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The cradle of the European unemployment insurance: the Ghent system

1. Introduction

The history of the unemployment insurance dates back to the middle of the nineteenth century when trade unions first began to pay benefits to workers when they were out of work. From 1890 to 1905 several cities in continental Europe established voluntary unemployment benefit plans. The first plan of this kind was started in 1893 in Berne, Switzerland, and was followed by similar plans in other Swiss, German, and Italian cities. In 1901 the Belgian city of Ghent established a system of municipal subsidies to trade union funds. Known as the „Ghent system,” it spread widely from the beginning of the twentieth century until the World War II.

In the early part of the 20th century many provinces or cantons began to add their subsidies to those of the cities. Some national governments also made annual grants. At the outbreak of the World War II these voluntary systems had a considerable coverage and yielded a wide distribution of unemployment benefits in bad years, but in no country did they cover even half the industrial wage earners.

Following the establishment of the voluntary plans, a movement began to develop for national unemployment insurance. As early as 1894 an attempt was made to establish a compulsory unemployment insurance system in the Swiss canton of St. Gall, but it soon failed. The first real achievement was made by Great Britain in 1911 when the first national compulsory system in any country was established. No other country followed Great Britain until eight years later when Italy established compulsory insurance. Germany enacted a compulsory unemployment insurance law in 1927.¹ (See Table 1)

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¹ TIM LAMBERT: *A brief history of unemployment*. <http://www.localhistories.org/unemployment.html> (16.04. 2011)

Table 1.

Coverage of foreign countries with compulsory unemployment insurance laws

Country ¹	Date of law	Number insured ²
Australia (Queensland)	Oct. 18,1922	175,000
Austria ³	Mar. 24,1920	1,012,000
Bulgaria	Apr. 12,1925	280,000
Germany	July 15,1927	13,472,000
Great Britain and Northern Ireland	Dec. 16,1911	14,753,000
Irish Free State	Aug. 9,1920	380,000
Italy	Oct. 19,1919	4,500,000
Poland	July 18,1924	957,000
Switzerland (13 Cantons)	Code of Obligations (CO) of 30 March 1911	245,000
Yugoslavia	Dec. 15,1935	⁴
Total number insured by compulsory systems		35,774,000
¹ A compulsory law was passed in the U. S. S. R. in 1922, but benefit payments were suspended in 1930. ² These are the most recent figures available. ³ Although the Austrian system is in many respects similar to unemployment insurance systems of other European countries, it is distinguished from them by requiring a means test of applicants for benefits. ⁴ Data not yet available.		

Source: <http://www.larrydewitt.net/SSinGAPE/UI1937book2.htm>

In addition, 10 countries and 12 Cantons of Switzerland with a coverage of approximately 4,161,000 persons have voluntary systems. (See Table 2)

Table 2.

Coverage of foreign countries with voluntary unemployment insurance laws

Country	Date of law	Number insured ¹
Belgium	Dec. 30,1920	899,000
Czechoslovakia	July 19,1921	1,407,000
Denmark	Apr. 9,1907	375,000
Finland	Nov. 2,1917	15,000
France	Sept. 9,1905	192,000
Greece	²	46,000
Netherlands	Dec. 2,1916	564,000
Norway	Aug. 6,1915	54,000
Spain	May 25,1931	62,000
Sweden	June 15,1934	240,000
Switzerland (12 Cantons) ³	Oct. 17,1924	307,000
Total number insured by voluntary systems		4,161,000
¹ These are the most recent figures available. ² There is no information available on the date of the law. Data from „Industrial and Labour Information,” Nov. 18, 1935, vol. 56, no. 7, indicates that insurance funds were in existence in the tobacco, milling, and baking industries and the Athens newspaper staffs. ³ Nine of these Cantons specify that communes may enforce compulsory insurance within their borders.		

