Three Routes to Pension Reform: Politics and Institutions in Reforming Pensions in Denmark, Finland and Sweden

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Abstract

By analysing pension reforms in three Nordic countries – Denmark, Finland and Sweden – that apply different institutional solutions in their old-age security programmes, this article argues that the political processes that shaped the country-specific pension set-ups in the 1950s and 1960s had important ramifications for subsequent reform possibilities. A high degree of inertia exists not only in the institutions themselves but also in the political reform options and the ways in which pensions were reformed. The analysis shows that the ‘new politics’ was not new in any of the three countries. Furthermore, given the differences in the three cases, the analysis questions the nature of pension reform. The Swedish reform in the late 1990s was a ‘big bang’ that eliminated the old and changed everything; the Finns built on piecemeal reforms of conversion that gradually changed the whole system; and, while the Danish story appears to be one of stability and status quo, the drift of Danish policy ultimately changed the basic characteristics of the system. Although all three countries have more or less thoroughly reformed their pensions, the reform processes have differed according to both historical legacies and institutional frameworks.

Keywords

Pensions; Institutions; Politics

Introduction

Over the last decade or so, one of the most important themes in comparative welfare state research has been the retrenchment of the welfare state. Many words and concepts attach to this phenomenon: retrenchment, recalibration, rolling-back, curtailments, adaptation, and reforming. Consequently, the plethora of name-giving has led to new discussions and conceptual developments on the causes of change and stability in welfare institutions (e.g. Steinmo et al. 1992; Thelen and Steinmo 1992; Pierson 1994, 2000, 2001, 2004; Bonoli 2000; Ferrera and Rhodes 2000; Bonoli and Palier 2001; Korpi and...
Palme 2003; Palier 2000; Offe 2006; Hinrichs 2009). Many of these studies share the idea that institutions have strong feedback loops that condition policy-making. Decisions at any one point constrain subsequent policy-making by putting policy on a particular track (Weir 1992: 192; Goul-Andersen 2002). As Skocpol (1992: 58) writes, politics makes policies, and policies make politics.

The question is how to account for this continuity in policy-making in empirical studies of welfare retrenchment and restructuring (see Schwartz 2001; Streeck and Thelen 2004; Thelen 2004; Ebbinghaus 2006; Goul-Andersen 2006). Even though the literature has advanced our knowledge of social policy change, its preoccupation with institutional resistance – or stickiness – is not entirely adequate in explaining substantial changes in policy outcomes within Western European welfare states. We see three problems underlying this inadequacy.

First, although institutional stickiness predicts continuity, the history of social policy is often a history of changes. Thus, the question is how and under what conditions change is possible. In his punctuated equilibrium model Krasner (2009) assumes that the inertia inherent in institutions makes them robust and unchanged during long periods but this stability is periodically ‘punctuated’ by crises that bring about abrupt institutional changes, after which institutional continuity again sets in.

Second, there has been a tendency to concentrate too much on big changes and punctuated moments to the neglect of the impacts of small, ‘creeping’ changes and consequences of political non-decisions (for a fuller account, see Ebbinghaus 2006: 266–74). This negligence leads us to the tricky question of how to define an institutional reform, that is, at what point is an institution changed? Perhaps the most well-known answer is Hall’s (1993) three-grade ordering of policy changes. However, persuasive as Hall’s classification is, it suffers from the same fallacy as the approach focusing on big reforms: it downgrades the importance of small-step reforms that gradually lead to new configurations. A series of first-order changes may result in a change in the third order. For uncovering hidden changes, Hacker’s (2004) concepts of drift, layering and conversion are promising. ‘Drift’ refers to cases in which policies remain the same while the structure of social risks changes, so that consequences will therefore change without the occurrence of any deliberate decisions. Goul-Andersen (2002: 124) refers to maladjustment of old solutions to new social problems, and if the old institutions are not reformed the system simply ‘drifts’ in a new direction. In political praxis, one of the easiest ways to change a programme is to fail to adapt it to follow changes in society (see e.g. Gildiner 2007). ‘Layering’ is related to drift in the sense that old schemes are not abolished when new elements are introduced. ‘Conversion’, for its part, pertains to situations in which old settings are used in new ways. Hacker contrasts these three creeping ways of reforming institutions against the abrupt elimination, where the old system is abolished and new ones created. A vast number of industrial countries have reformed their pension systems through gradual changes, be they layering, drift or conversion, rather than discarding the old systems (Weaver 1998, 2003, 2004).
Third, the conceptual vocabulary developed in the new politics literature overemphasizes the qualitative difference in policy-making in both the expansion era and the retrenchment period of the welfare state. According to Pierson’s (1994) influential book, the era of expansion and consolidation was characterized by ‘old politics’ based on class-politics and ‘credit-seeking’, whereas politicians in the period of austerity seek to avoid blame for unpopular measures. In contrast, we argue that we can observe continuity and trace ‘old politics’ in the era of retrenchment much more than the ‘new politics’ literature anticipates. In addition, our study shows that the old politics was not so much based on credit-seeking as often assumed.

