a Democratic Dividend?" and Nycander 2008 "Makten över arbetsmarknaden".

¹⁸ <http://nymag.com/intelligencer/2018/01/democrats-paid-a-huge-price-for-letting-unions-die.html> .

existing in several countries. Swedish researcher Göran Therborn has shown that in many countries, the working-class trade unions and the political movements closely related to the unions, e.g. socialist parties, played a very significant and sometimes crucial role for the introduction of universal franchise. This is true even though such demands were also supported by, for example, liberal parties.¹⁹

It is also possible that another positive democratic effect of the trade unions was that the transition from pre-democratic societies to something else was a peaceful process and to a greater degree resulted in stable democracies. In civil society, members are usually equal and are taught meeting techniques and other internal democratic forms of work, which is a grounding for citizenship and participation. This also means that active members are better able to build up, maintain and operate in a democracy. It seems that the countries that were democratised in the early 20th century were better able to withstand anti-democratic movements when they grew stronger in the 1920s and 1930s. With the exception of Germany, the Northern European countries remained democracies while the countries in Southern Europe often fell back into dictatorship. Political scientist John Stephens has, among other things, demonstrated the importance of trade unions both to bring about and uphold European democracies. This also seems to apply to younger democracies, such as those in Latin America.²⁰ The free Polish trade union Solidarność (Solidarity) also had a crucial role in the country's democratisation.²¹

The research done by Stephens and others shows that the trade unions were of great importance in consolidating democracy in its early days, while little is known about trade unions' role in protecting democracy in countries that have been democratic for a long time. Today, we see how liberal democracy is being challenged, particularly in the former communist dictatorships of Eastern Europe but also in other places. Authoritarian movements want to restrict the freedom of the media, universities and the courts of law as well as obstruct civil society actors like the trade union movement. Based on our knowledge of the development of the 20th century, there is good reason to believe that trade unions can play an important role in defending democracy. Which role it should be, what the unions can and should do are questions yet to be answered.

Issues for future discussion:

¹⁹ Therborn 1977 "The Rule of Capital and The Rise of Democracy".

²⁰ See, for instance, Stephens 1989 "Democratic Transition and Breakdown in Western Europe, 1870-1939: A Test of the Moore Thesis" and Rueschemeyer et al 1992 "Capitalist Development and Democracy".

²¹ See, for example, Szafraniec 2008 "From Totalitarianism to Democracy".

- What role can trade unions play in securing and developing liberal democracy when it is exposed to threats from, e.g. authoritarian populists?
- How can the unions educate all of their members in democratic processes instead of only their elected officials?
- Do the trade unions need to become more confrontational if political parties impede trade union formation and membership and unions' possibility to represent their members?
- Where do we draw the line between a trade union considered to represent general interests and one to represent specific interests? Is it simply a matter of membership rates or are there also other factors?

Trade Union Membership

The level of unionisation differs widely depending on the trade union. To begin with, there are differences not only between countries but also between industries and the type of employer. In most countries, the level of unionisation is higher at large work places and in the public sector than in the private sector. And while in the past unionisation was traditionally higher among blue-collar workers than among white-collar workers, particularly in the private sector, this has changed over the years, and in Sweden today we see the opposite, namely that trade union membership is higher among white-collar workers than blue-collar workers.²²

International Decline in the Level of Unionisation

With a few exceptions, the long-term international trend is that membership rates are falling. In most countries, figures have either been falling or have remained relatively constant for a long time. In the Nordic countries, where membership rates have been high (Sweden, Denmark and Finland), figures have decreased slightly while in Norway, where membership rates have always been lower (just over 50 percent), rates have been more stable. In other countries, such as the United States, Japan and Germany, membership rates have been falling for a long time, while in Eastern Europe and in Turkey membership rates have collapsed completely. The Eastern European countries, however, present a special case because during the Communist era, being a union member was not voluntary; in fact, it was often compulsory. After the fall of Communism, it was therefore natural for people to associate trade unions with the old regime, while at the same time the unions themselves had no experience of recruiting members on a voluntary basis.²³

In some cases, comparisons between countries are more complex, not least the changes over time. In the United States for example, the level of unionisation has been relatively stable among public sector employees while it has declined dramatically in the private sector. Another influencing factor in the United States has been that a great deal of industrial production has been relocated from states with a relatively high number of unionised workers to states with a lower rate, often with "right-to-work" laws, that in turn hamper the trade unions' work. It is thus not so much a matter of the level of union membership falling at workplaces where it had been high; but more about that jobs have been relocated to places with virtually no union membership at all.²⁴

²² Kjellberg 2017 "Fackliga organisationer och medlemmar i dagens Sverige".

²³ See, for example, Bernaziak et al 2014 "European trade unionism: from crisis to renewal?" and Kjellberg 2017 "Fackliga organisationer och medlemmar i dagens Sverige".

²⁴ Nycander 1998 "Kriget mot fackföreningarna – en studie av den amerikanska modellen". See also Farber & Western 2001 "Accounting for the Decline of Unions in the Private Sector, 1973-1998" which claims that it is structural factors rather than the ability to organise workers that lie behind the declining rate of organisation in the USA.

What Determines Unionisation Rates - Rational Choice

The predominant explanatory model used in the social sciences was for a long-time the so called Rational Choice-model. This can be seen as a development of the economic theory of markets with supply and demand, which states that the way a person acts in a given situation is mainly determined by self-interest. People thus decide how they are going to act based on a cost-benefit analysis, e.g. which party they are going to vote for, whether to accept a particular job, or become a union member and pay the membership fee.²⁵

The theory of rational choice has been challenged in recent decades, among others by “institutionalists” who argue that the model is unrealistic, and that people often act in ways that cannot be explained using strictly rational models. One argument is that different institutions are of significance and can influence the factors that affect how individuals choose to act. As an example, institutions, including informal ones, can explain why individuals sometimes can solve *the prisoner’s dilemma* where all parties will lose out if they act strictly on the basis of self-interest.²⁶

The Ghent Model

Several researchers claim that the Ghent system is the factor proving the importance of the institutions. It is a system used in a number of countries, including Sweden, leading to unemployment insurance being administered by the trade unions. A comparison of the level of unionisation in different countries shows that countries with a Ghent system have a much higher number of union workers. While the number of union membership declined in most western countries without a Ghent system during the latter part of the 20th century, countries with such a system had unchanged or even an increase of unionised workers.²⁷ Countries that are otherwise very similar, such as Sweden and Norway, show large differences in the number of unionised workers, the main reason believed to be due to the lack of a Ghent system.²⁸

The Ghent system can be described as an element of corporatism in the Swedish public administration. Although the system has historical roots insofar as it was the

²⁵ This theory has been described in several classic economics works and is closely linked to both Adam Smith and – during the 20th century – the Chicago school with thinkers such as Milton Friedmann and Gary Becker. See Allingham 2002 "Choice Theory: A Very Short Introduction" for a brief summary.