Source: <http://www.larrydewitt.net/SSinGAPE/UI1937book2.htm>

Compulsory vs. Voluntary At the very beginning two main types of systems – compulsory or voluntary – spread largely along the lines of economic ideology. English-speaking states adopted the British system, in which compulsory contributions were made by all employers and wage earners. Australia, the United States, New Zealand and independent Ireland all held more staunchly to free-market liberalism and had their own versions of this basic model. Nordic states like Finland, Norway, Sweden,

Denmark as well as states favoring strong labour unions and socialist ideology, like Czechoslovakia, Spain and others followed the voluntary (according to labour union membership) model.²

At the turn of the 20th century, unemployment insurance in Britain, Germany, Denmark, and Sweden was arranged by trade unions which thereby provided an alternative to the existing Poor Laws. The union schemes in the four countries typically related benefits to contributions and length of union membership. Like trade unionism, coverage was most widespread among industrial workers and craft.

There was a general growth in the spread of schemes after the turn of the century. Government action concerning unemployment started to be considered in all four countries from the turn of the century and onwards in the context of considerations of more general social security reforms. With increasing government involvement highly diverse forms of provision for the unemployed emerged in the four countries. In Britain and Germany the basis of unemployment insurance in trade unionism disappeared while in Denmark and Sweden trade union schemes were strengthened as a result of policy.³

In the following section public action towards unemployment insurance is analyzed, starting with the Belgian, British case, followed by the German one and ending with the Scandinavian case.

2. *The Ghent system*

The „Ghent system” is the name given to an arrangement in some countries whereby the main responsibility for welfare payments, especially unemployment benefits, is held by trade/labour unions, rather than a government agency. The system is named after the city of Ghent, Belgium, where it was first implemented. The Ghent municipal authority first opted to subsidize trade union programs with public funds in 1901.⁴

Because workers in many cases need to belong to a union to receive benefits, union membership is higher in countries with the Ghent system. Furthermore, the state benefit is a fixed sum, but the union benefits depend on previous earnings.⁵

This system, or those very similar to it, spread through countries in Europe that made extensive use of strong labour unions. Belgium, Denmark, Finland, Norway,⁶ Sweden, Denmark and others used (and still uses it nowadays) this system. These mainly Scandinavian countries have in common the presence of a so-called „Ghent system”. A Ghent system can be defined as state-subsidised, but voluntary unemployment insurance administered by unions.

When workers are displaced, they are provided benefits via the trade union they were a member of it. Because they must be a member of a union in order to receive

² http://www.ehow.com/about_6392851_history-employment-insurance.html (21.03.2011)

³ *European Economic Review* 39. 1995, pp. 565–574.

⁴ <http://www.jrank.org/business/pages/655/Ghent-system.html> (16 April, 2011)

⁵ PETRI BÖCKERMAN and ROOPE UUSITALO, (2006), „*Erosion of the Ghent System and Union Membership Decline: Lessons from Finland*” *British Journal of Industrial Relations*, Vol. 44, No. 2, pp. 283–303. <http://www3.interscience.wiley.com/journal/118725626/abstract> (16. April, 2011)

⁶ N.B.: Norway abolished the Ghent System in 1938.

benefits, this had the effect of bolstering union membership. Though trade unions in Sweden were among the first to provide benefits in this manner (in the 1870's), governments were generally not involved until Ghent.⁷

In all of the above countries, unemployment funds held by unions or labour federations are regulated and/or partly subsidised by the national government concerned.⁸

According to Mancur Olson's well-known theoretical framework, a Ghent system may act as a valuable „selective incentive” for union membership because it reduces free-rider⁹ tendencies.¹⁰ While the historical partisanship of government and the combination of centralised collective bargaining and direct union access to the workplace may count as well, there is overwhelming empirical evidence that a Ghent system contributes to a high union membership rate and largely explains the persistent cross-national divergence of union density.¹¹ Especially when unemployment in most post-industrialised countries increased to double digits during the last quarter of the 20th century, the positive effect of the Ghent system upon unionisation became clear.^{12, 13}