We argue that a wider political-historical perspective and assessment of historical variations in decision-making are necessary for understanding the changes that have taken place in these countries. Not only institutional settings, law-making frameworks or other variables singled out in the ‘new politics’ approach, but also the historical legacy of the old policy process in Nordic development determine the possibility for changing a social policy programme. Institutions are results of power struggles, but at the same time they are also sources of power (Korpi 2001). The way that decisions were made in the past and how the previous power constellations were frozen into the institutions created affected the way the pension schemes were changed in the 1990s.

With good reason, pension schemes are often treated as the chief example of the difficulties associated with institutional changes. Pension schemes have a strong built-in inertia: they are long-term contracts between generations (Myles and Pierson 2001). Thus, pension schemes by definition have their own inertia, while they are ‘elephants on the move’ (Hinrichs 2001, 2009), and the course of an elephant herd is hard to change. However, elephants are said to be afraid of mice. If so, then a mouse can impel a frightened elephant on to a new track. Whether true or not, this metaphor highlights a central idea in the ‘punctuated points’ and institutional stickiness debate but when it comes to social policy, changes are usually introduced by a series of ‘not-that-abrupt decisions’ on ‘not-that-critical points’ (Hinrichs and Kangas 2003). The course of the elephants is more often changed gradually, step-by-step rather than abruptly in punctuated points by external effects (for gradual, long-term changes, see Pierson 2004).

Pension reforms in Denmark, Finland and Sweden offer an excellent opportunity for evaluating these different approaches. While the three countries are similar in many respects, they differ in pension design and the political history of those pensions (Salminen 1993). Therefore, they form a fruitful basis for a ‘most similar cases’ comparison to study recent pension reforms. The contribution of the present article is that it puts those three cases in a comparative perspective, discusses changes made in the light of previous theories on institutional change, and on the basis of the historical scrutiny makes feed-back reflections to the theories. Furthermore, while (almost too) much is said about the Swedish reform, not that much is written about the Danish case, not to speak of the Finnish reforms. The comparison of these three Nordic cases depicts different ways of making substantial reforms.

The subsequent historical analysis mainly draws on our own previous case studies (Ploug 2001; Lundberg 2003; Kangas 2006; Kangas and Palme 1996).
utilizing national literature, archives and other data sources (as interviews and memoirs of central actors, parliamentary proceedings, reform group minutes, etc.) and historical analyses done by other scholars. Due to language reasons and space limitations we do not refer very much to the primary national material in Danish, Finnish and Swedish but rely more on studies published in English.

The structure of the article is as follows: the first section gives a short historical summary of the making of pensions during the 1950s and 1960s. After the section on ‘old politics’ there follows a more detailed analysis of the current pension reforms in the three countries. We start with Denmark, with seemingly no policy changes (policy drift), and go through the Finnish conversion strategy to the Swedish history with an entire shift of the previous institutions (elimination). The last section presents a summary of our findings.

**Historical Legacies: Politics and Institutions**

By the mid-1950s a comprehensive national pension system that guaranteed security to every citizen had been established in all three countries. However, the rapid postwar industrialization entailed a growing need to establish income-related pensions for the expanding sectors of wage-earners and salaried employees but this universal process led to three different configurations of pension schemes and these configurations conditioned pension reforms in the 1990s.

In pioneering Sweden, the debate on and the making of the supplementary pension scheme was a highly politicized affair. The non-socialist parties advocated either a universal flat-rate scheme proposed by the Centre Party or voluntary occupational pensions proposed by the Conservatives, whereas the Social Democratic Party (SAP) insisted on a compulsory, legislated and state-run scheme (Olsson 1990; Petersen and Åmark 2006). In 1959, the parliament accepted the SAP model that included a generous universal national pension (NP) supplemented by earnings-related pensions (ATP) that guaranteed a full pension (after 30 years in employment) based on the earnings of the 15 best years (the 15/30 rule). In the average income groups the replacement level was 65–70 per cent of previous income. Given that the ATP system had a benefit ceiling, those with higher incomes obtained collective occupational labour market pensions (LMP in figure 1) to compensate for the relative loss of income. However, the lion’s share of the Swedish pensions was kept in the public and political domain (NP + ATP).