²⁶ See, for example, North 1990 "Institutions, Institutional Change and Economic Performance", Hermansson 1990 "Spelteorins nytta: om rationalitet i vetenskap och politik" and Ostrom 1991 "Review: Rational Choice Theory and Institutional Analysis: Toward Complementarity ". The prisoner’s dilemma refers to two accomplices who are each interrogated separately. The one who confesses first will be given a reduced sentence while the other will receive harsher punishment. The best thing for both prisoners is that neither confesses but for the individual, it is always better to confess than not to do so.

²⁷ Scruggs 2002 "The Ghent System and Union Membership in Europe, 1970-1996".

²⁸ See, for example, Rothstein 1992 "Den korporativa staten: intresseorganisationer och statsförvaltning i svensk politik".

trade unions that originally organised the system of unemployment benefits, today it is administered by state or other government agencies in most other countries.²⁹ It is, however, clear that the system has a positive effect on the ability to recruit and retain members by trade unions.³⁰ It is notable that no research seems to have been done on why the Ghent system has such a positive effect on unionisation. Being only part of a unemployment benefit scheme, without being a union member, does not risk losing one's unemployment benefits, as we know.

Despite unemployment benefit schemes usually covering most of the labour market, trade unions sometimes contribute to improvements through, for example, supplementary insurance schemes. The Swedish unemployment insurance fund and similar systems in other countries often have some form of cap which means that in practice the insurance is "worse" for groups with higher incomes.³¹ In Sweden, not only high-income employees reach the cap; many people with a medium income also have limited income protection if they are unemployed. Several trade union organisations, in particular those that represent white-collar workers and academics, therefore often have additional forms of unemployment insurance which bolster the general unemployment insurance. Some kind of unemployment insurance is normally included in the membership fee, but thanks to a collective procurement process it is often possible to supplement the insurance at a lower cost than if the insurance had been taken out individually. In a way, this sort of income insurance is a modern version of the Ghent system that has been adapted primarily for medium- and high-income earners. Researcher Anders Kjellberg, an expert on union membership rates, states that income insurance has helped to make union membership more attractive.³²

Several trade unions offer a wider range of services than those that are strictly linked to unionism. The Ghent model is one example of how trade unions have also organised unemployment funds and even today it is common for trade unions to offer additional types of insurance cover, usually as a supplement to the state systems. Trade union insurance policies can be included in the membership fee, terms that have been negotiated in collective agreements and paid for by employers, or individual insurance policies where the union is able to keep premiums down thanks to collective procurement. This is very common in Sweden and it also exists in

²⁹ Rothstein 1992 "Den korporativa staten: intresseorganisationer och statsförvaltning i svensk politik".

³⁰ This might explain why critics of the trade union movement argue that unemployment benefit funds should be separated from the trade unions, either through "nationalisation" or by being run by private companies. See, for example, Eriksson & Segerfeldt 2011 "Mångfald i arbetslöshetsförsäkringen".

³¹ In 2018, the cap was 80 percent of an income of about SEK 25,000 a month.

³² See, for example, <http://www.dagensarena.se/innehall/facket-lockar-fler-tjansteman-arbetare/>.

many other countries. Member loans with lower interest rates are another example of how trade unions can help their members through collective procurement.³³

There are also examples of trade unions offering their members other types of benefits, e.g. cheap travel, holiday cottages, etc. This does not, however, seem to be as common as it used to be. The reason may have been that their members would not have been able to afford such things on normal market terms. Whether it is insurance or something else, it seems that the services or benefits that are not strictly linked to “unionism” are often intended to satisfy needs of the members they otherwise would not be able to meet themselves, and neither employers nor the public sector does not provide for. Perhaps skills development might be such an area in the future?³⁴

The Significance of the Membership Fee

Although in Sweden it is possible to receive unemployment benefits without being a member of a trade union, most people seem to be either a member of both systems or neither. The “price” to be part of an unemployment benefits scheme thus affects the perceived price of being a member of a trade union. When unemployment benefit fund fees were raised dramatically in Sweden in 2007 at the same time as the right to a tax deduction for the trade union fee was abolished, membership rates fell sharply from 77% to 71% between 2006 and 2008. In 2008, the fees were further differentiated based on the rate of unemployment in the various unemployment benefits funds. Thus, it became more expensive to be a member of a fund for blue-collar employees than a fund for white-collar workers and academics. This seems to have been a strong contributing factor to the continued decrease of LO union members. For the white-collar workers’ unions, on the other hand, the downward trend reversed around that same time and membership rates have been rising since.³⁵ Despite the objections to rational choice described in the previous section, it is clear that the union membership fees do matter for the level of unionisation.

A problematic aspect of trade union membership fees is that they can create a *free rider* problem where employees have access to the positive results of trade union work even if they choose not to join the union. At a workplace with a collective agreement, it is not possible for the employer to give employees who are not members of the trade union less beneficial terms of employment and it can therefore pay to refrain from union membership and thereby avoid the cost of the membership

³³ See, for example, https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_180223.pdf and <https://www.theguardian.com/money/2009/mar/23/union-membership-benefits>

³⁴ Several trade unions are pursuing the issue of people’s right to skills development. See, for example, <http://cfoworld.se/unionen-vill-ha-battre-kompetensutveckling/>.

³⁵ Kjellberg 2009 “The Swedish Ghent system and trade unions under pressure” and Kjellberg 2018 “Kollektivavtalens täckningsgrad samt organisationsgraden hos arbetsgivarförbund och fackförbund”. See also <https://www.diva-portal.org/smash/get/diva2:300408/FULLTEXT01.pdf>.

fee. In countries, and at workplaces, where the level of unionisation is high, this is less of a problem as the number of free riders is limited. In contrast, in countries with fewer union members, free riders are a major problem because a small number of members then have to finance the union work that others also benefit from. In many states in the United States, legislation therefore exists whereby all employees at workplaces with collective agreements have to pay a fee to the trade union. Such laws have however been challenged by conservative politicians and the Supreme Court has by five votes to four, declared these rules to be unconstitutional for public sector employees.³⁶

The Importance of Collective Agreements

Another factor which has an impact on unionisation rates is the degree of coverage of collective agreements. This depends not only on the level of unionisation but also on the employers' level of organisation. The collective agreement model presupposes that there are two parties that can negotiate with each other and enter into agreements. In places where membership rates among both employers and employees have fallen, e.g. as in Germany, this has resulted in lower coverage by the collective agreements.

