

RETHINKING SOCIAL RISK IN THE NORDICS



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KALEVI SORSA SÄÄTIÖ
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Edited by Ville-Pekka Sorsa

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Preface

In the European public policy debates the Nordic countries are often praised for having successfully adapted their labour market institutions and welfare states to the era of globalisation while maintaining a high degree of social cohesion. The Research Institute of the Finnish Economy (ETLA) study *The Nordic Model – Embracing globalization and sharing risks* (2007) is a classic case of this literature. The study emphasised that the Nordic countries have clearly benefitted from the globalisation that has led to productivity growth and rising income levels. On the other hand, the Nordic welfare state and labour market institutions have provided protection against the risks associated with economic openness, such as industrial restructuring. Economic openness is seen to require the collective risk-sharing. Therefore it has been possible for the Nordics to embrace both globalisation and the welfare state.

The ETLA study underlines that the Nordics must make reforms in order to hold their ground in the global competition and to counteract the demographic change. These reforms include the decentralisation of the wage setting processes, a re-definition of the core competencies of the welfare state and the strengthening of economic incentives to work. Overall, the main focus is to guarantee the competitiveness and fiscal sustainability of the Nordic model in the changing environment. These kinds of analyses tend to pay less attention to the question whether the Nordic collective risk-sharing institutions are in fact efficiently protecting the people from different social risks that they face in this new environment. Moreover, the notion of 'Nordic model' tends to emphasise the historical continuity of the institutions of social risk sharing and the similarities between Nordic countries. But have politics of

social risk and collective risk-sharing in fact changed over the years? Have different countries opted for different reform paths? Is there anything that can be called a Nordic model today?

The Foundation for European Progressive Studies (FEPS) started the *Nordic Economies after the Crisis project* in 2010 with the support of the Finnish Kalevi Sorsa Foundation, Friedrich Ebert Stiftung, Joint Committee of the Nordic Social Democratic Labour Movement (SAMAK), Economic Council of the Labour Movement in Denmark and Swedish Arbetarrörelsens Tankesmedja. The seminars in Stockholm and in Helsinki strengthened the idea that rethinking and looking at the politics of social risk in the Nordic context might open new perspectives for the European debate concerning the much discussed Nordic economic and social model. This is the reason why the project started working with this edited volume. Overall, I think that the volume offers many new insights to the development in the Nordics, ranging from pension policy in Finland and Sweden to economic and social costs of school dropouts in Denmark.

On behalf of the partnering organisations of the Nordic Economies after the Crisis project I would like to thank the authors of the volume for their valuable contributions. Most of all many thanks to Dr. Ville-Pekka Sorsa whose dedication to the project has made this volume possible. Finally, I would like to thank FEPS, FES and the Nordic partners of the Nordic Economies after the Crisis project for support and therefore promoting European debate on the Nordic economic and social development.

Helsinki, 13 November 2011

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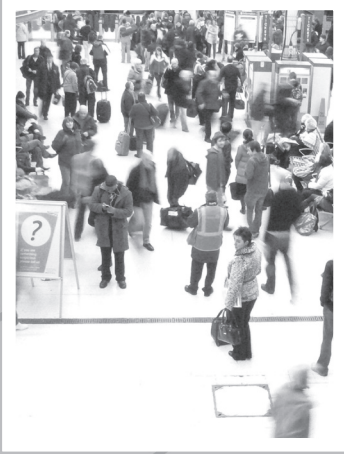
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1.



Introduction

VILLE-PEKKA SORSA

Social risks are present everywhere in our everyday lives. Most people in the developed countries think about the risk of losing their jobs or sufficient sources of income in a way or another at some point of their lives. Parents often think about social risks related to the future of their children – will they get a decent education and land a meaningful job, can they stay healthy throughout their lives, will they be able to raise a family and so forth. Politicians are happy to talk about social risks like unemployment and education because they are important topics for the vast majority of their voters. Businessmen from insurance sector to the financial sector are specialised in creating and marketing products with which people should be able to mitigate the risks. The media, social scientists, businesses, public servants and ordinary citizens alike have witnessed the devastating effects of the dozens of international financial crises during the last century or so.

Some social scientist have argued that the current social order can be best characterised with the notion of *world risk society* according to which risks of all levels from micro to macro and local to global are of central tenets of this order (Beck, 1999). Even though social risks are certainly broadly acknowledged, social risks are surprisingly rarely thought in political terms. It is, of course, quite easy to see that risks like unemployment or loss of ability to work include many direct political aspects. Unemployment may be sometimes generated politically or at least may seem to be the indirect result of some kind

political actions like deregulation of international competition policies. Central national policy tools like pension benefits and public services have much to do with helping to cope with materialised risks like the loss of working capacity. Sometimes policies may even help to prevent risks from materialising in the first place.

It is often forgotten, however, that even those risks that cannot be purely explained by political actions or fully tackled with national or international policies are in fact risks with social consequences. Although we do not necessarily think natural events like earthquakes, seemingly private events like family break-ups or simple everyday issues like trains being late as social risks, they all have social consequences that can be changed. Even if we cannot eliminate, prevent or effectively manage all risks, we can always at least in part reshape the social consequences any kinds of events will have. Social risks can thus always be politicised and are in nature essentially political.

The politics of social risk has been a central issue in modern national social and public policy from early professional and intellectual history to contemporary political and academic debates. It became a major issue of political interest internationally right from the early days of social risk management, starting with the labour protection schemes of the late 19th century Bismarckian Germany. More recently, politics of social risk has become so essential that modern welfare regimes have been classified according to policy approaches to social risk (perhaps most famously by Esping-Andersen, 1990). Yet if one had to pick one type of welfare regime in the world in which social risks have been so essential in public policy that one could not even explain the plain existence of the regime without addressing the politics of social risk, the choice would be clear. It is the Nordic welfare regimes.

The Nordic countries have been for long characterised by effective state-led social risk management regime based on the idea universalism, which means that social risk management is accessible equally by everyone on basis of either citizenship or residence. The model has made citizens and different groups of people equal in face of the risks generated by the society. The Nordic approach to maintaining a capitalist market economy has been to complement it with a high level of decommodification through active and all-encompassing social policy. In international comparison, the Nordic welfare states

have always topped the levels of decommodification in the overall population. The Nordic model has been more generally characterised by the elimination of social risks that can be eliminated, by the management of those risks that cannot be eliminated, and by the efforts to prevent those risks that cannot be effectively eliminated or managed from materialising.

This is how the story is usually told or at least the point from which the discussions on the Nordic model almost always start. Unfortunately, the story has major gaps and even flaws. Probably the one best recognised in the academic literature is the heterogeneity of Nordic countries. The Nordic countries are hardly isomorphic in their approaches to social risks today even though some loose family resemblance might still exist both in welfare institutions and in their post-expansionary developments (see e.g. Kautto et al., 1999; Kananen, 2011). Yet for example the Finnish politics of social risk have been somewhat different from the other Nordic countries from the start. The Finnish political initiatives have been lead equally much by the social partners (i.e. central labour market organisations) as by the state, and most social policies have been based on much more modest levels of prevention and mitigation of social risks than in other countries (e.g. Kangas, 2007). If we addressed all the politics of social risk in different countries – including the politics taking place at the private sector – it would probably get even more difficult to maintain the idea of Nordic model as a homogenous one.

The most pressing problem with the story is that it assumes that there is something that can be called “a model” with no reservations. Today neither in international comparison nor in any undisputed theoretical terms a distinct Nordic model exists (see Greve, 2011). The social success stories of Nordic countries are typically seen as products of some basic principles of the Nordic institutions (e.g. Becker, 2007). Yet it is questionable whether the social successes can be traced to any kinds of explicit political principles in the first place. It is rather a question concerning the institutions that produce the aspired outcomes, not just the key ideas or histories of such institutions. The Nordic institutions of social risks management have been anything by static – in fact, the Nordic countries have adapted to new and emerging social risks with very effective institutional changes in international comparison (see e.g. Armingeon & Bonoli, 2007). For instance the most famous ones, the

Danish flexicurity institutions have been a new and innovative way to tackle the changing social risks related to work in a small economy.