Three aspects of the Swedish development deserve emphasis here. First, the creation of the earnings-related scheme was a highly politicized process, in which the political left and the blue-collar trade unions battled against the non-socialist parties and the business organizations (Åmark 2005). Second, the process led to a system that was under political control. Third, as a consequence of the intense political campaign, the ATP system soon became regarded as the jewel in the crown among the Social Democrats (Lundberg 2003). For the SAP the political struggle made the ATP system an epistemic source for self-identity and a line of demarcation against the political right (Lundberg 2005). In Geertz’s (1972) terminology, it attained the status of a
Figure 1

Schematic presentation of pension schemes in Denmark, Finland and Sweden before and after reforms in the 1990s/2000s

**Denmark Before Reforms**
- NP means-tested
- LMP
- ATP
- NP basic

**Denmark After Reforms**
- NP means-tested
- LMP
- ATP
- NP basic

**Finland Before Reforms**
- NP Means-tested
- TEL
- NP basic

**Finland After Reform**
- NP pension-tested
- TEL

**Sweden Before Reforms**
- NP Means-tested
- LMP
- ATP
- NP

**Sweden After Reform**
- Individual
- LMP
- Guarantee pension
- Employment-related pension

*Note:* The vertical axis pertains to the hypothetical amount of pension. The horizontal axis indicates the size of the previous earnings. The black ‘NP basic’ illustrates the universal part of national pension, while the grey ‘NP means-tested’ refers to that part of national pension that depends on other (pension) income. ‘LMP’ is labour market contractual pensions and ‘ATP’ is legislated employment-related pension (in Denmark and Sweden). ‘Guarantee pension’ is the replacement of the old NP in Sweden, and ‘Individual’ is an abbreviation for individual pensions.

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sacred symbol of victory over the right-wing forces threatening core social democratic values. For the non-socialists the ATP became a symbol of everything that was wrong with the ‘socialist’ state.

Finland was the next Nordic country to legislate earnings-related pensions (1961). Finland’s late industrialization strengthened the importance of the Agrarian Party (AP, since 1966 the Centre Party), so the Finnish Social Democratic Party (SDP) never achieved the same hegemonic position as its sister party in Sweden. The pension policy strategies were divergent between the AP and the SDP. The former supported flat-rate universalism, whereas the SDP favoured earnings-related pensions (Niemelä 1987). In the late 1950s and early 1960s the AP governments refused to pass a bill on income-related pensions; the SDP therefore sought support for its social policy proposals from the Conservatives and the Employer Federation (STK). The basic structure of the Finnish employment-related private sector pension (TEL) legislation was negotiated between the Employer’s STK and the trade union (SAK) (Salminen 1993). The SDP and the SAK found it rather easy to accept a STK deal promising fully earnings-related, employer-financed and legislated pensions that were run by private insurance companies in which administration social partners participated (Salminen 1987; Kangas 2007).

The target level in the Finnish TEL scheme was 60 per cent of final income after 40 years of employment. When the private sector scheme was implemented, the existing public sector schemes were left intact. The public sector programmes (one for the state and one for the municipalities) offered more generous benefits: 66 per cent of the final salary after 30 years in service. None of the Finnish legislated schemes contained pension ceilings, which effectively blocked the expansion of collective labour market pensions.

The administration of TEL displays a high degree of corporatism. In this way, the role of the political arena was played down, and the bipartite system offered the social partners an institutional veto (see Immergut 1992; Tsebelis 2002) for resisting parliamentary attempts to change the scheme (Immergut and Anderson 2007; Kangas 2007). By pooling their interests in social policy issues, the social partners initiated a tradition of mutual negotiations that often forced politicians to accept what the partners had agreed upon and this was what happened in pension reforms in the 1990s.

In Denmark the first initiatives for earnings-related supplementary schemes were taken in the early 1960s. The Social Democratic (S) cabinet made a bill in 1964 on a supplementary pension scheme (ATP). In contrast to the other Nordic countries, the Danish ATP scheme was a flat-rate system where benefits were related to the number of years in employment (Nelson 1984; Ploug 2003; Ølgaard 2005). In 1966–7, the S cabinet tried to introduce a Swedish-style earnings-related pension scheme, ‘ITP’, but failed. All the other political parties were against this initiative, but more importantly, the trade union (LO) was ambivalent about a programme that would preserve labour market inequalities (Albrekt Larsen and Goul-Andersen 2004: 65–70). The majority of the trade unions favoured national pensions. The concentration on improvements in the national pension system in Denmark gradually led to a generous model of basic security in which national pensions contributed up to 50 per cent of the average net wage and on top of that the ATP gave a small
amount (about 5–10 per cent of income), which more or less satisfied the pension needs of the low-wage employees (Kvist 1997: 25–9). Because of the flat-rate characteristics of the legislated pensions the upper-middle and higher-income groups tried to satisfy their needs for pension security by occupational benefits (LMP) of varying generosity (indicated by vertical lines in figure 1). Thus, the Danish pension policy bifurcated: improving national pensions and expanding occupational pensions (Vesterø-Jensen 1985; Ploug 2001; Goul-Andersen 2002).