Collective agreements, however, are not only dependent on the parties being organised; there seems to be a mutual interdependence as the collective agreement model in itself has a positive effect on the rate of membership. In countries where collective agreements regulate matters such as starting wages, unionisation rates are higher than in countries where collective agreements have weaker status and these types of issues are left to politicians to decide. The mutual relationship however extends beyond this. In countries where collective agreements' coverage is low, there exists political pressure to regulate minimum wage levels through legislation for example. It is no coincidence that the question of politically determined minimum wages is of great importance in the United States since only a small percentage of the work force is covered by collective agreements. Although the United States is an extreme case in the western world because of the weak position of its trade unions, it is common to have legislated minimum wages also in other countries. For example, in the UK, minimum wages were legislated by the Labour government in 1999 while in Germany minimum wages were legislated as late as in 2015, one of the reasons being the rapid decline in unionisation. In countries with legislated minimum wages, it is often more important for trade unions to influence policy rather than try to negotiate better conditions for their members and the limited significance of negotiations seems in turn to lead to weaker trade unions. Another model is used in

³⁶ See, for example, <https://www.bbc.com/news/business-44633482>. One of the arguments why this is unconstitutional is that the work conditions of public sector employees are to be regarded as a "political" issue and it therefore runs contrary to freedom of expression to force members to pay a fee to finance work on those conditions.

France, where politicians have chosen to turn collective agreements into legislation. This means that in France, where the rate of union membership is just 8 percent, the coverage of collective agreements is as high as 95 percent.³⁷

The Private vs. Public Sector

In the past, the level of unionisation in the private sector was often higher than in the public sector. Before the expansion of the welfare state during the post-war period, the typical public sector employee was usually some kind of government official or other public servant such as a military officer or teacher. During the post-war period, however, this changed and today the level of unionisation is higher in the public sector than in the private sector. There are several reasons. One reason could be, that in the same way larger companies have a higher level of unionization than small companies, public sector employers often a larger number of employees. It is definitely possible that public sector employers often have a less negative attitude to trade union organisation than private employers. In the United States, the level of unionisation today is considerably higher in the public sector and the U.S. teachers unions are regarded as possibly the strongest among trade union organisations.³⁸ In Sweden, on the other hand, membership rates have in recent years declined more among public sector employees than among other categories. This might, however, be a result of the scandal in the municipal union “Kommunal” rather than public sector employees generally becoming less interested in union membership.³⁹

The Importance of Politics

Trade unions' strength is very much dependent on their ability to recruit members, enter into agreements and take industrial action and their ability to influence public opinion and various decision-makers. All of these factors are affected by the legislation in force in a country. As mentioned, one example is the existence of a Ghent system but there are also other laws that can influence unionisation. In some countries, trade unions are not permitted to take industrial action themselves. This must instead be decided by means of a ballot among its members or the organisation's employees. The same applies to the right to enter into collective agreements. The level of unionisation will thus be affected by political decisions and it is also obvious that politicians who regard trade unions as opponents, as do

³⁷ See, for example, Kjellberg 2018 "Kollektivavtalens täckningsgrad samt organisationsgraden hos arbetsgivarförbund och fackförbund" and <https://www.lag-avtal.se/nyhetsarkiv/minimiloner-och-alternativa-fackforbund-6910590> .

³⁸ See, for example, Nycander 1998 "Kriget mot fackföreningarna – en studie av den amerikanska modellen" and Kjellberg 2018 "Kollektivavtalens täckningsgrad samt organisationsgraden hos arbetsgivarförbund och fackförbund".

³⁹ <https://arbetet.se/2017/02/27/allt-farre-arbetare-ar-med-i-facket/>

conservatives in the United States and the United Kingdom for example, legislation is used to obstruct the work of trade unions.⁴⁰

Issues for future discussion:

- How can trade unions find a balance between representing their members who carry various political views, whilst confronting political parties who introduce legislation that weakens power of the unions?
- Is it possible to maintain the legitimacy of the collective agreement model with a lower level of unionisation? Does a definite limit exist?
- Although the Swedish membership rates are maintained at a high level, they have decreased significantly in other nations. Will the appreciation for the unionised labour market model decrease within the EU, if Sweden becomes more of an outlier, and how does this affect us?
- Will it be possible longer term to differentiate the unions for academics, professionals and labourers? How feasible is this when increasing number of people make drastic career moves during the course of their working lives and as well as develop new skills?
- In the future, will there be a need for trade unions offer additional benefits to its members, other than what's included in their memberships today, e.g. skills development?

⁴⁰ See, for example, Nycander 1998 "Kriget mot fackföreningarna – en studie av den amerikanska modellen" and <https://www.forbes.com/sites/modeledbehavior/2013/04/09/how-margaret-thatcher-turned-great-britains-labor-markets-around/>.

Trade Unions and the balance between Labour and Capital

Over the past few decades, it has become an axiom that power has shifted from labour (employees) to capital (capital owners). It is, however, not easy to measure since power is not a quantifiable variable. Moreover, employees are able to exert power in many different ways; through their citizenship when, for example, states can exert direct power over companies, through different forms of employee-owned companies, and through trade unions which can exert influence either through their own strength or with the help of codetermination legislation. It is also difficult to distinguish between formal and actual power. Formally speaking, an entrepreneur has a high degree of autonomy while the situation for freelancers in many sectors is the very opposite. The formal autonomy of “freelancing” does not always compensate for the lack of security a permanent job would provide.

This section is on the power of workers, and not solely about trade unions. As stated previously, the lower level of unionisation in many countries has led to a loss of union power and strength. Consequently, the position of employees is weakened but there are also other factors which can have an impact.

Power and Wealth at a Societal Level

If we choose to define power as the ability to acquire and retain wealth, this axiom is confirmed. We can see that in recent decades relative wealth has increased dramatically among those who have access to capital while it has decreased, in relative numbers, among wage-earners. In a well-acclaimed book, economist Thomas Piketty demonstrated that as long as profit on capital is higher than increases in real wages, over time a substantial shift in wealth to capital owners will occur and inequality will increase.⁴¹

The question is what significance trade unions have had as regards the balance of power between labour and capital. This question can be discussed from four main perspectives:

1. Are trade unions an effective tool for balancing the power of capital?
2. Is the increased power of capital a result of weakened trade unions?
3. Has the increased power of capital contributed to the weakening of trade unions?
4. Is the struggle of interests between labour and capital a zero-sum game?

Questions 2 and 3 above can be viewed as a chicken-and-egg dilemma but both can in fact be true at the same time. There may be larger megatrends that are contributing to the strengthening of capital and to the weakening of trade unions at

⁴¹ Piketty 2014 “Capital in the Twenty-First Century”.

the same time as weakened trade unions are allowing capital to have more power. If the power of capital increases in a way that is not only linked to increased wealth but also political power, then that power can in itself be used to weaken trade unions via legislation, in which case the power of capital is self-reinforcing.