The idea of a distinct model has another theoretical deficiency, which is perhaps less often discussed and indeed the main topic of this book. Understanding the *politics* of social risk only as some specific principles embedded in some specific institutions provides a flawed picture on the actual politics of social risk. If politics are not regarded as contingent, politicised and institutionally varying processes of shaping and re-shaping societal institutions that generate, address and manage social risks, a misguided view on Nordic politics is guaranteed. As noted, it is often assumed that social risks are tackled effectively by the state. If we look only at the activities of the Nordic states on basis of this assumption, we may fail to grasp essential changes that effectively reshape the politics of social risk just because the change takes place somewhere else than we expect. As already mentioned, the Finnish politics have been more tripartite or social partner driven than state-led for the last half century. For another example, the Swedish regime is now increasingly based on the individuals' capability to hedge against social risk than on the political actions by the state. Although national policy has much role in producing this situation, the politics or social risks are becoming as much driven by individual choice as by the state (see chapters by Lindgren and Belfrage in this volume).

Both the institutions that generate and shape social risks, and the political paradigms and processes addressing social risks are constantly changing in the Nordics. Furthermore, as it is argued in many chapters of this volume, the politics of social risk and the institutions addressing them always include a great variety of all kinds of contingencies, which shifts the focus on the more practical aspects of public policy addressing social risks. We should never assume theoretically that the Nordic approach to social risks is static, homogenous, consistent, coherent or effective. The key goal of this book is to show how societal and political changes in the Nordic countries have changed the politics of social risk and, perhaps even more importantly, how we could change the commonplace theoretical interpretations of the Nordic model given the political and institutional contingencies in these changes.

By providing tools for rethinking the politics of social risk in the Nordics we also wish to provide tools for re-politicising social risks. If there is something common to all chapters of this volume individually, it is the critique of the current politics of social risk in the Nordic countries. While the thematic areas of the critiques are perhaps familiar to most readers, the actual objects of the exercise may not perhaps be that familiar. By bringing fresh approaches to, themes in and objects of critique to one volume we hope to provide a somewhat comprehensive picture on the possible ways to re-invent the Nordic politics of social risk. Before going to the key agendas for re-politicisation and to the contents of individual chapters of this book and to the narrative they constitute more closely, it is necessary to provide some further insights to the politics of social risks in general and especially to that of Nordic countries in more particular.

POLITICS OF SOCIAL RISK: SOME THEORETICAL FOUNDATIONS

Social risks and their political underpinnings and histories have been discussed very extensively in academic literature (e.g. Kemshall, 2002; Armingeon & Bonoli, 2007; Taylor-Gooby & Zinn, 2006), which is why it is hardly beneficial to repeat these issues in length here. In contrast, the purpose of this section is to shed light over some basic political questions and dimensions of social risks. In order to enable the re-politicisation of social risks, some summarisation and elaboration of the academic literature is also needed. First, we have to briefly reflect upon the social nature of social risks.

In broad-brush terms, risks can be conceptualised in two interrelated ways: as risks *of* something and as risks *to* something. The former refers to an occurrence of an event and its “likeliness”. Put differently, we can say that there is a risk of something happening. For example financial risks are often conceptualised in these terms – and often in these terms only (see e.g. de Goede, 2004). Financial risk-taking is about investing in pursuit of profits, but can also mean that the invested capital is lost. Financial risk thus has positive (profit) and negative (loss) aspects. What makes risk distinct from uncertainty – events that cannot be anticipated – is that it has a probability of some kind. Risks are thus events that can be anticipated: they cannot per-

haps be too reliably predicted but their occurrence is a known fact or there can at least be solid theoretical explanations for why some events take place or may take place at some point in the future. This is the feature that makes risks something that can be controlled.

In the latter terms, as ‘risk to’, risk refers to an event that changes the expected trajectory of events. Among other things, this conceptualisation of risk is usually present in the risk management discourses. Most importantly, it is the way social risks are typically conceptualised in everyday life as well as academic literature (Kemshall, 2002). In the sense of risk as ‘risk of’, one can for example say that when one is employed there is always the risk of becoming unemployed. But this is not how risks are usually conceptualised. One more often tends to talk about personal injuries, illnesses or for example about economic downturns as risks *to* employment. In other words, it is typical to think about activities in life as some kind of standard trajectories that can be compromised by some events. Risk as ‘risk to’ addresses the meaning and significance of the events in relation to current state of affairs. It is in nature positive and often normative as well – risks are something that “damages” the expected trajectory of things.

What makes risks ‘social’, then? In simplest terms, social risks are events that concern the relationships between human beings. However, one should not understand social risks only as events between individuals because the society is equally much about relationships between organisations, groups and institutions. For example unemployment can a risk to more abstract level social status (e.g. through loss of income, stigmatisation of living “on the dole”) as well as to personal relationships (e.g. status within the family, ties amongst friends). Moreover, social risks cannot be necessarily reduced to individuals or their activities. Social risks can be risks whose objects are institutions. For example, an economic downturn can impose cost pressures to states via increasing social security costs and challenge businesses via decreasing demand for its products. In most general terms, social risks can be defined as events that change the relationships between or the social positions of different societal actors, structures and practices.

If we think social risks in these very broad terms, it is clear that the idea of politics of social risk refers to an equally broad field of affairs. The poli-

tics of social risk are as much about the social institutions, relationships and other social issues as they are about the possible events. Thus any single social institution or relationship can become essential in the politics of social risk. Moreover, if we define politics very broadly as polities, politicisation, politicking and policies in and through which all things can be decided to be done (or made, thought etc.) differently, we can find politics of social risk nearly everywhere. Indeed, the politics of social risk *are* everywhere. Some limitations are nevertheless needed in order to make the task of presenting the key issues manageable.

The limitation used in this book is rather straightforward: we are looking at only *institutionalised* social risks that can be addressed in *public policy*. The greatest benefit with this limitation is that it excludes the most demanding research objects, the politics in the non-disclosed private and micro-level interpersonal domains. The conception of politics is thus limited to only politics taking place in different public social spaces, for example in formal polities like international organisations, states and municipalities, which generate policies. It must be noted, however, that we are not limited to formal political systems. The idea of 'public' should be understood here very broadly. Besides formal public polities at all scales from micro-local to global and universal, the definition includes all informal polities that have public policy relevance, including publicly regulated organisations like firms, and political activities that are present visibly in the public discussion, including various kinds of non-governmental organisations and policy networks.

The definition also limits the conception of social risks to a manageable scale. There are two reasons for this. Firstly, it limits the notion of risk to only such risks that can be and are named, anticipated and acknowledged as such. Put differently, social risks are here regarded either as explicit events ('risk of') or as objects of these events ('risk to') that both have social consequences that can be anticipated. In this sense, social risks are all but pure uncertainties, unexpected events or *deus ex machina* type sudden external influences. All 'external' influences and unexpected events are transmitted to the local social realities through institutional logics that make consequences more recognisable and expected. Put differently, social risks are more endogenous than exogenous to local institutional orders. From the perspective of the society

at large, social risks produce changes that are incremental rather than transformative even when changes are sudden.