In sum, both the historical making of pension policies and the actual institutional set-ups varied among the three countries. In Sweden pensions were discussed in the political arena and the highly politicized history contributed to the demarcation between the political camps. For the SAP, the ATP system became a ‘sacred symbol’, whereas for the Conservatives it became something to be dispensed with. In Finland, however, only national pensions and to some extent the public sector pensions were open to political manipulation, whereas private sector earnings-related pensions were administered by the social partners to whom the system was ‘sacred’ and who had strong institutional veto points to prevent the political decision-making to change the system. Politically, there were two distinct camps in Finland: the employment-related coalition (the SDP and the Conservatives) versus national pension group (the Centre Party and the Left Party, i.e. former communists). In Denmark the political constellations were more diffuse and the Danish policy drift mode led to the gradual expansion of scattered occupational benefits decided in the labour market, and no such clear pension policy cleavages as in Sweden and Finland can be discerned.

**Pension Reforms of the 1990s**

*Denmark: policy drift*

In Denmark a multi-tier pension system had gradually developed since the Second World War (Goul-Andersen 2002; Petersen 2009). In the early 1980s, the debate was on the inequality between those covered by a supplementary pension arrangement based on savings and those not. One reason for this inequality was that the severe economic situation in Denmark in the early 1980s made interest rates extremely high, and while contributions to the different kinds of supplementary pension schemes were tax-deductible, interest on these savings was not taxed. One could therefore foresee that the pension payments from these arrangements would result in compensation rates that sometimes would be higher than 100 per cent (Ploug 2001).

As this inequality was seen as a problem, in 1982 Anker Jørgensen’s minority government (S) made a proposal for taxation of interest on pension savings. But it could not get a majority in Parliament for the proposal, and the government resigned. The subsequent centre-right coalition government, led by the Conservative Poul Schlüter, consisted of parties that had rejected the proposal of taxing interest. However, now in government, they made a U-turn and introduced a tax on pension savings (Due and Steen Madsen 2005). At the time of its introduction, the real interest rate was close to 10 per cent, so this
new tax not only solved the problem of otherwise massive future pension accrual for those who saved for their pension but also became a much needed extra source of revenue for the state (Green-Pedersen 2007).

A second reason for the debate on old-age pension reform is linked to the labour market situation. Given a deficit in the balance of payments, the government tried to pursue a very strict income policy in 1985–7 by limiting wage increases, forcing the trade unions to look for other kinds of remuneration for their members. Although the 1985 wage negotiations were centralized, pressure from a number of strong trade unions, particularly the Union of Danish Metalworkers (Dansk Metal), led to decentralization of the 1987 negotiations. This change made it possible for individual unions to get a separate agreement on pensions covering only their members and creating selective incentives for joining trade unions (Due and Steen Madsen 2005).

As a consequence of the deficit on the balance of payments, the government was very interested in a further development of the savings-based and fully funded old-age pension system. To investigate the issue, it set up a tripartite committee, which in 1988 issued a major report (close to 1,000 pages), on the causes and consequences of pension reform (Arbejdsmindisteriet 1988). For several reasons, however, the analysis of the committee did not lead to an immediate reform. One reason was that the trade unions had committed themselves to a solution based on a central fund, an idea that a parliamentary majority opposed. Surveys also showed that a reform of the pension system did not have high priority among the members of the trade unions – they wanted immediate higher wages and shorter working hours (Albrekt Laruen and Goul-Andersen 2004: 79).

The breakthrough for pension reform took place during the 1991 wage negotiations. The tradition in the labour market negotiations had been that Dansk Metal (DM) would end negotiations first and the remaining unions then tried to copy the DM agreement. Therefore, it was not a surprise that DM again paved the way for labour market (occupational) pension reforms. In the 1980s the DM had already threatened to go alone if finding a common solution to the pension problem proved impossible, because its members – typically people with (higher) middle incomes – were suffering from the severe pension problem that the tripartite report had revealed. In the 1991 negotiations, the DM made an agreement with its employers on a decentralized pension and funded system covering only those workers who signed up for this specific agreement. The new pension scheme was to be managed by a board with equal representation from employees and employers. This compromise allowed the employers to support the new pension arrangement because they would be able to influence the investments made by the pension fund (Due and Steen Madsen 2005).

Afterwards many other trade unions copied the DM pension agreement in their negotiations. These negotiated agreements started the avalanche of occupational pensions. Currently, almost all employees are covered by some kind of labour market pension scheme and, consequently, the contributions have increased substantially (Kvist 1997: 30). By the year 1993 contributions to the occupational schemes were about 0.9 per cent of income but in pace with the maturation of the schemes the contribution rates increased, and at the
time of writing they are between 10 and 16 per cent of income, depending on the area of employment.

The reformation of the Danish pension design fortified the position of labour market-based occupational pensions that came to satisfy the needs of income-loss compensations for the middle- and upper-income groups. For low-income groups, the national pension continues to guarantee high compensation (internationally speaking). However, within the pension design a shift in the division of labour between occupational and national pensions has gradually taken place in favour of occupational pensions (see figure 1). According to policy priority, while the level of national pensions has increased, simultaneously more than a half of the national pension is now income-tested (Green-Pedersen 2007: 488; Petersen 2009: 96). This transformation process has led to a hollowing out of the universality principle of basic pensions, and earnings-relatedness is eating up the role of national pensions—not, however, via legislated pensions (and not as radically) as in the two other countries but through occupational pensions contracted in labour market agreements (Hinrichs 2009).