Nowadays, union-managed unemployment insurance (UI) schemes are under pressure in Denmark, Finland and Sweden.¹⁴ These countries have recently seen the emergence of independent unemployment funds that provide UI without requiring union membership. In Sweden, the legitimacy of the traditional Ghent system is further undermined by the hollowing-out of unemployment benefits and the introduction of additional forms of insurance.¹⁵ This gradual weakening of the close relationship between UI and the unions largely explains the fall in union membership, particularly among young employees. Although union density is still very high, the Danish, Finnish and Swedish unions must be wary of a further erosion of the Ghent system. Belgium

⁷ JENS LIND (2007) „A Nordic Saga? The Ghent System and Trade Unions” International Journal of Employment Studies (<http://www.encyclopedia.com/doc/1G1-171535932.html>) International Journal of Employment Studies (16 April, 2011)

⁸ SCRUGGS, LYLE, (2001), „The Ghent System and Union Membership in Europe, 1970–1996” Political Research Quarterly Vol. 55, No. 2 (<http://www.vn.uconn.edu/scruggs/prq.pdf>) University of Connecticut Website (16 April, 2011)

⁹ Person who enjoys a benefit (here unemployment benefit) accruing from a collective effort (trade union membership), but contributes little or nothing to the effort.

¹⁰ HOLMLUND, BERTIL and PER LUNDBORG, (1999), *Wage bargaining, union membership, and the organization of unemployment insurance*, Labour Economics, Vol. 6, No. 3, pp. 397–415.

¹¹ CHECCHI, DANIELE and JELLE VISSER, (2005), *Pattern Persistence in European Trade Union Density A longitudinal analysis 1950–1996*. European Sociological Review, Vol. 21, No. 1, pp. 1–21.

¹² <http://www.newunionism.net/library/organizing/Transfer%20-%20Special%20Focus%20on%20the%20Ghent%20System%20-%202006.pdf> (16 April, 2011)

¹³ SCRUGGS, LYLE and PETER LANGE, (2001), *Unemployment and Union Density*, in: Nancy Bermeo (ed.) *Unemployment in the New Europe*, Cambridge University Press, pp 145–171.

¹⁴ JOKIVUORI, PERTTI, (2006), *Trade union density and unemployment insurance in Finland*. Transfer: European Review of Labour and Research Vol. 12, No. 1, pp. 83–87.

¹⁵ KJELLBERG, ANDERS, (2006). *The Swedish unemployment insurance – will the Ghent system survive?* Transfer: European Review of Labour and Research, Vol. 1, No. 6, pp. 87–98.

may be an interesting case for them because the Belgian UI system, as a compulsory scheme, continues to provide an incentive for union membership.¹⁶

2.1. The development of the Ghent system

In response to unemployment, which was a basically new phenomenon in the 19th century, typographers' unions were the first in Belgium to establish unemployment funds. Other unions set up funds to insure their members against unemployment in return for a regular contribution. However, largely because of their limited financial strength, most funds ran into difficulty. In Ghent, a city with a long tradition of worker organisations, in 1895 the unions turned to the city council with requests for additional financial support. The council appointed Louis Varlez, a liberal lawyer and social researcher, to study the unemployment problem. Having studied experimental voluntary UI schemes at home and abroad Varlez conceived a scheme based on the ethos of „self-help” and individual responsibility. The resulting communal unemployment fund came into force on 1 August 1901.

The purpose of the communal unemployment fund was not to encourage unionisation, but only to ease the consequences of unemployment. The supplement that the fund provided to the unemployed was unconditional on union membership and oriented to the individual insured worker. Non-union members could register with the city council and, in case of unemployment, receive the same supplement as that paid out to union members. Moreover, the role of the unions was incidental and instrumental. If the unemployed worker was insured at a union unemployment fund, the municipal supplement was granted through the local union.¹⁷ However, since the supplement was given irrespective of the union's ideology, the principle of „self-help” stimulated the unions to lobby the city council to increase the supplement for everyone.¹⁸ At the same time, the authorities helped the unions as private organisations to carry out their own activities through subsidies. As a result, the principle of *liberté subsidiée* – subsidised liberty – encouraged unions to establish unemployment funds affiliated to a municipal unemployment fund and stimulated workers to join unions and to remain union members when they were unemployed.