Secondly, with the idea of addressing risks institutionally, it limits the notion of 'social' only to somewhat stable and elastic social structures and practices that are somewhat broadly shared in everyday life. Although in the various chapters of this book we do not rely on very narrow definitions of institutions but on much broader discursive or habitual definitions (see Gronow, 2008, for review), we are nevertheless limited to discussing the social risks that are diffused in the society at large – or, to institutions as archetypes (see Leca & Naccache, 2006). By doing this, we are focusing only on formally defined, broadly diffused and culturally legitimate institutions.

Given these limitations, we can define the politics of social risk as the public shaping and framing of and decision-making over the broadly shared elastic social roles, relationships and practices that are acknowledged to be subject to events that change them. Although this definition is rather abstract, it enables us to see that there are a number of practical issues that need to be elaborated further. For example, what kinds of public spaces are there and who are participating in reshaping social risks? What kinds of risks are present in different social institutions? How do we come to acknowledge events that may change the society? Although quite many 'what', 'who' and 'how' questions remain at the general level, the public policy focus narrows down the political analysis to a rather manageable set of questions. Next, we will present some basic dimensions of the politics of social risk.

THE THREE POLITICAL DIMENSIONS OF SOCIAL RISK

It is argued here that there are three practical dimensions in the politics of social risk conceptualised as discussed above. The first practical dimension of politics of social risk is *risk assessment*. Any public policy that concerns social risks has to define or at least to name the risks that are addressed in the policy (in a way or another). Risk assessment is the key starting point in policy planning and formulation. Assessment is never politically neutral in policy formulation. It is always possible to decide which issues are considered social risks and which simply are not, and to define which elements or aspects of risk are

addressed and which are not. It is a matter of framing and political choice. The key political questions here are how the assessment of risks is organised, what sources are used in analysing risks and, indeed, who are entitled formally and informally to name and assess the risks that are supposedly present broadly in everyday life.

In practical terms, social risk assessment can be analytically approached from two directions according to the two conceptions of risk as 'risk of' and 'risk to'. Although this political dimension may sometimes be more focused on risks as 'risk of' than everyday life thinking, it does not suggest that 'risk to' would be forgotten. When risk assessment starts from the 'risk of' perspective, it is about naming the possible occurrence of different events, and their likely social consequences. When assessment starts from the 'risk to' perspective, one first defines some aspired trajectory of human life or other developments, after which possible events that may compromise this trajectory are analysed in more detail. The 'risk to' perspective seems rather normative with the generation of trajectories, but the 'risk of' perspective is not a single bit less normative: it selects which events are considered negative and which are not.

It must be noted here that assessment at the macro-level policy formulation is hardly the best example of social risk assessment, which can take place at various different scales. Social work is a good example of highly professionalised risk assessment concerning micro-level personal relationships. There are at least three sets of risks that social workers assess according to the personal relationships of the service users, each set containing numerous risks that are not here discussed in more detail (see Parsloe, 1999, for review). The first set consists of risks that users face in their personal relationships, especially relationships with their relatives. Most often this refers to risks children face (e.g. abusive parents). The second set of risks consists of the behaviours (e.g. suicide, self-neglect) that service users may cause to themselves. The third set concerns risks that service users (e.g. the mentally ill, substance abusers) may cause for other actors, known or unknown. Social risks are always present in very complex networks of relationships and thus the accurate analysis of risks at any level is a great challenge. The more politicised or ideologically laden the aspirations concerning the assessment become, the more political this challenge becomes as well.

The second dimension is *the distribution of social risk*. In this context, distribution does not necessarily mean that some social risks are directly allocated to some people, organisations or institutions, which is not very often the case, but that public policy can shape the institutions through which different groups of people face social risks. If for example the market is seen as the primary institution through which people should face the risks in their economic life, it becomes essential to study how different market institutions distribute risks and to choose what kinds of markets are politically enforced. Indeed, in the simplest case, the politics are mostly about regulating possible events and their consequences in different institutions. The distribution of social risks refers to both the distribution of vulnerability to risks and to the access to mechanisms that shape social risks. The paramount political question in this dimension is the sharing of risks. The question is not only who shares what risks but also *how* the risks are shared – or, what the rationales for subjecting people to risks and of controlling access to risk management are.

Take for example employment. All employees share the risk of unemployment and are subject to same public policies but the employees of one corporation are very likely to face different kinds of risks than employees of another company operating in the same economy. The employees of one firm may have a very low risk of unemployment due to fine economic prospects and employee protection, while the employees of another live in great economic insecurity. In other words, the vulnerability to employment varies for the two groups. The employees in both firms may furthermore also have very different levels of access to unemployment funds. Thus the employees in different firms face different kinds of risk of unemployment as well. This means that the more both groups of employees are subject to social risks through the same institution – employment in labour markets regulated by employment contracts – the fewer common risks they are in fact facing.

Although it would be a harsh exaggeration to claim that all institutions can be redesigned to include different risks and to distribute risks differently, there is much political contingency in the ways in which institutions and actors are connected in the society. Esping-Andersen's (1990, 1999) classic insight on welfare regime models is in part based on this idea: different models distribute risks through different institutions and each includes its own contingencies.

In the universalist model for example access to risk management is firmly tied to citizenship of individuals and in the corporatist model to the employment of the family bread-winner. In the former, the distribution of social risks is then politically more tied to the definition of citizenship and to national politics of public services and benefits, whereas in the latter the politics of social risk have much more to do with employment contracts and the policies concerning work at a very general level. The mechanisms for sharing risks can produce significant variation in the social risks as such.

The third dimension is *the organisation of risk management*. Although risk assessment and the access to risk management are always very important issues in policy design – and certainly of greatest importance in providing understanding on these politics – it is likely that this dimension is most common to debates on public policy discourses. The organisation of management affects a great variety of issues like the spatial and temporary limits of risks, the processes of materialisation or mutual dependencies between management mechanisms. For example national health services that tackle social risks of illness can be organised as public services that can address health risks according to citizens' needs, or as service vouchers or public insurances with which citizens can obtain those private services available from the private sector. The management mechanism thus limits and reshapes the risk of illness, and affects the manifold social consequences the materialisation of the risk has.

Broadly speaking, management of social risk can refer to three different strategies in public policy. The first strategy is *prevention*. The goal here is to prevent social risks from materialising in the first place. Take for example employment. Prevention can for instance mean labour legislation (e.g. redundancy regulation) and education policies. The second strategy is *mitigation*, whose goal is to reshape the materialisation of the risk, and the third strategy *coping*, whose goal is to reshape the results of risks materialising. Unemployment can be for example managed with unemployment benefits that both mitigate the risk of unemployment by improving the capabilities to seek for work, and help to cope with the loss of income incurred by unemployment.

It is crucial to note here that these strategies should not be thought as models or paradigms of a policy regime, but only as strategies that concern

one or more risk management mechanisms. In order to talk about regimes, we need to include the politics of risk assessment and distribution in analysis. Even then, it is still impossible to talk about a regime. Regimes are based on some kinds of rationales that in fact connect the three political dimensions. We hold that it is quite unlikely that any kind of stable or even elastic political regimes of social risk can be found in the contemporary world. The reason for this is that the social risks are changing so fast in form and substance. True, many people around the world are likely to find the risk of unemployment significant in their everyday lives, but the meaning, consequences and causes of unemployment are everything but the same for different groups of people. Geographical and political variation certainly exists but we do not think it is necessary to try to analytically build any kinds of regimes out of this variation. We think it is more important to see what kinds of political *paradigms* there are in the *making* of the politics of social risk.

If risks are assessed *only* for individuals, distribution of vulnerability to risks and access to risk management organised *only* through markets, and risks managed *only* with mitigation strategies in one community, it is certain that social risks look different in another community where, in addition, risks are also assessed for households and collective organisations, distribution organised also through collective agreements and public services, and risks managed also preventively and by providing coping mechanisms. But this is not to say risks would look the same for each member of the community or that the differences between the two communities would be greater than differences within the communities. All in all, it is very difficult to talk about regimes when such differences are accounted, which shifts the research focus on more tangible issue of political paradigms.