The answer to question 1 could be a yes. Research studies have clearly shown that the distribution of income and capital is more even in countries with strong trade unions. It is also clear that inequality has increased faster in countries where trade unions have been weakened, as in the USA for example, than in countries where they are relatively strong, as in Sweden.⁴² Sweden is an example of a country where economic inequality has increased but in absolute figures the majority of wage-earners have nevertheless benefitted from the increase in prosperity. This is most noticeable in Sweden's wage formation, where for many years the "benchmark" has contributed to increases in real wages. All else being equal, trade unions thus appear to be an effective tool for balancing the power of capital, at least when it comes to the distribution of income and wealth. The research done by Piketty and others, however, shows that inequality is increasing despite the existence of strong trade unions. There is thus a limit to how far strong trade unions "are enough" to limit a displacement of power.

Regarding the issue in question 2, it would seem that that question can also be answered in the affirmative. As mentioned, above inequality has increased more rapidly in countries with weak trade unions. We can conclude that the power of capital increases, at least in terms of income and distribution of wealth, when trade unions are weakened.

Question 3 can also be answered with a "yes". In most countries where trade unions have been weakened as a result of legislation, those interest organisations that represent the interests of capital have lobbied for legislative changes that strengthen the capital owners, and have often given support – financially or through advocacy – to those politicians who have been willing to weaken the trade unions.

The issue of most interest is perhaps question 4. From a strict Marxist point of view, a struggle of interests is going on between labour and capital where any positive development for one side implies a negative change for the other. The problem with this view is that it does not seem to be the case in reality. In the past, economic research in particular has regarded trade unions as an interference in the free market, hampering transactions and limiting growth. Modern research, however, including the research referred to in the introductory chapter, paints a different

⁴² <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1514.pdf>.

picture. An increasing number of researchers, including those at institutions such as the World Bank and the OECD, now regard strong trade unions as a primarily positive factor and consider the increase in inequality to be a problem.⁴³

Nor is it in countries with the weakest trade unions and the greatest inequality that economic growth is the greatest. It would therefore seem that to bring about a well-functioning economy with sustainable growth, there must be a balance of some kind between labour and capital and this is where trade unions play an important and positive role. This is discussed in more detail in the section on change in trade and industry. In his book, “Bumblebee Nation”, David Crouch interviews a number of Swedish entrepreneurs and union leaders, the majority of whom agree that there is often more that unites the two parties than divides them. And that both sides can be of benefit to the other.⁴⁴

Power in Companies and at Workplaces

Different countries have chosen different types of legislation to give employees and their organisations influence at workplaces and companies. The forms and extent of this influence, on the other hand, vary enormously. For example, in the Nordic countries the position of trade unions is considerably stronger than in, say, the USA where it is common for there to be no collective agreements or trade union organisation at all, in particular in the private sector. But where trade union influence does exist; it is usually limited to questions of how work operations are to be carried out and not what employers must do.

Trade union influence in the workplace can be manifested in different ways. In Sweden, it is mainly through collective agreements, the right to negotiation and information as stated in the *Co-determination Act*, and through representation on company boards that this influence is exerted. Similar possibilities exist in several countries, but the Swedish system gives trade unions a relatively strong position compared to many other countries. The Swedish model of allowing trade union representation on boards is relatively uncommon and in many other countries there are instead “company councils” where employers and trade unions discuss issues. These councils do not have the same overall responsibility as corporate boards. Essentially, however, it is still the employer who decides on most issues in the absence of clear legislation, for example, matters relating to work environment, working hours and rules for termination of employment. The influence of the trade unions is primarily a matter of being given information and the opportunity to put forward arguments. Because the employer has to negotiate (even if the employer

⁴³ See, for example, <http://documents.worldbank.org/curated/en/831241468740150591/pdf/multi0page.pdf> and OECD Employment Outlook 2018.

⁴⁴ Crouch 2018 “Bumblebee Nation: The hidden story of the new Swedish model”.

can basically “do as they please”), the trade unions can present arguments for other, better solutions.⁴⁵

At workplaces that do not have collective agreements or where there is no local trade union, opportunities to exert influence are more limited, but they can nevertheless be of great importance for the employees. In this regard, Swedish research is limited since collective agreements cover so much and the companies that do not have collective agreements are often concentrated to specific sectors. There are, however, studies from other countries that clearly show that trade unions are of great importance for the employees’ health, influence and general well-being. An article in *American Journal of Public Health* states that trade unions are an underestimated factor for the employees’ well-being.⁴⁶

The most direct form of power that trade unions can have over a company is when they have representatives on the board or own shares. Relatively little research has been done on this subject but some people say that board representation is of little importance since basically all members of the board have the same responsibility and confidentiality rules make it difficult for the trade union representatives to exploit the insight they have and pass on information to their members.⁴⁷ Trade union representatives, however, believe that the experience and competence of the union representatives on the board are a positive contribution to the board’s work, to the benefit of both the company and the employees.⁴⁸ Where the trade unions own shares in the company, this is usually as a capital investment and not in order to influence the company so as to promote the interests of the employees.⁴⁹

There is also research that confirms the above-mentioned views of trade unionists that trade unions have a positive influence on companies’ productivity, and not least ensure that changes lead to positive outcomes.⁵⁰

The Trade Union and Industrial Peace

One aspect of the balance of power between labour and capital is the possibility to take industrial action but the effectiveness of such action must also be considered. The possibility to take industrial action constitutes a form of power whereby the

⁴⁵ See, for example, Levinson & Wallenberg 2008 “Medbestämmande i det nya arbetslivet” and Grimshaw et al 2017 “Social Dialogue and Economic Performance: What matters for business – a review” and the cited references.

⁴⁶ Hagehorn et al 2016 “The Role of Labor Unions in Creating Working Conditions That Promote Public Health”.

⁴⁷ See, for example, <http://www.dagensjuridik.se/2013/05/avskaffa-ratten-anstallda-att-sitta-i-bolagsstyrelser-inratta-foretagsrad-i-stallet>.

⁴⁸ See, for example, <http://www.dagensjuridik.se/2013/06/viktigt-bade-foretag-och-anstallda-att-behalla>.

⁴⁹ See, for example, <https://www.kollega.se/inga-problem-med-aktier-i-bemanningsbranschen>.

⁵⁰ Fakhfakh et al 2011 “Workplace change and productivity: Does employee voice make a difference?”, Pohler & Luchak 2015 “Are unions good or bad for organizations? The moderating role of management response”, Grimshaw et al 2017 “Social Dialogue and Economic Performance: What matters for business – A review”.

opposing party is forced to make concessions. At the same time, it is not certain that recurring industrial action over time will strengthen trade unions.