Hence, very few workers were members of the non-union-affiliated unemployment funds. Other cities soon followed the practice in Ghent, but the quantitative impact remained quite limited before World War I. As „an expression of the national life in which it functions”,¹⁹ the Ghent system was a clear Belgian example of a synthesis

¹⁶ <http://www.newunionism.net/library/organizing/Transfer%20-%20Special%20Focus%20on%20the%20Ghent%20System%20-%202006.pdf> (16 April, 2011)

¹⁷ As an alternative form of public intervention on unemployment, the so-called „Liège system” directly supplied grants to the union unemployment funds in 1897. The provincial government had the explicit purpose of stimulating the unions involved in UI. This socialist initiative was unsuccessful because Catholics and liberals favoured the Ghent system whose basic principles were more in line with their respective ideologies.

¹⁸ STRIKWERDA, CARL, (1997), *A house divided. Catholics, socialists, and Flemish nationalists in nineteenth-century Belgium*, Lanham: Rowman and Littlefield.

¹⁹ KIEHEL, CONSTANCE AMELIA (1932), *Unemployment insurance in Belgium. National development of the Ghent and Liège systems*, New York: Industrial Relations Counsellors: 3.

between Catholic paternalism's emphasis on coping for oneself, the individual liberty of traditional liberalism and socialist pragmatism. Probably because of its compromise character, the Ghent system, adapted in one way or another, became a model for much of Europe and it may therefore be considered as the real originator of UI.²⁰

France was the first country to establish a Ghent system at national level in 1905. Norway and Denmark adopted a national voluntary unemployment scheme in the next two years. Over the next three decades, similar union-led unemployment schemes were in use in the Netherlands, Finland, Switzerland and Sweden. In Belgium, the Ghent system was institutionalised at national level and extended in 1920.²¹ A new government institution, the Nationaal Crisisfonds/ National Crisis Fund, was created to manage the state's new benefit system. The UI remained a voluntary system largely based upon the autonomous union unemployment funds. Non-unionlinked funds remained inferior. Moreover, the unions were able to make their services for the unemployed more attractive.

Apart from central government support and union benefits, various benefits for the unemployed remained mostly intact at the municipal and provincial level, especially where socialist or Christian Democratic political parties were in the majority. Because the unions paid out all benefits, most unemployed union members were probably unaware of the real source of the payments, which, among other factors, contributed to the further rise in union membership in the interwar years.

2.2. The Ghent system under pressure in the interwar years

To break the union monopoly in UI, employers set up their own unemployment funds, but they had little success. Employers' or public sector unemployment funds insured about 3% of workers in 1930.²² In fact, conservatives and the main employers' federation preferred a compulsory UI system. But such a system stood little chance immediately after World War I because of union opposition. Employers' displeasure with the Ghent system re-emerged when the unemployment question was brought to the surface by the economic crisis in the 1930s.²³ They basically criticised the fact that,

²⁰ EBBINGHAUS, BERNHARD and VISSER, JELLE (1999) *When institutions matter: Union growth and decline in Western Europe, 1950–1995*. *European Sociological Review*, Vol. 15, No. 2, pp. 135–158; Strikwerda, Carl, (1997), *A house divided. Catholics, socialists, and Flemish nationalists in nineteenth-century Belgium*, LANHAM: Rowman and Little-field: pp. 51–55.; ALBER, J. (1981), *Government responses to the challenge of unemployment: the development of unemployment insurance in Western Europe*, in: P. Flora and A. J. Heidenheimer (eds.), *The development of welfare states in Europe and America*, London: Transaction books; ILO (1955), *Unemployment insurance schemes*, International Labour Office Geneva: ILO: 15.