THE NORDIC POLITICAL PARADIGMS OF SOCIAL RISK

We have above introduced some basic dimensions of politics of social risk. Given the topic of this book, it must be now asked: what are the Nordic politics of social risk like in each of the three dimensions, what kinds of paradigms can we find in the Nordic public policy-making, and how could we reconsider these paradigms?

Before answering this question, two things must be noted very briefly. Firstly, paradigms are not necessarily consistent or coherent – a political paradigm is a paradigm whether it works or functions or not, or whether it produces the aspired outcomes or not. Indeed, political paradigms can be based on ideology, compromises, domination, chance, negligence, ignorance and manipulation as much as on rational design and bargaining. Secondly, paradigms are not paradigms of national regimes. Indeed, it must be always asked *whose* political paradigms and paradigms *of what* are in fact looked at. In the following discussion, the focus may be on more long-term trends and broadly shared in the national public policy in different countries, but this is not to say that other paradigms would not exist or that these paradigms bind all actors in the Nordics.

It is beneficial to start the discussion on the Nordic political paradigms of social risk from the dimension of distribution, for the similar paradigm of distribution is probably the thing that combines all the Nordic countries most effectively. This political paradigm shared by all Nordic countries can be called *a multi-pillar approach* to the distribution of social risks. The stereotypical picture of the Nordic model states that the model is characterised by the universal benefits and systems sponsored and organised by the state, suggesting that all risks are primarily distributed through public institutions whose coverage is defined by either citizenship or residence. It is of course true that risks are still quite extensively distributed via these first-pillar institutions but they are not distributed only or even primarily through these institutions. In all the Nordic countries, there are significant second-pillar, employment contract based institutions like health care, pension and unemployment systems. Moreover, households and individuals are increasingly participating in the third-pillar private insurance and service markets in order to gain additional security in tackling social risks. (Kvist & Greve, 2011)

Of course, much variation remains between the countries in the relative weight of different institutions. Take for example pension systems (see e.g. NOSOSCO, 2008). Looking at the two most important sources of pension income for the last decade or so shows that the weight of pillars and their tiers – first tier refers to basic pensions and second tier to earnings-related pensions – varies significantly in each country. In Sweden, the primary pension

security comes from the combination of mandatory first pillar and occupational second pillar schemes. In Norway it comes from the both tiers of the mandatory first pillar scheme and from the mandatory occupational second pillar schemes. In Denmark, pensions come primarily from the two tiers of the mandatory first pillar scheme and the occupational second pillar schemes, albeit that the latter are only “quasi-mandatory”. In Finland, pensions come primarily the mandatory two tiers of the first pillar schemes and, in a lesser scale, from the third pillar private savings but the role of the second pillar is relatively small if not completely ignorable.

The multi-pillar approach is a very effective means of distribution when social risks are tackled because it enables access to various kinds of risk management mechanisms for a great majority of citizens. The downside of this approach is that it may prove hard to enhance equality both in terms of facing social risks as equals and of facing equal risks. People who have access to second-pillar arrangements are likely to have the access to third-pillar schemes as well, while people who rely on first-pillar safety nets may fall outside all other schemes. The approach is also prone to generate great risks of falling between different systems and thus of failing to get access to any risk management, and to create incentives to develop only one pillar instead of others. The latter may for instance mean that political parties have political incentives to primarily serve the needs of the middle classes as demonstrated by the recent politics of public services in Sweden (see Lindgren in this volume).

The political dimension of risk assessment can be in the Nordic case divided to the ‘who’ and the ‘how’ question. The paradigm of who assesses risks has changed rapidly during the last few decades in all Nordic countries. In the era of welfare expansion, risk assessment was made mostly in tripartite negotiations (e.g. Finnish incomes policy agreements, see Alaja in this volume) or in other alliances between political parties and central labour market organisations. Now, however, the trust towards social partners and any collective labour market actors in assessing general questions concerning individual and household welfare, social risks and other general themes has been seriously questioned – perhaps most seriously in the labour market flexibility-prized Denmark (see Jørgensen & Schulze, 2011). This has led to a

political decentralisation of social risk assessment to individuals, markets and less central organisations and associations of different kinds.

Although risk assessment might be more fragmented than before and includes the risks of increasing inequality in access to risk management or ineffectiveness of risk management policies among things, the Nordic paradigm of social risk assessment is not any less *comprehensive* than before. On the contrary, the decentralised or fragmented approaches are likely to provide more comprehensive assessments. For example the governance of the Finnish mandatory earnings-related pension system includes dozens of development groups and co-operatives at different hierarchical levels of the scheme, which produces comprehensive assessments and thus a strong reform capacity (see Johanson & Sorsa, 2010). The problem with decentralised arrangements like policy networks is that they may weigh expertise over representation, deliberation and negotiation. Indeed, if the Nordic paradigm of risk assessment turns more expertise-based design than stakeholder experience-based negotiation, the erosion of trust towards centralised assessments may also imply the erosion of representation in risk assessment.

Because there is little conclusive empirical evidence on the increase power of expertise over representation, it is yet hard to say anything conclusive on this 'who' question. However, the high role of expertise is also related to the answer of the 'how' question. The mode of risk assessment in the Nordic public policy has been for long been characterised by rather professionalist conceptions of assessment. The assessment in formal policy development is usually divided to highly professionalised groups according to predefined thematic questions or fields of expertise. There has for example been a broad Nordic consensus of assessing social risks on a life cycle basis, meaning for example that social risks are discussed separately for children, the youth, adults and the elderly (e.g. OECD, 2007; see also Finnvedcn & Lindfors, 1996). While the advantages of this approach are clear, including effectiveness and comprehensiveness, the problem is that the overall picture of life course or the 'good life' that social risks compromise may become rather abstract and incoherent. Without political deliberation over the good life and public representation in assessment, the assessed social risks may remain abstract at best and at worst only a means for governing the masses without the goal of good life.

Perhaps the most characteristic issue in the political dimension of risk management in the Nordics has been to provide rather generous compensations for the materialisation of social risks for various groups of people. Indeed, although variation in compensations levels remains, there is much common in the Nordic strategies of helping to cope with social risks with for example extensive public services and multi-pillar unemployment benefits and pensions. How about other strategies of risks management? All countries have for long put very much weight on education policies in terms of risk prevention. Similarly, most countries have recently opted for increasing levels of flexibility in labour markets, thus putting less weight in regulation policies in mitigation. It can be argued more generally that there has been a shift towards workfare paradigms in and individualisation of risk management strategies with labour market integration policies and active labour market policies.

Again, it must be noted that individualisation or risk management does not mean that management would be any less comprehensive or effective. Some difficult issues like the risk of lone parenthood may be magnified as well as suppressed in this development. The main problem here is that contemporary modes of risk management produce strong dependencies. The increasing importance of the dependency on labour market is not the only one here. For example, one of the key developments in the Nordic as elsewhere in the developed world has been the financialisation of risk management. Nordic pension provision for instance is increasingly dependent on the performance of the international financial markets. Financial market dependency makes success dependent on financial literacy, which is neither an egalitarian approach nor one which makes sense confronted with highly complex financial markets (see Belfrage in this volume). Moreover, financial market dependency generates other dynamics as well, including for instance the possibility that risk management becomes pro-cyclical rather than counter-cyclical.