Surprisingly few academic studies have been made of strikes and other labour market disputes. Much of the research has concerned specific strikes, such as the national strike (“Storstrejken”) in Sweden in 1909 or the miners’ strikes in the UK during the Thatcher era, but little has been written on strikes in general. In a few words, however, the following would seem to apply:

1. Strong trade unions strike less often. This is partly because they take more responsibility on the basis of their strength and role in the country’s national economy, and partly because they do not need to take industrial action to be able to negotiate good agreements. This correlation would appear to be true both for different countries and for different unions. Comparing the number of days of conflict in countries that are similar in other respects, it can be seen that this correlation is true even if the causal relationships have not been clearly identified.⁵¹
2. There are differences between countries that might be due to both culture and legislation. Trade unions are weak in both France and the USA but there are considerably more strikes in France, which is presumably linked to both cultural and legislative factors. No relevant research, however, has been done on this.⁵²
3. There is a difference between conflicts within the system and conflicts to protect the system. Trade unions who are fighting to retain a system - which usually implies conflict with actors outside the system - take industrial action more frequently. Two examples of such conflicts in Sweden are the Vaxholm conflict and the conflict in conjunction with the establishment of Toys R Us. The trade unions were prepared to take action to prevent changes that would imply a risk of upsetting the long-term balance of power in the labour market. This is also true in countries like the USA, where trade unions sometimes use the strike weapon to stop political decisions that would have a negative effect on the unions.⁵³
4. Conflicts seem to be more common among smaller trade unions that have the ability to cripple activities on a wide front, such as airline pilots, air traffic controllers and dockers. These trade unions have the capability to cause their opposing parties – and sometimes also third parties – substantial costs. Conflicts seem however to be rarer when a strike could threaten the workers’

⁵¹ ILO. See also Öberg 1994 “Särintresse och allmänintresse – korporatismens ansikten” regarding the higher level of social responsibility of large organisations.

⁵² ILO.

⁵³ See, for example, https://www.washingtonpost.com/news/answer-sheet/wp/2018/07/03/a-new-public-education-movement-is-emerging-in-wisconsin-a-rebuke-to-gov-walkers-war-on-labor-and-school-privatization/?utm_term=.f0d5d27efc1f which describes conflicts in the 2010s in the state of Wisconsin.

own jobs in the long run and where external costs are limited, for example a strike at a major industrial site.

All in all, this illustrates that the strike weapon is a tool for weak unions rather than strong unions. It seems that trade unions who hold a strong position do not need to use the tool very often while smaller and weaker organisations use it more frequently. There does not therefore seem to be any correlation between power and willingness to take industrial action. The ability to take industrial action is, however, certainly of great importance for the unions' strength. In countries where it is forbidden or difficult to take industrial action, for example because of legislative rules, trade unions appear to be weaker. The willingness of the employer to reach a compromise with the trade unions seems to be more a matter of ability than willingness.

Why has Labour Lost its Power to Capital?

There are several theories as to why labour – often defined as trade unions – has lost power to capital in recent decades. The research that has been done is summarised in an article in the Democracy Journal that points to six main reasons:

1. Digitisation, which makes it cheaper to invest in technology than employ people.
2. International trade and increased movement of capital, which not only concerns jobs being relocated but also jobs in high-salary countries being automated faster.
3. Weakened trade unions, which reduces wage-earners' negotiating power.
4. The *Super Star* effect. A small elite group are non-replaceable and can work all over the world, while most people are replaceable. The best and most attractive employees earn vastly more than those who are only a little less good.
5. Profit. Capital income is higher than wage income and is often subject to more favourable taxation. One of the reasons for this is that companies' profits have increased at the same time as wages constitute only a small part of the total turnover.
6. Fiscal policy. Since 1980, the taxes paid by companies and people in the very highest income bracket have gone down.

These six points can be condensed into three trends: Technological developments (automation), globalisation and politics. Capital has strengthened its position, in relation to people who work, as a consequence of developments in technology, globalisation and political decisions. Technological advances and globalisation are more difficult to influence than policy but if this trend is to be changed, political decisions will be needed. The trend has hitherto generally been in the opposite

direction and globalisation has led to countries competing with each other by, for example, offering attractive conditions to companies and capital owners at the expense of the wage-earners.⁵⁴

Issues for future discussion:

- Is the shift in power from labour to capital irreversible and what will this imply in the long run for of wage-earners' and trade unions' position?
- Does international trade unionism as it exists today work or does it need to be changed so as to meet the challenges of an increasingly globalised business community?
- Is it possible – and desirable – to develop payroll and remuneration systems so that employees are given a greater share of companies' profits and increase in value?
- Are the existing means of industrial action effective or is there reason to develop or change them?

⁵⁴ Clausing 2017 "Labor and Capital in the Global Economy".

Trade Unions and Wage Formation

Trade unions have had great influence over wage formation. Their influence is limited when it comes to the very highest levels of pay but relatively great as regards minimum wages and wages for middle-income groups. Trade unions' influence, however, is limited by their general strength. In countries where trade unions are weak, their influence is small while it is greater in countries with strong trade unions. In some countries, however, political decisions can "compensate for" the trade unions' lack of strength. This is true in France for example, where the government transforms collective agreements into legislation, thereby helping to ensure that the conditions stated in the agreements also apply to those parts of the labour market where there is no trade union organisation.⁵⁵

Trade Unions and Minimum Wages

It is only in countries with strong collective agreement systems, as in the Nordic countries, that minimum wages are regulated in collective agreements. In many countries, politicians take decisions on minimum wages, but such decisions seldom take into account different sectors or the cost situation in different parts of the country. Sometimes, for example, the age or size of the company is taken into account. In the USA, some states and sometimes even cities have minimum wages that are higher than those prescribed by federal legislation.⁵⁶

In countries with statutory minimum wages, the role of trade unions is different from that in countries with collective agreement systems. The trade unions are then more like lobbyists who try to influence the politicians to raise minimum wage levels. This differs from the system in the Nordic countries where this is regulated through collective agreements. In Sweden, there have been discussions about trade unions' responsibility for facilitating young people's and new immigrants' entry into the labour market, for example by reducing starting salaries. In countries with statutory minimum wages, these decisions are made by politicians instead.⁵⁷

Trade unions in different countries have different views as to whether statutory minimum wages are good or not. The difference seems to depend mainly on the strength of the trade unions. In countries where trade unions are strong, statutory minimum wages are seen as a threat that undermines the two-party model and reduces people's motivation to join a trade union. In countries with weak trade unions, however, minimum wages and the work done to increase them are seen as

⁵⁵ See, for example, Bryzon 2007 "The Effect of Trade Unions on Wages" and OECD Employment Outlook 2017 and 2018.