²¹ VANTHEMSCHÉ, GUY (1990), *Unemployment insurance in interwar Belgium*, *International Review of Social History*, Vol. 35, No. 3, pp. 349–376.

²² KIEHEL, CONSTANCE AMELIA (1932) *Unemployment insurance in Belgium*. National development of the Ghent and Liège systems, New York: Industrial Relations Counsellors: p. 148.

²³ GOOSSENS, MARTINE, STEFAAN PEETERS, and GUIDO PEPERMANS (1988), *Interwar unemployment in Belgium*, in: Eichengreen, Barry and Timothy J. Hatton (eds.), *Interwar unemployment in an international perspective*, Dordrecht: Kluwer Academic Publishers, pp. 289–324.

through their hold on the UI system, the unions had control over the labour market.²⁴ During the first half of the 1930s, supported by the employers, conservative Catholic-liberal coalition governments launched an array of initiatives intended to restrict the Ghent system, but the almost exclusive role of the unions remained unaffected.

However, economic depression caused severe organisational and financial problems for the unions, with some of them even on the verge of bankruptcy in 1932 and 1933.²⁵ Owing to these problems, compulsory insurance against unemployment was (again) placed in the foreground by some unions, particularly by the national leadership of the socialist trade union federation.²⁶ The labour movement was deeply divided, however. The majority opposed an extension of „state intervention” in the UI scheme, especially the Christian trade union confederation, the Algemeen Christelijk Vakverbond/ General Confederation of Christian Trade Unions which took a firm stand on retaining union participation in the administration. Only the national leadership of the socialist union confederation favoured abolition of the union-run unemployment funds and replacing them with a state-administered system.²⁷ Most of their affiliated unions, especially those in Flanders, were opposed because they feared a drop in membership. So, different socialist union congresses voted against the ending of the union-administered unemployment scheme but differences of opinion continued to exist. In 1936 the Catholic-liberal-socialist government appointed a royal commissioner for unemployment to write a report that would be used as the basis for a debate in parliament on the introduction of a compulsory UI system.²⁸ In his final report the commissioner made a plea for the abolition of all autonomous unemployment funds and their replacement with a government agency jointly managed by workers’ and employers’ representatives. Furthermore, UI would be financed by mandatory contributions from both workers and employers. Their contributions would be paid in advance and deposited in a central public fund.

The psychological and financial link between workers and trade unions would be diminished through this collection system. Still, the unions would retain their involvement in benefit administration by paying out unemployment benefits.²⁹ City councils or regional offices of the government agency would also be able to disburse the

²⁴ According to the employers, unemployment benefit was too high, and, as a result, a wage-deflationary policy was obstructed.

²⁵ VANTHEMSCHE, GUY (1990), *Unemployment insurance in interwar Belgium*, *International Review of Social History* Vol. 35 No. 3 p. 368.

²⁶ Immediately after World War I the unions had in mind the replacement of voluntary UI by a compulsory system, but with preservation of the pivotal role of the union-run unemployment funds.

²⁷ Apart from a Weberian rational bureaucratic viewpoint, the socialist union leadership wanted to encourage the class struggle that was being neglected, in their view, due to union involvement in the UI system. Albeit for very different reasons, they therefore stood alongside the employers, who also wanted to abolish the Ghent system.

²⁸ VANTHEMSCHE, GUY (1990), *Unemployment insurance in interwar Belgium*, *International Review of Social History* Vol. 35 No. 3 pp. 368–371.