As noted, risk management is very much about reshaping social risks and thus a source for new contingencies and risks (see Sorsa & Roumpakis in this volume). It is hardly a surprise that the Nordic multi-pillar and multi-level approaches to the distribution of risks and risk assessment are reflected also in the mechanisms of risk management and in the risks they create. There are so many mechanisms that it is difficult to have any kind of comprehensive

understanding on them in public policy. It is especially difficult to address issues like the falling between systems, the overall levels of protection, all kinds of questions concerning equality, or even the consequences of institutional changes. This is perhaps the most pressing challenge in the Nordic politics of social risk. While there are strong expectations to address social risks in public policy, it is very difficult to see what kinds of social risks the current institutions in fact generate or how any aspired reforms might change them. This, again, helps to keep the debates over social risks primarily in professional hands, which makes the broad social expectations difficult to be translated into democratic politics.

RE-POLITICISING SOCIAL RISK IN THE NORDICS

The politics of social risk in the Nordic countries have been at their best characterised by highly professional but representative risk assessments, by genuine multi-pillar approaches to the distribution of risks, and by extensive and egalitarian compensation strategies and effective regulation-based prevention strategies in risk management. Even despite their problems and inconsistencies discussed above, these paradigms have helped to make social risks relatively effectively mitigated and relatively equally distributed. Indeed, when international welfare and well-being comparisons and rankings of are made, the Nordic countries nearly always seem to be playing in their own league. Yet when it comes to the politics social risk, the Nordics hardly play in their own league – they are subject to the same political and institutional pressures as much as any other group of European countries. The social risks have been for example magnified by transferring them to the systemic level, and are increasingly becoming assessed by individuals with low capabilities to do it, distributed through imperfect markets and managed only by mitigating them mildly.

In most general terms, the transformation is related to the transition from the Keynesian Welfare Nation-States to the Schumpeterian Workfare Post-National Regimes as best described by Jessop (2002). The idea of competition state has indeed become central in the Nordics. National competitiveness is considered the primary economic risk: if the states cannot compete successfully over production and productive labour, they risk all economic

success altogether. Open competition has implied increasing vulnerability to the global financial system and to the production and distribution strategies of multinational corporations. Moreover, the Schumpeterian paradigm embraces rather than suppresses risks. The mode of open competition is based on innovations and the so-called knowledge economy, which causes great pressures for all citizens to gain sufficient knowledge, skills and flexibility to cope with rapid economic changes. Social risks are increasingly related to work and employment more generally. Risks are more distributed by employment than ever before due to the rise of second and third pillar schemes and the retrenchment of the first pillar schemes. The role of the state is less about extensive service and social security provision and more about serving as a regulatory regime.

The best of Nordic political paradigms are currently under great pressure. This is not to say that we should try to return to any old paradigms in the politics of social risk. Rather, we need to rediscover the valuable aspects of old paradigms, to update paradigms and to reflect upon new ways to materialise the aspired changes in the contemporary political-economic order. The Nordic social democratic welfare politics have, of course, been criticised and re-politicised along the same lines many times before for various reasons. When it comes to politics of social risk, it is sufficient to take Kuisma's (2011a, 2011b) advice from these debates: instead of being optimisation-prized economists, we need to put much more weight on ideas and policies and on showing what citizens can tangibly achieve when they form a political alliance.

At the most general level, we must now democratically discover and if necessary redefine what *good life* is and how the new politics of social risk can help everyone to live it in the Nordics. Without this, any kind of new politics of social risk are prone to fail. In order to reinvent old paradigms and to adjust them to the current conceptions of good life, we also need a thorough re-politicisation of the current trends in all three political dimensions (assessment, distribution and management). A few issues in each dimension are next discussed in more detail.

The Nordic politics of risk assessment have been traditionally characterised by collective deliberation by the representatives of people both as representatives of citizens (state and political parties) and of economic inter-

ests (labour market parties), and by professional setting of agendas. As noted above and elaborated in more detail in various other chapters of this book, the erosion of the central bargaining systems is certainly affecting the possibility to assess risks in collective democratic deliberation, which fragments the assessments and may provide even a greater role for the domination of professional discourses. Moreover, there have been calls for increasing assessment of risks at the individual level in contrast to collective assessments (e.g. Pajarinen et al., 2010).

Conceptualising social risks as risks to individuals may easily mean that professional social and financial engineers are assessing risks on behalf of individuals, or that the assessment is complemented with the imperative to manage the risks alone. This is not probably the Nordic conception of good life in a good society. Assessment on an individual basis is problematic. One of the problems of the new individualist micro-bias is that it tends to undermine the macro-level risks embedded in the global economy. Individualisation of assessment becomes dangerous in the context of global economy that is ridden with high risk levels magnified by constant capital market inflation (see e.g. Toporowski, 2005). Basically all events in the global economy become possible sources of system-level disturbances against which individuals cannot be protected by financial risk management (Beck, 1999). All financial products that are marketed as effective hedges against social risks are in fact producing most benefits for their sellers (De Goede, 2004). It is evident that if we wish to assess social risks as risks to individuals, we must take the macro-level much more seriously than as a framework of competition. Before that, however, we as Nordic citizens need to re-politicise the entire idea and find agreement whether individualism as seen by financial professionals, not citizen representatives should be the way in which risks are assessed.

The one true cornerstone of the Nordic paradigms of social risk has been the distribution of risks with a multi-pillar model. The Nordic politics of social risks have always been very open-minded about providing access to risk management mechanisms in different pillars of the society. Now, however, the Nordic countries have strongly embraced the idea of workfare state in which risks are increasingly distributed via employment. This has increased polarisation between the winners and the losers. Take for example Finland.

The individuals working in stable and successful organisations are enjoying generous second-pillar health services and access to various other schemes, whereas precarious workers have to live with retrenched health services and constant uncertainty. The two-tier first pillar pension system for example can very effectively provide generous pensions for nearly all Finns but only in conditions of full employment and stable working careers which both have become less common since the early 1990s depression. The inequality in relation to social risks caused by increasingly workfare based distribution is becoming evident.

It must be noted that this is not to say that the first pillar or public service and social security provision would be in crisis. On the contrary, the first pillar becomes crucial in shaping the risk of unemployment. If we live in a 'four-fifths' or 'three-quarters' welfare state in which a vast majority of workers enjoy access to generous second and third pillar benefits, then it is clear that the first pillar defines the gap between winners and losers. Perhaps one of the key questions in the future of Nordic risk management is the distribution of social risks. Do we wish to provide sufficient and equal social safety nets for all or for example only to provide equal access to risk management within different pillars?

Yet perhaps a more pressing problem with the current workfare ethos is that it has become difficult to affect *how* risks are distributed via work. Traditionally, the first (public) and second pillar (occupational) social security and services arrangements have not been fundamentally separated in Nordic political bargaining. Now however, as demonstrated by Theo Papadopoulos and Antonios Roumpakis in their chapter in this volume, the European social space strips away the possibility to coordinate second-pillar schemes with the first-pillar schemes effectively. This is very likely to strip effectiveness away from the Nordic politics of social risk, and it certainly increases the importance of the first pillar schemes. Whether this is commendable or not is a matter of deliberation – a deliberation whose goal has to be political action for Nordic governments and political parties at the European level.

In terms of risk management, the Nordic paradigms have been quite effective in providing help to cope with social risks. The key question concerning the Nordic paradigm here is whether the egalitarian ethos in coping strate-

gies is sustainable or not. The access to risk management may continue to be relatively egalitarian but the coverage and the generosity of benefits can hardly be called egalitarian in essence. Although the multi-pillar model has been valuable in terms of policy-making, it is evident that the role of the first pillar safety nets has been somewhat undermined in all Nordic countries in case of social security, albeit not necessarily in case of public services. As result, individuals and households have become more dependent on the labour market in facing social risks. Although this development is all but a positive one, stating it is not enough to conclude the analysis of risk management: the focus moves to preventive and mitigation strategies.