⁵⁶ See, for example, <http://www.oecd.org/social/Focus-on-Minimum-Wages-after-the-crisis-2015.pdf>.

⁵⁷ Dimick & Meyer 2018 "Trade Unions and the Minimum Wage".

the only way of maintaining a certain standard of living for the groups with the lowest incomes.⁵⁸

Trade Unions and Wage Distribution

If the trade unions' influence on the lowest wages is closely linked to the issue of politically-determined minimum wages, the unions have much greater influence on wage formation and wage spread in general. Although there are socio-political reasons why politicians want to secure minimum wages that people can live on, there are seldom political reasons why legislation should regulate wages for those who earn more than the very lowest level. This means that the trade unions seem to be of greater significance for low- and middle-income wage-earners than for those with the very lowest wages. Research has also shown that there is a correlation between the strength of trade unions and the distribution of income in society. A high rate of unionisation and high collective agreement coverage lead to reduced inequality.⁵⁹

As mentioned above, trade unions are crucial for the development of wages for everyone who earns more than a minimum wage – irrespective of whether the minimum wages are statutory or regulated in agreements – but less than the very highest salaries (which usually means attractive key people and people in managerial roles). Here, research shows that there is a clear correlation between trade union strength and wage development in this “intermediate layer”. In the United States, as there is a lower level of unionisation, middle-income earners have lost in relative income and often also in real income. Increasingly, fewer Americans work in companies where there are trade unions that can negotiate good wage agreements and more and more end up on, or only slightly over, the statutory minimum wage. This has created a labour market where more and more people become dependent on a minimum wage that is determined by politicians at the same time as the salaries of those at the top soar even higher. The middle group shrinks as many people in that group are pulled down to minimum wage level. A small group in the upper middle class category manages to “hitch a lift” with those in the “best” category, which also contributes to increasing social inequality.⁶⁰ In addition, the importance of the trade unions for keeping wages up seems to be greater in times of recession than in a boom.⁶¹

⁵⁸ Dimick & Meyer 2018 "Trade Unions and the Minimum Wage".

⁵⁹ See, for example, Molinder 2018 "Facklig organisering och ekonomisk jämlikhet: En genomlysning av internationell forskning och några lärdomar från perioden med centrala avtal" and the cited references.

⁶⁰ See, for example, <https://www.americanprogress.org/issues/economy/reports/2014/09/24/96903/the-middle-class-squeeze/>, https://www.washingtonpost.com/news/work/wp/2017/05/08/researchers-have-answered-a-big-question-about-the-decline-of-the-middle-class/?utm_term=.1902c1b1676d and <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1514.pdf>.

⁶¹ Blanchflower & Bryson 2004 "What Effect Do Unions Have on Wages Now and Would Freeman and Medoff Be Surprised?".

A number of economists have investigated the way an increasingly smaller portion of company profits is being spent on wages and the effect this is having on the economy as a whole. Low- and middle-income employees represent a large share of society's total consumption and when their income declines, the economy as a whole is affected. In conjunction with the global financial crisis in 2008-2010, the economic recession was exacerbated because the private sector's consumption fell dramatically.⁶²

The opposite has occurred in Sweden, where in recent decades, wage formation has been based on "the benchmark", introduced when the Industrial Agreement was signed in 1997. Since then, the negotiable salary range has been based on the increase in costs that can be borne by industry in a context of international competition. The rest of the labour market has then had to adapt to that benchmark. The consequence of the Industrial Agreement has been that nominal wage increases have been smaller compared with before but real wages in Sweden have in actual fact been increasing for a couple of decades. The financial crisis of 2008-10 led to a decline but it had only a limited effect on real wages. Carefully supervised wage formation and other measures, for example changes in monetary policy, helped to keep inflation down in Sweden. Wage increases of about 2 percent a year have led to steady increases in real wages in the Swedish labour market.⁶³

The foregoing should not be construed as meaning that the Industrial Agreement and the normative "benchmark" are uncontroversial even in all parts of the trade union movement. Because the negotiable salary range in the various agreements is limited by the negotiable range allowed for industry, it is difficult to make adjustments for groups that have been given, or feel they have been given, "incorrect" wages. Some examples are low-wage groups whose wages should be raised or shortage occupations where higher wages could be a tool for improved recruitment. On the whole, however, the current model has benefitted most groups on the labour market, even if it has preserved existing wage differences between different parts of the labour market.⁶⁴

The "benchmark" and the Industrial Agreement are unique Swedish phenomena, but they enable general lessons to be learned about the importance of trade unions. In a wage market where trade unions are strong and can enter into agreements for the

⁶² See, for example,

<https://www.nytimes.com/2008/05/01/business/worldbusiness/01middle.html?mtrref=www.google.se&gwh=9AFDC1B13264DB2FC2AF7B8E6B6FFD3A&gwt=pay> and <https://www.theguardian.com/world/2013/oct/10/austerity-europe-debt-red-cross>.

⁶³ See, for example, Rolfer 2008 "Från röra till reda: tio år med Industriavtalet" and http://www.mi.se/files/PDF-er/att_bestalla/ovrigt/Evigt_ung_WEBB.pdf.

⁶⁴ See, for example, <https://www.svd.se/6f-skapa-ny-modell-for-lonebildning> and https://www.katalys.org/wp-content/uploads/2018/10/6F_Rapport-4_Calmfors.pdf for trade union criticism of the wage norming of industry.

majority of the wage-earners, it is possible to raise real incomes for wage-earners at "all levels". In countries with a minimum wage system, the work becomes more political and focuses on helping those with the very lowest wages. Experience, however, has shown, and most clearly in the USA, that this can have negative effects for the large group that middle-income wage-earners constitute. For them, the absence of strong trade unions has implied a poorer wage trend.

International economic research reinforces the picture that a wage formation system like Sweden's, with strong parties that control wage formation together, has positive effects for individual wage-earners, society as a whole and companies. In theory, trade and industry should "benefit" from increased flexibility and weaker trade unions but in actual fact there is little evidence of this.⁶⁵

Although Sweden's wage formation today can be considered a positive example, this has not always been the case. For a long time, from the 1970s until the mid-1990s, wage formation in Sweden was dysfunctional, with high nominal wage increases, and this weakened Sweden's competitiveness. Inflation was also high, which had a very negative impact on real wages. Between 1970 and 1995, the average nominal wage increase was 8.1 percent a year, while real wages increased by only 0.5 percent a year.⁶⁶ There are a number of reasons for this but one of the main causes was that different trade unions demanded compensation for each other's wage increases. In the short term, the unions were acting in their members' best interests, but in actual fact this made Sweden and its wage-earners poorer than they would have been if the nominal wage increases had been more moderate. The introduction of the "benchmark" and the industry's wage norming helped to change the situation. This proves that in themselves strong trade unions are no guarantee for positive wage development. Another very important factor is how the trade unions work with wage formation together with the employers.⁶⁷

Issues for future discussion:

- Is it possible to combine industry's normative role regarding wage formation with the securing of the supply of personnel in the service sector, not least in welfare and the public sector?
- Will the Swedish wage formation model work in companies and industries that do not have strong trade unions?