The story of Danish pension reforms does not encompass the dramatic changes that occurred in Sweden. In fact, the Danish case is a history of no reforms at the national political level but rather agreements between governments, political parties and trade unions to respond to various ad hoc labour market and economic crises. Pension policy in Denmark never achieved the independent position in national policy-making that it did in Finland and Sweden. Some analysts (Due and Steen Madsen 2005: 193) even speak of political impotence in Danish pension policy. A Conservative politician, Palle Simonsen, who was the minister of social affairs (1982–4) and then minister of finance (1984–9) in Schlüter’s consecutive cabinets, argued that the Ministry of Social Affairs (MSA) was not interested in pension policy and that the MSA played no role at all in discussions on earnings-related pensions (Albrekt Larsen and Goul-Andersen 2004: 110). The main role instead went to the Ministries of Labour and Finance to define the problems and to seek solutions on how to match existing pension institutions to acute challenges (cf. Goul-Andersen 2002).

Finland: conversion

In the early 1990s the Finnish economy dived into the deepest recession in the country’s history. Extraordinary circumstances created a crisis consciousness that ultimately affected opinions on pension policy among the general public and the political and labour market actors (Timonen 2003). In 1991 an extensive crisis income-policy package, including a partial transfer of employment-related pension contributions from employers to employees, was negotiated between the bourgeois coalition Cabinet (1991–5) led by the Centre leader Esko Aho and the labour market partners. Given the deepness of the crisis, the labour market actors accepted Aho’s emergency measures and the Cabinet could present a bill on employee contributions. According to the bill, the employees were to participate temporarily in the financing of pensions with a contribution corresponding to 3 per cent of their wage. A year later, the law
was made permanent, and the contribution was supposed to rise gradually. In 1992, the Cabinet put forward bills on the harmonization of the public sector pensions towards the TEL pensions (Kangas 2007).

The successive SDP-Conservative Cabinet (1995–9) continued with piecemeal reforms. The first step in the series of gradual changes was to lengthen the calculation period of pension-giving income from the median for the last four years to the mean for the last ten years of employment. The bill was prepared through negotiations between social partners, and the parliament adopted the bill in 1995, saying that trade unions had agreed upon the issue and that it was not smart politics to stick one’s nose into issues that do not fall under the powers of the parliament (Kangas 2007). Thus, the parliament indirectly admitted that social partners have the ‘ownership rights’ to the employment-related pensions, and that reforming them was a labour market issue rather than a political one.

Interestingly, simultaneous with this proposal, a bill on reforming the national pension was submitted, but the debate on it became a fully-fledged political issue in which the trade unions did not participate. In the previous Aho government, the Centre Party had argued fiercely for basic security and was reluctant to touch the national pensions. In contrast, the SDP-dominated government declared that national pensions must be reformed. Thus, the historical policy divides – earnings-relatedness vs. basic security – dating back to the 1950s were clear, displaying more of the ‘old’ politics than the ‘new’. The 1995 reform abolished the universal basic national pension and the whole national pension became tested against income from the other legislated pensions (figure 1). The old principle of universalism gave way to an income-relatedness that became the baseline for testing the need for national pensions.

To take further steps towards pension reform, the labour market partners formed a working group in which all major trade unions and employer federations, but no political representatives, participated. After in-depth negotiations, the working group delivered its report to the central labour market organizations for approval. The agreement, made in 2002, also meant that the piecemeal conversion process of the Finnish pension system was accomplished.

Although the basic form of the TEL pension structure was left intact, within the ‘unchanged’ facade much had changed: the pensionable income is now calculated on the basis of the entire working career between the ages of 18 and 69 years; the pension accumulation rate increases according to age as an incentive for employees to stay longer at work; target levels are abolished; and flexible retirement between 63 and 68 has been introduced, as has a special formula adjusting pensions to increased life expectancy.

The private TEL sector pensions paved the way for changing the public sector schemes later and, in fact, the 2002 labour market agreement already included a decision to change the public sector schemes as well. The parliament accepted the new pension scheme for municipal and state employees in 2004, and it became effective at the beginning of 2005, after which the TEL, municipal and state pension schemes provided precisely the same benefits.

The Finnish history is one of piecemeal implementation of not-that-big reforms through old politics in which the traditional interest organizations in
bipartite negotiations – usually led by senior impartial pension experts – agree on reforms that the parliament then accepts. Compared to Pierson’s analysis of new politics, one additional peculiarity of the Finnish retrenchment policy has been that pensioners’ organizations were virtually non-existent in the reformation process: they were neither seen nor heard. In that sense, the Finnish experience does not support the thesis stating the importance of client organizations in the making of the ‘new politics’ of welfare. Neither does the Finnish history support the idea that old politics was based on credit-seeking. The agrarians never tried to claim credit for the TEL but, in contrast, they blamed the SDP for introducing such an unfair and undemocratic pension design. Correspondingly, the SDP never tried to take credit for national pensions and criticized the Centre Party for implementing a scheme that hollows up work incentives and is biased in favour of the rural population.