The capabilities to prevent social risks from materialising collectively have also become somewhat limited in the so-called world risk society and in the current European framework both discussed above. The same applies to mitigation, the reformulation of the event causing the risk. It is for example increasingly hard to regulate labour markets and to ring-fence social security systems from international economic cycles. The flexicurity model may for example mitigate the risk of unemployment significantly (e.g. by enabling supplementary education during unemployment) but it does not make the risk of unemployment any less imminent or dependent of global economic development. On the other hand it must be noted that many prevention strategies like education and health instruction have been embraced as a key part in the politics of individualisation. Similarly, mitigation strategies like parenthood leave support are still very strongly present whenever the workfare ethos is strengthened.

Employment is one important issue where all the three dimensions are relevant. The problem with the current Nordic workfare ethos is that there have been very few debates on 'good work' and the role of work in good life, which would provide guidelines for employment policies. Indeed, if second and third pillar unemployment, health, pension and other insurances become the norm with which risks are distributed, what kinds of employment policies do we wish to have? Or, put differently, if we are willing to live in a workfare society, to what kinds of vulnerabilities do we want to subject ourselves as workers? If the workfare society is very broadly considered legitimate – which

is not necessarily the case – the answer to these questions is essential in redefining the Nordic paradigms.

Take for example equality. If we assume that all citizens should be equal, should the state for example serve as ‘the employer of last resort’ in order to achieve full employment or should individuals fully bear the responsibility of employment on their own? Should individuals be fully responsible for employing themselves even when a global financial crisis wipes off ten per cent of production and there is insufficient effective demand to establish new firms and products? Unless these questions are answered in collective deliberation, the risks related to work become very easily both assessed and born only by individuals whatever our idea of equality is. In order to strengthen the democratic ethos in the politics of social risk, we need to strengthen rather than suppress collective deliberation over the role of work in good life.

Good life is not the only macro-level question that needs to be addressed. Another one is the division of moral labour in risk management between all societal actors. This includes both the provision of risk management and the costs. Due to tax cuts for businesses, the individualisation of risks in pension systems, the rise of user fees in public services and many other related developments, the costs of managing risks have become more individualised in all Nordic countries. As result, the mitigation of social risks has in general become more individualised. Should we accept these kinds of developments? The answer depends on who we consider responsible for risk management and how this assessment is framed. Without political debates, any deliberate division of labour in the politics of social risk is next to impossible.

All in all, one of the key agendas of this chapter has been to re-politicise the contemporary Nordic approaches to social risk in a few fronts. Firstly, we need more inclusive and highly representative political debates over good life in order to assess democratically which social risks are considered the most important in the contemporary Nordic societies. Whether risks should be assessed on individual, firm employee, regional or national-institutional bases is the first topic that needs to be discussed. Secondly, we need a comprehensive agreement on the division of labour in distributing and managing social risks. To revive the Nordic egalitarian tradition, the public safety nets need to be maintained sufficient to ensure substantial quality while at the same time

making it clear in what scope risks should be borne by individuals and other actors in order to improve fairness. Thirdly, in order to renew the multi-pillar paradigm, the individualisation of social risks – if accepted in the first place – needs to be balanced with macro-level collective policies that ensure as effective management of social risks as possible. Besides changes in attitude, it may require proactive global politics to “de-financialise” the global economy and international cooperation to change the current European regulative framework. This is indeed a major prospect for the Nordic political cooperation in the future. It is moreover evident that the tripartite negotiation systems are among the key political spaces for all these debates and goals.

THE STRUCTURE OF THE BOOK

The volume in your hand does not belong to a genre of extensive research reports that would aim at providing a definitive review of politics of social risk in the Nordics at the time of writing. Rather, the purpose of this book is to provide new insights and theoretical tools that can help to find new directions for Nordic social and public policies in which social risks are addressed. While it would have been possible to choose only scientific articles made by Nordic researchers – there is indeed very much high-quality academic research on the topic – and to opt for a fully scientific genre in style, we have made a selection of more essay-like analytical, historical, theoretical and policy-oriented approaches presented by Nordic and international authors. The reason for heterogeneity is that we believe it covers the *public debate* on social risks better than exclusively academic orientation could.

The book includes seven chapters besides this introductory chapter. Although all the chapters discuss a great variety of political issues, they can be also classified according to three key themes in the politics of social risk. The first key theme addressed in this book is the changes in social risks and especially the policies of social risk in the Nordics. There are three chapters that can be best fitted under this theme.

The second chapter of the book, written by Erik Bjørsted of the Danish Economic Council of the Labour Movement (*Arbejderbevægelsens Erhvervsråd*), discusses the changing role of education in the politics of social risk

in the Danish economy. Education has become one of the key challenges and sources of social risk for individuals in an economy that is now more flexibility-prized than perhaps ever before. Mr. Bjørsted argues that the growth in training levels has slowed down significantly, which will cause many imbalances in the Danish labour market in the future. The policies strengthening the education of the workforce would help to correct these imbalances. Such policies would also produce positive effects both for tackling social risks more effectively and for enhancing the quality of economic life in Denmark more generally. In order to control the social risk of inadequate education more effectively, it is clear among other things that businesses must change their attitudes towards internships and that legislation on various issues ought to be discussed and re-evaluated.

The third chapter of the book, authored by Anne-Marie Lindgren of the Swedish Labour Movement Think Tank (*Arbetarrörelsens Tankesmedja*), moves to discuss the change in and experience of public service provision in Sweden and expands the discussion to the political foundations of new risk management institutions in the Nordics. This discussion is contrasted briefly with some contemporary perspectives on the Finnish service provision in the fourth chapter written by Joonas Rahkola of The Central Organisation of Finnish Trade Unions (*Suomen Ammattiliittojen Keskusjärjestö*). Ms. Lindgren brings forth the proposition that the privatisation and outsourcing of public services, which have recently characterised the politics of social risk in Sweden, have been accompanied by the financialisation of the services or their funding, which has challenged the rationales behind the outsourcing. Moreover, it has produced many somewhat negative outcomes like increasing inequality in social risk management and increasing costs of service provision. As Mr. Rahkola demonstrates, the possibility for such developments has been discussed in Finland, but they have not been materialised at least in comparable scope due to different policy choices.

The second key theme addressed in the book expands the discussion from policies to policy-making. Indeed, the effectiveness of the Nordic countries in managing social risks is perhaps less due to public policies than to mode of policy-making that helps address social risks rather comprehensively. The ability to discuss social risk in various centralised agreements has been a key

political success factor in the Nordics. That said, the idea of combining centralised policy-making with multi-pillar approaches is constantly contested, and this mode of policy-making has become more dependent on success stories.

In the fifth chapter of this volume, Claes Belfrage of the Queen Mary University of London demonstrates that the way of addressing social risks can prove to be crucial for the political success of a single political party. Dr. Belfrage discusses comprehensively the historical role of the Swedish Social Democratic Party in shaping one of the key institutions of managing social risks of the elderly, the mandatory earnings-related pension scheme. Pension system design and reforms have provided ample opportunities to seize political victories and to build a Social Democratic identity of social risk management. Yet reforms can become a political burden for a party whose 'crown jewel' the pension scheme was. The pension politics have caused the Social Democrats to embrace a new set of values that Dr. Belfrage discusses under the notion of subversive neoliberalism and, ultimately, to lose their political identity in the face of social risks. Dr. Belfrage argues that in order to have political success stories, the Social Democrats need to reconsider their relationship to the most important cornerstone of the politics of social risk, the pension systems.