⁶⁵ See, for example, OECD Employment Outlook 2017 and 2018.

⁶⁶ See, for example, <https://www.ekonomifakta.se/Fakta/Arbetsmarknad/Loner/Loneutveckling-och-inflation/>.

⁶⁷ See, for example, Rolfer 2008 "Från röra till reda: tio år med Industriavtalet" and http://www.mi.se/files/PDF-er/att_bestalla/ovrigt/Evigt_ung_WEBB.pdf.

- Digitisation combined with globalisation means that the physical location where work is done is becoming less important for many jobs. How will this affect possibilities to keep wage levels up?

Transformation of work life and the labour market

Working life is in a constant state of change. For most organisations, and in fact for all companies operating in competition with others, business activities must be constantly developed and improved. The ability to exploit the opportunities offered by new technologies, develop products and services, take over new markets and build new business models is often the deciding factor for whether a company will thrive or eventually have to close. Changes, however, have consequences not only for companies and other wage-earners; they also affect the people who work for them. Such changes can have a huge negative impact on wage-earners at the same time as companies that are not able to adapt and develop their business are at risk of disappearing, taking the jobs with them.

Wage-earners and their organisations have historically had different strategies for tackling changes in the labour market. Researchers who study automation often refer to the Luddites, who in 1811 destroyed the machines that had replaced factory jobs. They were workers who were reacting to the new technology causing job losses and deteriorated conditions.⁶⁸

A negative attitude to technology still exists in some parts of the trade union movement and there are considerably more recent examples that prove this. In 1980, the trade union SKTF (now known as Vision) decided to lobby for a union veto against new technology and at TCO's data conference the same year similar demands and concerns were raised.⁶⁹

At all stages of the Industrial Revolution, new technology has replaced jobs previously done by humans and there have always been losers in the short term. In the long term, however, the productivity profits generated by automation have benefitted wage-earners through increased prosperity and, in addition, the companies that have not adopted the new technology have been forced out of business. Many people believe that we are now in the fourth stage of the Industrial Revolution, where, among other things, the introduction of artificial intelligence (AI) has meant that jobs that we would never have imagined could be automated are now being replaced or fundamentally changed.⁷⁰

⁶⁸ See, for example, Sale 1995 "Rebels Against The Future: The Luddites And Their War On The Industrial Revolution: Lessons For The Computer Age" and Bailey 1998 "The Luddite Rebellion".

⁶⁹ The demands were also put forward in a proposition to the government from the left-wing party Vänsterpartikommunisterna (now called Vänsterpartiet) and signed by, among others, party leader Lars Werner. http://www.riksdagen.se/sv/dokument-lagar/dokument/motion/om-facklig-vetoratt-vid-inforande-av-ny-teknik-m_G402394.

⁷⁰ Schwab 2017 "The Fourth Industrial Revolution".

It is not only the development of technology that brings about changes and threatens “old” jobs. Globalisation has the same effect, as do new political demands and conditions. In many countries, trade unions have been critical of both free trade and environmental legislation, which they claim threaten their members’ jobs. In many countries, trade unions have been the biggest opponents of different free trade agreements.⁷¹

Wage-Earners’ Security and Transition

Trade unions have two main standpoints regarding changes in trade and industry: the first is to oppose change while the other is to embrace it instead. The first standpoint has been the most common one in the USA, France and Southern Europe. The second standpoint has been the most common one in Sweden and other countries in Northern Europe. In the USA, most trade unions are against free trade while the vast majority of trade unions in Sweden are in favour of it. On the other hand, trade union “Luddites” are scarce nowadays. Today, technology changes so quickly that it is quite obvious that saying no to new technology will never lead to success. As mentioned, however, differences persist regarding free trade and environmental regulations, for example.

Few studies have been made of why Swedish trade unions embrace free trade and new technology when trade unions would normally adopt a sceptical or explicitly negative stance. There are, on the other hand, many indications that this can be explained by the security systems that exist to facilitate adaptation to changes. In most countries, it is the individual wage-earner who has to pay the price of change personally in the form, for example, of unemployment and deteriorated work conditions, and there are even countries where part of the employees’ pension is dependent on the employer still being in business. Another influencing factor is almost certainly whether the wage-earners feel that they are benefitting or not from the increased prosperity that, for example, technological advances bring. One problem is that the cost of the changes is not always borne by the same people who benefit from the increases in prosperity. The costs are moreover often more visible than the gains. It is very noticeable when jobs disappear, but the creation of new jobs is not always clearly linked to the changes that were made.⁷²

Well-functioning systems for coping with changes in the form of education and unemployment insurance seem to be essential in order for trade union organisations to embrace changes and view free trade positively. The fact that Sweden has a relatively small domestic market for industry probably also plays a major role here.

⁷¹ See, for example, <https://www.arbeiterkammer.at/infopool/akportal/FreeTradeandTradeUnions.pdf>

⁷² See, for example, <https://www.ft.com/content/fde25efe-9b9a-11e8-9702-5946bae86e6d>.

When much of a country's production is dependent on export, protectionism is not a viable stance. This is very different from the situation in the USA, where the domestic market accounts for a much larger part of the country's production.⁷³

In most countries, the public security systems consist of a fixed – small – amount of money, or unemployment benefit covers only loss of income up to a certain level.⁷⁴ In Sweden, several trade union organisations offer their members supplementary insurance, which means that wage-earners with higher incomes can also receive benefit that covers most of their loss of income. In this way, trade unions contribute to a smooth process of adaptation to change. These systems have, however, been criticised because the premiums in these insurance schemes are very high in sectors where the risk of unemployment is high.

In many ways, Sweden is an exemplary country when it comes to supporting wage-earners in their transition. This is particularly the case with the various transition agreements and job security boards that help the unemployed and people who are made redundant to learn new skills and move on to new jobs. This has been described as one of the more important reasons why Sweden has been able to handle changes brought about by new technology so well. Because it is the labour market parties and not the government that have administered these systems, flexibility has been very great, and people have been able to move on in their working lives. In other countries, early retirement and wage depression have been more common.⁷⁵

Changes in Trade and Industry

Trade and industry and most economic research have in the past often regarded trade unions as an obstacle to changes in trade and industry. As mentioned earlier in this report, there are examples where this has been an accurate description but the situation in question has often been that the wage-earners have had to pay the price of changes in trade and industry and companies' flexibility through reduced wages or unemployment. When there are no systems in place to ensure wage-earners' security and transition, the task of the trade unions has often been to protect their members from changes.