**Sweden: abolition**

By the late 1970s, it had become painfully evident to the leading Swedish Social Democrats that something needed to be done with the ATP scheme (e.g. Feldt 1991; Carlsson 2003: 172–8). The ATP was gradually eroding its own economic sustainability. The 15/30-year formula simply guaranteed benefits that were too high in relation to contributions and the scheme was expected to end up in bankruptcy. Furthermore, as a result of the growing economy, increasing numbers of employees had incomes exceeding the ceiling, transforming the ATP to a flat-rate programme. This policy drift increased the importance of the occupational schemes (Ståhlberg 2004; Anderson and Immergut 2007: 373).

Furthermore, during the 1980s it became increasingly difficult for the SAP leaders to defend their ideological standpoints against a background of fiscal turbulence and disquieting prognoses (Feldt 1991; Lundberg 2003). Thus, to unconditionally defend the ATP system in its original form seemed hopeless. As the SAP had the ‘ownership right’ to the ATP, it would be hit hard by a financial collapse in the system.

The main challenge for the SAP leaders was how they were going to sell the reform to their own people (cf. Anderson and Immergut 2007: 381). For the SAP, the ATP system symbolized the party’s superiority over the ‘bourgeoisie’, so the issue was how they were to present and deal with change without ceding power to the non-socialist opposition, and, more importantly, how they were going to demolish their ‘sacred symbol’ without dissolving the party’s ideological borders and without a ‘radical loss of identity’ (Moschonas 2002). Thus, there was a strong degree of ideational and symbolic path dependency included in the issue.

As the Conservative leader Carl Bildt formed a bourgeois coalition Cabinet after the 1991 election, ‘blame-avoidance’ (Pierson 1994) became an option. On the one hand, by including the SAP in the reform process, the government could pool the risk of blame (Lindbom 2001). On the other hand, by participating in the reform process the SAP could portray itself as a protagonist of the basic values that the ATP had symbolized (Lundberg 2003). Thus, as the multi-party solution appeared to constitute a win-win situation, a relatively
autonomous political constellation evolved – one that answered neither to special interest organizations nor to the electorate but rather to political parties alone. While power was concentrated within a parliamentary majority that did not have to fear vetoes or criticism from its opposition, responsibility was spread across a coalition that feared no repercussions from the electorate.

In October 1991 the government established a pension reform working group, inviting every political party represented in Parliament to participate. However, the inner circle of decision-makers was kept small, excluding trade unions and other interest organizations. In the end, as the fate of the committee was determined by the participation of the SAP, the directives for the working group were written for a social democratic audience. Controversial issues such as pre-funding and the degree of redistribution were not among the questions under consideration, and the committee’s overall ambitions were expressed in general terms. The central SAP demand was that although the main task for the group was to design a totally new pension system, the group had to frame the process as a reform of the ATP rather than to speak about an abolition (Lundberg 2003). Old and familiar ATP terms were to be used to obfuscate the amplitude of the reform and to make the package more acceptable for the SAP party rank and file.

The compromise reached within the working group resulted in four principal changes to the old system (see figure 1). First, it abolished the old universal national pension and established a new guarantee pension tested against other legislated pensions. Second, it transformed the system from one of defined benefits to one of defined contributions. Third, it abandoned the 15/30-year rule. Fourth, it created a shift toward flexible and delayed retirement. In addition to these principal changes in the public pay-as-you-go system, the committee proposed that a small part of the individual worker’s lifetime earnings should be set aside and transferred into a separate fully-funded pension scheme using individual accounts (Anderson 2001; Palme 2003; Anderson and Immergut 2007).

Taken together, these changes were intended to serve several purposes: to maintain the sustainability of public finances, to strengthen the incentive to work, and to establish flexibility relative to demographic development. A less obvious rationale behind the reform was to depoliticize the pension question once and for all (Lundberg 2005). In its final report, the working group explicitly acknowledged its intention of creating an autonomous system with ‘in principle, complete compliance to economic development, and an adjustment to demographic changes concerning life expectancy and variations in the “provision quota”’. In this way, ‘the costs for the system [would] therefore be completely independent of these factors and [would], as a result, survive without continuous political intervention’ (SOU 1994:20: 230). Through this automatic balancing/stabilizing mechanism the previously highly political and conflictual pension policy was planned to be depoliticized for the foreseeable future.