Antti Alaja of the Finnish Kalevi Sorsa Foundation discusses another type of political success story in the sixth chapter. The Finnish centralised tripartite negotiations and especially the incomes policy agreements have been the central institutions in which successful public policies of social risk have been built during the last half a century. The otherwise elastic institutions have been recently questioned and somewhat abandoned by the employer organisations. In an era of national competitiveness discourses, the key focus on social risks has been transferred from individual and firm levels to the national scale, to the overall Finnish economic success. Mr. Alaja argues that in such setting, the ability to coordinate economic and social policy in a centralised manner then becomes vital for effective and successful risk management. Without such ability, different kinds of political actors are unlikely to produce effective policies of risk management. It is thus little wonder that the centralised bargaining system has been revived.

The third key theme of the book is political and institutional contingency in the politics of social risk. By focusing on contingency we especially wish to show that social risk management generates social risks as such. Furthermore, all risk management includes operational risks as such and all political settings addressing social risks have the risk of failing. It must be noted, however, that these risks are not only about operational successes or failures in seizing opportunities but they also concern the abilities to react and to mobilise political resources. In short, the political effectiveness of the Nordic countries to manage social risks should never be taken for granted.

The seventh chapter of this book, authored by Ville-Pekka Sorsa and Antonios Roumpakis of the University of Helsinki, is a detailed historical analysis on the risk and dependencies related to the Finnish and Swedish mandatory earnings-related pension schemes. Dr. Sorsa and Dr. Roumpakis argue that although the individuals bear risks differently and some institutional dynamics differ in the two pension schemes, they also include many similar contingencies. The comparative historical approach helps to see how different regimes come to embrace, suppress and reformulate social risks in their own ways, and how different approaches prove sustainable, become out-dated or get reformed. The two schemes have been subject and continue to be to quite different reform paths in political terms. The Finnish scheme for example continues to provide more political room for reforming the scheme in the operational governance, while the success of the Swedish scheme has become more dependent on professional systems design.

In the eighth and last chapter of this book, Dr. Theo Papadopoulos of the University of Bath and Dr. Roumpakis address some recent developments in the European framework that compromise the parity principle, which is one of the key political characteristics of the Nordic labour market bargaining systems. The European regulative framework challenges the Nordic politics of social risk by steering the politics of risk distribution towards more market-based solutions and by limiting public possibilities to prevent and to mitigate social risks. Focusing especially on the role of the European Court of Justice, Papadopoulos and Roumpakis demonstrate how the new European social space serves as a strong but contingent external influence to more local and national politics of social risks.

In combination, these eight chapters provide valuable new insights to the Nordic politics of social risk. The reason for the novelty is not so much the themes discussed – they have been present in the academic and professional debates for ages – but the way in which they are discussed and combined. When policies are combined with policy making, institutions of social risk with institutions of addressing them, and risk management with generation of risks, it is clear that the understanding of any kind of stable or static ‘Nordic model’ must change. And, indeed, we also hope that this new understanding can provide new ideas in and approaches to the actual politics of social risk.

All the views presented in individual chapters are of course authors’ own – including this introductory chapter in which many highly subjective interpretations of the other chapters have been made. That said, the editor is always in part responsible for omissions, for highlighting some arguments over others and for letting factual errors end up in the final version of the book. As the editor of this book, I hope you find the selection of issues and approaches discussed one that helps new thoughts concerning the Nordic societies to emerge – hence the title of this volume.

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2.



Lack of education as a social risk – the Danish case

ERIK BJØRSTED

Denmark, like many other economies, is highly dependent on a well-educated workforce. Knowledge is an important means for production that can increase productivity and hence the overall welfare of the society. Indeed, the demand for skilled and high-skilled workers has increased significantly over the past years while the demand for unskilled workers has decreased. The restructuring from low-skilled jobs towards high skilled jobs is visible in every sector of the Danish economy and it requires continuing growth of the overall educational level of the Danish workforce. This means that the generations coming in to the labour market have to be better educated than the ones leaving the labour market. Here Denmark is facing a huge challenge, because the growth in the acquired educational levels seems to be slowing dramatically down. The purpose of this chapter is to shed more light over these developments and to discuss what kinds of effects the slowing growth in educational levels affects the social risks faced by Danish employees.

INCREASING SHARE OF YOUTH GENERATION WITHOUT SECONDARY EDUCATION

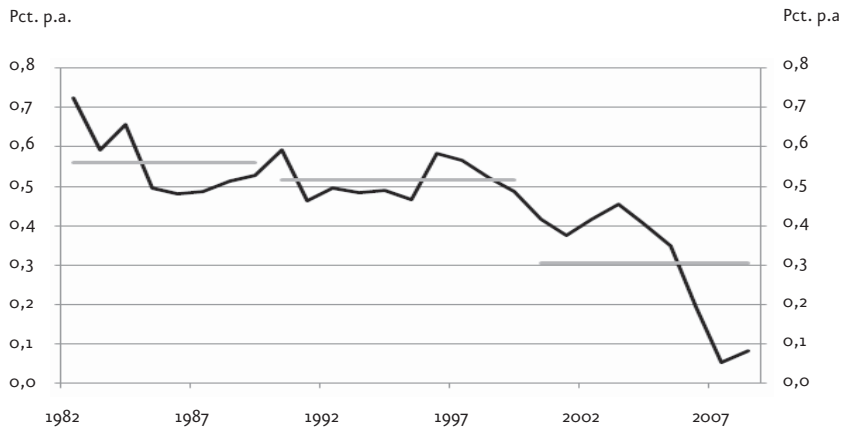
Table 1 demonstrates the share of low-skilled workers, or workers with no education beyond primary and lower secondary education for different age groups. The share of low-skilled workers among the 65-year-old group has dropped from 65.8 per cent in 1990 to 40.4 per cent in 2008. The share of low-skilled workers among the 26-year-olds and 35-year-olds has also dropped, but not as much as in the case of the 65-year-old. This indicates that the difference in the educational levels between the old generations and the young generations has fallen and, more generally, that the growth in the educational levels of the workforce has stopped. This is confirmed in Figure 1, which demonstrates the growth in the educational level measured as how many months of education the population has received on average. In the 1980s, the growth in the levels of acquired education was about 0.6 per cent a year for the overall workforce. That dropped to about 0.5 per cent a year in the 1990s while the growth from 2000 to 2008 on average has been only about 0.3 per cent a year.

TABLE 1: Share of low-skilled workers

	1990	1995	2000	2005	2008
26-year-old	31.7	27.8	24.6	24.1	28.2
35-year-old	36.7	33.5	26.0	23.1	20.2
65-year-old	65.8	60.1	53.2	45.5	40.4

Source: ECLM on basis of the databank, IDA, Statistics Denmark

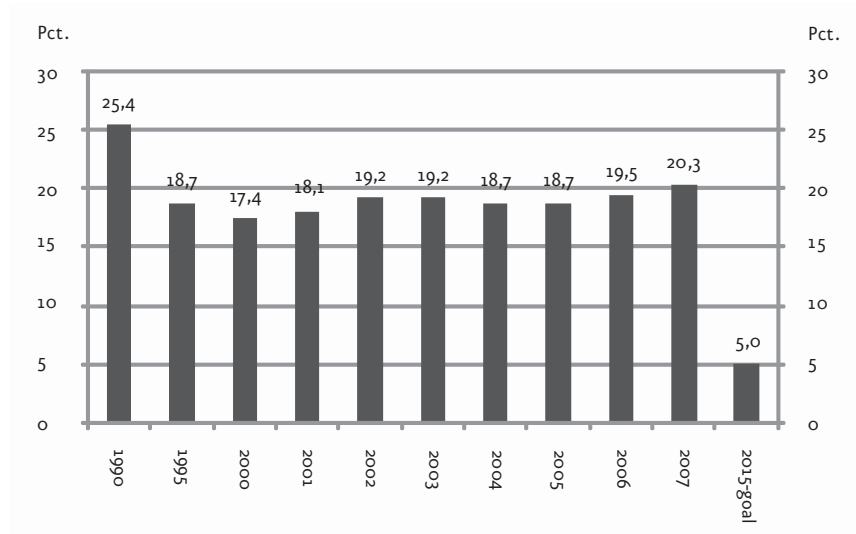
FIGURE 1: Growth in the educational level of the Danish workforce



Note: The level of education is defined as how many months of education the labour force has received. We are looking at the labour force from 15 years to 74 years. Source: ECLM.