But at the same time there are also many examples of how trade unions have contributed to a faster rate of transition. One clear example of this is the Swedish

⁷³ See, for example, <https://www.thelocal.fr/20151208/sweden-where-even-the-unions-love-free-trade-svensktnaringsliv-ttip-transatlantic-tlccu>.

⁷⁴ See, for example, http://www.ucls.nek.uu.se/digitalAssets/715/c_715326-1_1-k_sveriges-socialforsakringar-i-jamforande-perspektiv.pdf.

⁷⁵ See, for example, Walter (ed) 2015 "Mellan jobb: Omställningsavtal och stöd till uppsagda i Sverige" and <https://www.nytimes.com/2017/12/27/business/the-robots-are-coming-and-sweden-is-fine.html>.

wage formation model with a fair-wage policy, part of the “Rehn-Meidner model”. By trade unions making similar demands for pay rises in all companies, regardless of a company’s profitability, the companies that had good productivity growth would then make higher profits while low-productivity companies, which would not be able to afford the higher wages, would be forced out of business. In that way, labour would also be made available to the companies with high levels of production. The trade unions’ wage formation strategy thus brought about more equal wage development among companies and industries and also contributed to faster structural changes in trade and industry.⁷⁶

There are several other studies that show that trade union influence makes a positive contribution to companies. If the employee side can engage in dialogue with and influence the employer, this will lead to development efforts and other changes yielding better results.⁷⁷

The classic economists’ view of trade unions as something essentially negative for trade and industry and market economy was actually overthrown by labour market economists Freeman and Medoff in articles they wrote back in 1979 and 1984. Later, a meta-study by Doucouliagos and others based on 111 different studies found that when viewed as a whole, the studies “reject the neoclassical economics view that unions are invariably harmful to productivity”. Trade unions have on the contrary, generally speaking, had a small but significant positive effect on productivity.⁷⁸

As trade unions have lost influence in many countries, institutions and researchers who previously had a rather negative attitude to trade unions have been forced to reconsider. For example, the OECD points out how the absence of collective agreements is actually a problem for companies. The end result is a more precarious labour market and government solutions that are not as flexible as those reached through agreements. The OECD emphasises the importance of the labour market parties being autonomous and able to deal with problems and conflicts without the government being involved.⁷⁹

Another OECD study states that wage formation works better in countries, industries and companies where there are collective agreements and where the parties

⁷⁶ The Rehn-Meidner model also included various Keynesian macroeconomic tools and the fair-wage policy was only one of the model’s components. See, for example, Erixon 2008 “The Rehn-Meidner model in Sweden: its rise, challenges and survival”.

⁷⁷ Fakhfakh et al 2011 “Workplace change and productivity: Does employee voice make a difference?”, Pohle & Luchak 2015 “Are unions good or bad for organizations? The moderating role of management response” and Grimshaw et al 2017 “Social Dialogue and Economic Performance: What matters for business – A review”.

⁷⁸ See, for example, Freeman & Madoff 1979 “Two Faces of Unionism”, Freeman & Medoff 1984 “What Do Unions Do” and Doucouliagos et al 2017 “The Economics of Trade Unions”. The quote is from page 70 in the last book.

⁷⁹ OECD Employment Outlook 2017.

negotiate wages together. According to the OECD, systems where wage formation is largely managed centrally but where there is a wide scope for local flexibility are often better than other systems.⁸⁰

The Swedish or Nordic labour market model with relatively strong trade unions is increasingly often pointed out as proof that it is possible to combine equality and security for wage-earners with flexibility and competitiveness for companies. Asserting that strong trade unions impede the development of trade and industry may be correct in the short term but not in the long term. Research has shown that the opposite is true.⁸¹

All in all, research thus shows that trade unions, at least in countries where they have real influence and where there are functional transition systems for wage-earners', are a positive factor for trade and industry's and companies' development.⁸² The trade unions therefore naturally need to develop their strategies for how this is to be possible.⁸³

Issues for future discussion:

- Will trade unions have to take even greater responsibility for their members' financial security in the event of unemployment?
- Companies in new and growing industries are often not organised on the employer side. In what way does that affect the two-party model?
- Employers invest in developing the skills of their most attractive employees. How can trade unions ensure that everyone is given the skills development they need?

⁸⁰ OECD Employment Outlook 2018.

⁸¹ See, for example, Sandberg (ed) 2013 "Nordic Lights: Work, Management and Welfare in Scandinavia" and Crouch 2018 "Bumblebee Nation: The hidden story of the new Swedish model".

⁸² The notion that this view seems to be shared by, for example, parts of Sweden's trade and industry is confirmed by Crouch 2018 "Bumblebee Nation: The hidden story of the new Swedish model".

⁸³ See, for example, <https://policynetwork.org/opinions/essays/sweden-will-history-lead-way-age-robots-platforms/> by Fredrik Söderqvist.

Trade Unions and the Nordic Model in the Future

All over the world, trade unions are declining while economic inequality is increasing. In many ways, this is a consistent picture of reality but there are a few examples of the opposite. Sweden's white-collar unions show that it is possible to strengthen and develop trade union work and there are also other positive examples from around the world. However, even though there are some positive examples, technological development, globalisation and, in many cases, political decisions have weakened the trade unions and their ability to assert the wage-earners' interests.

This is at the same time a paradoxical situation since there are few "winners" who benefit from this development. The very top economic elite can be considered to have benefitted from increased inequality and some individual companies have been able to grow and make huge profits. But there is little evidence that this is due to the decline of trade unions. On the contrary, the studies carried out by the OECD and the World Bank, and also the examples from the Nordic countries, show that trade unions, on the whole, have a positive effect on development. Increased inequality leads to weaker communities with distrust and less social cohesion, which in the long run will make the vast majority of us poorer. In the short term, there are opposing interests between the trade unions on the one hand and the companies on the other, which is why they are counterparties in the two-party model. In the long term, however, the interests they have in common seem to dominate.

The basis of the Nordic model, sometimes referred to as the Swedish or Nordic labour market model, is that the parties discuss and solve problems together – sometimes in conflict but most often in an atmosphere of mutual understanding. This mutual understanding is that the advantages dominate in the long term. The model also enables the parties to agree on a matter even though there may be details that they do not agree on.

This does not mean that there are no opposing interests between employer and employees. The trade unions' fundamental task is to assert their members' interests vis-à-vis the employers, and this will sometimes involve conflicts that the unions must be prepared to take on.

Research shows that strong trade union organisations have a positive effect on wage-earners and their interests, but research also shows that strong trade union organisations – who because of their strength both can and dare act in a socially responsible way – are also good for trade and industry and society in general.

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