In their speeches and assertions, the bourgeois parties and, to an even greater extent, the mass media had demanded a much stronger element of individual funding. However, the problem of double funding stood in the way of these proposals. As Myles and Pierson (2001: 306) point out, most pension
systems rely on a contract between different generations, and such intergenerational agreements cannot be dissolved. In this case, the path dependence seems to have worked to the SAP’s advantage: that past pension rights and promises had already accumulated put a stop to the more radical proposals for which many non-socialist policy-makers and representatives of the financial sector had been pressing (Lindbom 2001; Lundberg 2003).

In short, the political parties in Sweden used a twofold approach. On the one hand, they adopted a strategy of inclusion, securing the legitimacy of the new system within a cross-party alliance, or ‘grand coalition’, involving all major parties in the Swedish parliament. On the other hand, a strategy of exclusion reduced voters – including trade unions, business organizations and organizations for the elderly – to a more or less passive audience when the basic principles of the pension reform were negotiated by a small group of parliamentarians, with a relatively open mandate from their party leaderships to develop a viable solution to the problems of the ATP system.

The policy chronicles of the three countries display a large spectrum of possible scenarios. In Sweden, the reform was a path-breaking, punctuated turning point where the old programme was eliminated and replaced. In Denmark, the process was at first glance characterized by stability, but policy drift led to the mushrooming of new layers of occupational schemes, thereby changing the logic of the old design. Finally, in Finland, the old schemes were converted. Although the institutions remained the same, the underpinning logic of the system altered. The three countries clearly display three variations to pension reform, and the institutional designs of their pension systems differ, but when it comes to income compensation profiles, the countries are surprisingly similar (figure 1). Furthermore, present trends indicate that in future the second- and third-tier pensions will be more important also in Finland and Sweden. Thus there appear to have been three roads to pension reform.

Three Roads to Pension Reform

The aim of the article has been to present a comparative analysis of pension reforms in Denmark, Finland and Sweden; these share many similarities but yet they differ in the ways and in the institutional set-ups of these reforms. We argued that since pension institutions are the results of power struggles but at the same time they are also sources of power, the way pension schemes were created and administered affected the way they were later reformed. Second, we show that in all three countries the systems were substantially changed: while in Sweden everything was changed by one big reform, in Denmark and Finland consecutive small adjustments will gradually produce a new pension design. Our survey illuminates how, in addition to ‘big bang’ reforms, deep changes can take place through gradual processes that do not demand deliberate political action and that do not qualify as genuine change. Furthermore, our survey shows that the role of political decision-making varies not only between countries but also within a country between different schemes, depending on the construction of the scheme in question. Some schemes are more open to political decision-making, whereas some others demand consent.
from the social partners. Much depends on how the schemes were built up and who has the ownership right to the scheme in question. One additional contribution of our historical scrutiny is to demonstrate that during the construction period of the welfare state, politics was not that much oriented towards credit-seeking, as is often assumed. Actors had their positional stances – which are visible also during the retrenchment period – and they did not claim credit for programmes that the opponents had created. The ‘new politics’ shares lots of traits with the ‘old politics’.

On first sight, there were huge differences in the deepness of the reforms. In Sweden the reforms satisfy many of the characteristics of Hall’s (1993) third-degree changes, or abolition strategy in Hacker’s (2004) terms. Finland with its conversion strategy at best reaches the second level; and in Denmark finding even first-degree changes is difficult. However, this picture is far too simplistic because it both conceals the impact of small gradual changes and excludes the possibility that policy drift through non-decision sometimes stimulates system changes, as in Denmark. And, which is often neglected in previous studies, the picture concentrates too much on the legislated benefits and disregards the output, i.e. the public–private mix.

In Sweden, the pension reform of the 1990s that eliminated the old was a path-breaking reform of the third order. The reform came from Parliament, which excluded interest organizations from the planning. The most difficult stage in the reform process was when the SAP leadership had to sell the reform to the party membership. Once that issue was finally overcome at the SAP Congress in 1997, the reform was more or less home free. The Swedish reform process was a political – but not necessarily conflictual – process in which the Piersonian hypothesis on blame avoidance seemed to work.

In Finland, the pension reform took a decade. The process started at the beginning of the 1990s, when deep economic crisis created an interpretative frame (cf. Goul-Andersen 2002) that cast doubts on the sustainability of pension rights. By means of a piecemeal conversion in which social partners and pension experts participated, the old system took a new direction. However, none of these individual reforms was grand enough to qualify as a change of the third order. Consequently, the Finnish case displays a much stronger degree of continuity, making it much more difficult than in the Swedish case to pinpoint a certain punctuated moment when the new direction was adopted.

The Danish case comes closer to Hacker’s notion of policy drift and layering: changes were made without any greater master plan (Albrekt Larsen and Goul-Andersen 2004: 103). At the political level, no formal decisions on reforms were taken; however, the gestalt of the pension design shifted. Due to a lack of income-related legislated pensions, the demand for earnings-relatedness bifurcated into private occupational and individual pension programmes, which will gradually change emphasis in the public–private mix in the pension design.