²⁹ The royal commissioner for unemployment argued that the beneficiary must not be treated uncaringly, which would probably be the case at the office window of a public service.

benefit. However, no parliamentary compromise could be reached on the report and UI reform was still in an impasse when World War II broke out.³⁰

2.3. The influence on the US industrial relations

The Ghent system is a voluntary system of unemployment insurance in which labour unions administer publicly subsidized insurance funds and, along with employers and the state, participate in unemployment insurance policymaking. The Ghent system helps overcome three separate problems in collective employment relations that existing labour law in the United States attempts to resolve in evidently ineffective ways, which the EFCA (Employment Free Choice Act) had sought to reform. First, the Ghent system encourages employers to recognize and bargain with unions by providing workers with incentives to join labour unions prior to and independent of the employers' recognition of the union. Second, voluntary, union-administered unemployment insurance provides an alternative "selective incentive" that reduces free riding on collective union goods. Finally, union and employer collaboration in unemployment insurance policy generates efficiency gains that underwrite cooperative labour relations and reduce employer resistance and workplace adversarialism. In exchange for generous unemployment benefits, unions yield on employment-protection rules, giving employers more flexibility in the workplace—a bargain referred to as "flexicurity."³¹

Summary

According to Mancur Olson's well-known theoretical framework, a Ghent system may act as a valuable 'selective incentive' for union membership because it reduces free-rider tendencies.³² While the historical partisanship of government and the combination of centralised collective bargaining and direct union access to the workplace may count as well, there is overwhelming empirical evidence that a Ghent system contributes to a high union membership rate and largely explains the persistent cross-national divergence of union density³³. Especially when unemployment in most post-industrialised countries increased to double-digits during the last quarter of the 20th century, the positive effect of the Ghent system upon unionisation became clear.³⁴ Nowadays, union-managed unemployment insurance (UI) schemes are under pressure

³⁰ <http://www.newunionism.net/library/organizing/Transfer%20-%20Special%20Focus%20on%20the%20Ghent%20System%20-%202006.pdf>

³¹ MATTHEW DIMICK (2012), *Labour Law, New Governance, and the Ghent System*, N.C. L. Rev. 319 <http://www.nclawreview.org/2012/01/labour-law-new-governance-and-the-ghent-system/>

³² HOLMLUND, B. and P. LUNDBORG (1999), *Wage bargaining, union membership, and the organization of unemployment insurance*, *Labour Economics*, Vol. 6 No. 3, pp. 397–415.

³³ CHECCHI, DANIELE and JELLE, VISSER (2005), *Pattern persistence in European trade union density. A longitudinal analysis 1950–1996*, *European Sociological Review*, Vol. 21 No. 1 pp. 1–21. VISSER, JELLE (2002) *Why fewer workers join unions in Europe: a social custom explanation of membership trend*, *British Journal of Industrial Relations*, Vol. 40 No. 3, pp. 403–430.

³⁴ SCRUGGS, LYLE (2002) *The Ghent system and union membership in Europe, 1970–1996*, *Political Research Quarterly*, Vol. 55 No. 2, pp. 275–297.

in Denmark,³⁵ Finland³⁶ and Sweden. These countries have recently seen the emergence of independent unemployment funds that provide UI without requiring union membership. In Sweden, the legitimacy of the traditional Ghent system is further undermined by the hollowing-out of unemployment benefits and the introduction of additional forms of insurance.³⁷ This gradual weakening of the close relationship between UI and the unions largely explains the fall in union membership, particularly among young employees. Although union density is still very high, the Danish, Finnish and Swedish unions must be wary of a further erosion of the Ghent system.

³⁵ LIND, JENS (2004), *The restructuring of the Ghent model in Denmark and consequences for the trade unions*, Transfer: European Review of Labour and Research, Vol. 10 No. 4, pp. 621–625.

³⁶ JOKIVUORI, PRETTI (2006), *Trade union density and unemployment insurance in Finland*, Transfer: European Review of Labour and Research, Vol. 12 No. 1, pp. 83–87. BÖCKERMAN, PETRI and ROOPE, UUSITALO (2006), *Erosion of the Ghent System and Union Membership Decline: Lessons from Finland*, British Journal of Industrial Relations, Vol. 44 No. 2, pp. 283–303.

³⁷ KJELLBERG, ANDERS (2006), *The Swedish unemployment insurance – will the Ghent system survive?* Transfer: European Review of Labour and Research, Vol. 1, No. 6, pp. 87–98.