These variations display the continuity of ‘old politics’ of the welfare state in an interesting way. In Sweden, the pension reform of the 1990s was a highly political process (although not conflict-ridden), parallel to that of the creation of the earnings-related scheme in 1959 (that was a conflict-ridden process). In Finland, the reform replicated the pragmatic procedure that was applied
when earnings-related pensions were legislated in the 1960s. The Danish non-decision-based development also recalls earlier failed attempts at introducing an earnings-related pension scheme. Thus, not only institutional inertia but also a great degree of political path dependency affected how the reforms were carried out.

To understand fully the politics of pension reform in Sweden, Finland and Denmark, we have to consider that the prevailing policies provided frames for interpreting the severity of structural challenges, the options and arenas for solutions. As our historical analysis shows, the institutional stickiness varies among countries and within a country (between pension programmes). Therefore, the arena for action, as well as the role of various actors, varies from country to country and from programme to programme. Different logics are applied to reforming a corporatist system (as the Finnish TEL or the Danish occupational pensions) than to reforming a politically administered system such as the Swedish pensions or national pensions in Denmark and Finland. This has to do with the fact that institutions endow their owners with power (cf. Offe 2006). Institutions are structurations of power.

In Sweden, because the ATP was a political artefact loaded with meanings and symbols, the old pension system had to be changed politically. The Finnish case as such demonstrates how different strategies are applied to reform corporatist-type schemes and universal national pensions. In the latter case politics was the arena of action. Since the corporatist TEL-pensions were in the hands of social partners, the reformation of the schemes was channelled through labour markets, with politicians left out of the process. Renovation of the public sector pensions falls in between these two extremes. The reason is that the public sector schemes have been more directly in the hands of political decision-makers, who were freer than in the case of the TEL to act without fearing a fierce trade union veto.

Again the Danish history is somewhat different. The inability of the political parties to produce workable solutions to the question of earnings-related pensions triggered the expansion of occupational welfare. As occupational pensions were in the hands of the social partners, the politicians had (as in Finland) difficulties in steering the labour market arena (cf. Bonoli 2000: 163; Busemeyer 2005) and therefore the remaining option was to manipulate national pensions towards more selectivity.

The historical analysis of our three cases gives qualified support to proponents of the ‘old politics’ (e.g. Huber and Stephens 2001; Korpi and Palme 2003). To our minds, the ‘new politics’ exaggerates the qualitative difference in the content of politics between the golden period and the era of retrenchment of the welfare state. First, political parties still have their preferences that go back in history. The Finnish case is a telling example of this: the old cleavage between the income-related politicians (the social democrats and the conservatives) and the national pension group (Centre and the Left Party) dominated the pension reforms also in the 1990s. Second, not even in the expansion period did parties claim credit for those reforms that were carried out by the ‘others’. In Sweden, the old ATP was a symbol only for the SAP, not for the bourgeois parties, or in Finland, the Centre never tried to seek credit for implementing the TEL. Parties had their own positional issues
(cf. Stokes 1992) that differentiated them from the others. Third, in contrast to what the ‘new politics’ claims, the clientless pressure was not decisive in the Nordic reforms. In Sweden politicians planned the reform, in Finland and Denmark labour market actors were the driving force, and in none of the cases did consultations with pensioners’ organizations play an important role. The ‘new politics’ (if it is genuinely new) can be seen in the Swedish case, where the multi-party solution offered possibilities for blame avoidance. In addition, all three cases include a high degree of obfuscation: the reforms, gradual reforms in particular, were difficult for the general public to comprehend (cf. Pierson 1994). Furthermore, long-term effects of policy changes will only become visible after decades.

To conclude, the three Nordic countries display highly different ways to reform their pension systems: whereas in Sweden the old was abolished and new created in a political process, in Finland a gradual conversion planned by social partners took place and in Denmark policy drift resulted in an expansion of occupational benefits. However, in the longer run it may be that despite different ways and forms of reforms, institutional public-private designs of pensions in the three countries will converge towards the Danish-type multipillar system. In Sweden, the automatic balancing device may lead to unintended policy drift, i.e. the structure of social risks changes but due to the balancing mechanism the legislated pension system remains unchanged, which gradually results in changes without deliberate decisions (Ebbinghaus 2006: 266–74; Goul-Andersen 2002: 124). Thus, an unintended privatization of pension policy may take place (cf. Gildiner’s (2007) analysis of the privatization of the Canadian health-care system). In the Finnish case, the pension reform has caused an expansion of individual pension policies and if future TEL-pensions do not adequately compensate income losses, there will be an expansion of collective pension programmes, too (Kangas and Valdes forthcoming).

The architects of the Swedish reform declared that they have created a scheme that will last to the next ice age (Lundberg 2003). The aspiration behind the Danish and Finnish reforms was more mundane: to create schemes that would last until the next reform. Only time will tell which of the reforms were the most robust ones and whether there indeed have been three routes to a pension reform.

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