Of course, one could argue that due to the growth in the educational level it will become more difficult to obtain large growth rates in the educational level over time. However, compared to earlier years, a larger share of young people in Denmark today does not obtain education beyond lower secondary education. This is illustrated in Figure 2, which shows the expected share of young people without education beyond lower secondary education 25 years after graduating from the lower secondary education. The 2007 figure suggests that in 2032, when the youth generation has turned 41, the share of workforce with no education beyond lower secondary education would be 20.3 per cent.

FIGURE 2: Share of young people with no education beyond lower secondary education



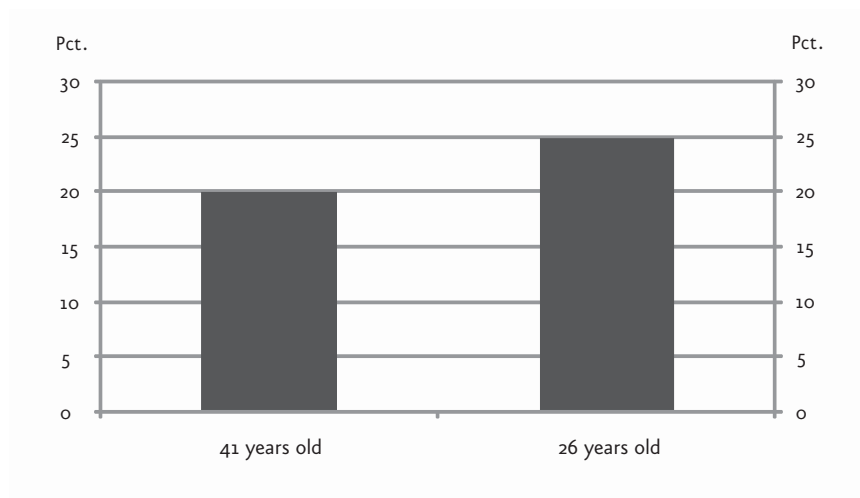
Note: We are looking at people 25 years after graduating lower secondary education. So in fact we are looking at 41 year old people. The expectations in figure 2 are calculated through a model developed by The Danish IT Centre for Education and Research (UNI-C) for The Ministry of Education.

Source: ECLM on basis of statistics from UNI-C (The Danish IT Centre for Education and Research).

In 1990, about 25.4 per cent of the young generation was expected not to undergo any further education beyond the lower secondary education. During the 1990s this share of young people decreased and by the beginning of the new millennium only 17.4 per cent were expected not to complete any education beyond lower secondary education. During the last ten years, however, the expected share of a youth generation not getting any education beyond lower secondary education has increased to more than 20 per cent. When the current government took office back in 2001, it set a new target in education policy, the so-called Target 2015. According to government plans no more than five per cent of a young generation in 2015 should be without education beyond lower secondary education. At the moment, Denmark seems

to be very far from that goal. Moreover, as mentioned, Figure 2 addresses the population 25 years after they have finished lower secondary education, which means that we are here looking at people when they are 41 years old. If we look at people ten years after finishing their lower secondary education – meaning they are 26 years old – matters are even worse. At that age, about a quarter of a youth generation will not have completed any education beyond lower secondary education (see Figure 3).

FIGURE 3: Share of 41-year-old and 26-year-old people without education beyond lower secondary



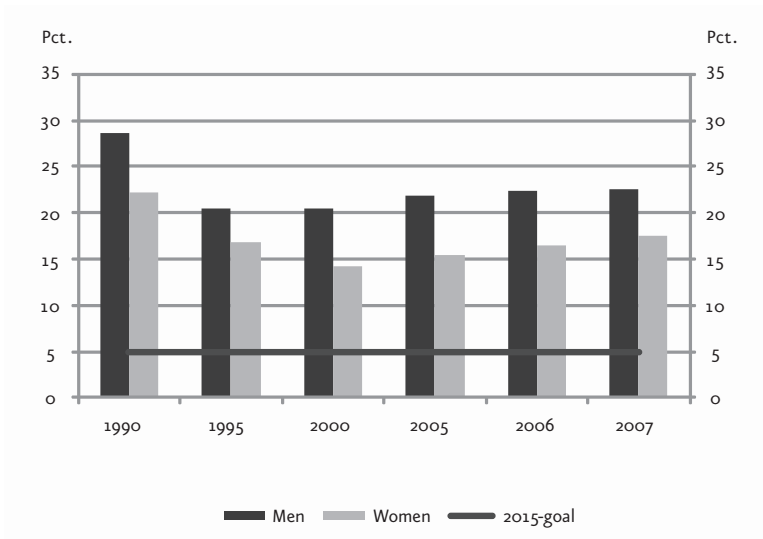
Note: We are looking at people 10 and 25 years after graduating lower secondary education. So in fact we are looking at 26 and 41 year old people. The expectations in figure 2 and 3 are calculated through a model developed by The Danish IT Centre for Education and Research (UNI-C) for The Ministry of Education. Source: ECLM on basis of statistics from UNI-C (The Danish IT Centre for Education and Research).

WHICH SOCIAL GROUPS DROP OUT OF SCHOOL AND WHY?

Men are less likely to get an education

Before addressing the social risks that the lack of education poses on the individual and to society, it is useful to look at some of the typical characteristics of the low-skilled workers with no education. The first clear characteristic is gender. If one looks at the share of men not getting an education beyond lower secondary education and compares it to the relative share of women, it is obvious that men are less likely to get any education. From 1990 to 2007 the share of men not getting an education beyond lower secondary education has been significantly larger than that for women (see Figure 4). In 2007, 22.5 per cent of men had not completed education beyond lower secondary education by the age of 41 while the share of women was 17.5 per cent. However, it must be noted that both women and men are far away from the 2015 target of having at maximum 5 per cent of the younger age cohort without education beyond lower secondary education. Figure 4 shows that the share of both men and women not getting an education has been increasing since 2000.

FIGURE 4: Share of men and women without education beyond lower secondary education



Note: We are looking at people 25 years after graduating lower secondary education. So in fact we are looking at 41 year old people. The expectations in figure 4 are calculated through a model developed by The Danish IT Centre for Education and Research (UNI-C) for The Ministry of Education.

Source: ECLM on basis of statistics from UNI-C (The Danish IT Centre for Education and Research).

Nationality plays a vital role for education

Another important characteristic is the national origin of the worker. If the worker is not Danish in origin, he or she is less likely to complete an education that qualifies for the labour market. According to Table 2, 27.4 per cent of the workers with another national origin than Denmark have not completed an education beyond lower secondary education while the share for the workers with Danish origins is only 14.7 per cent. Again, women are more likely to complete an education that qualifies for skilled or high-skilled jobs than men. More than a third of men with another origin than Danish do not possess

an education that qualifies for skilled or high-skilled jobs. Better integration policies therefore also play a vital role in getting young people back to school.

TABLE 2: Share without education and origin

	Share without high school diploma or vocational education		Share without any other competence	
	Danish origin	Other origin	Danish origin	Other origin
Men	21,0	37,3	17,9	34,3
Women	16,7	25,5	11,4	20,0
Total	18,9	31,8	14,7	27,4

Note: We are looking at people 25 years after graduating lower secondary education. So in fact we are looking at 41 year old people. The expectations in table 2 are calculated through a model developed by The Danish IT Centre for Education and Research (UNI-C) for The Ministry of Education.

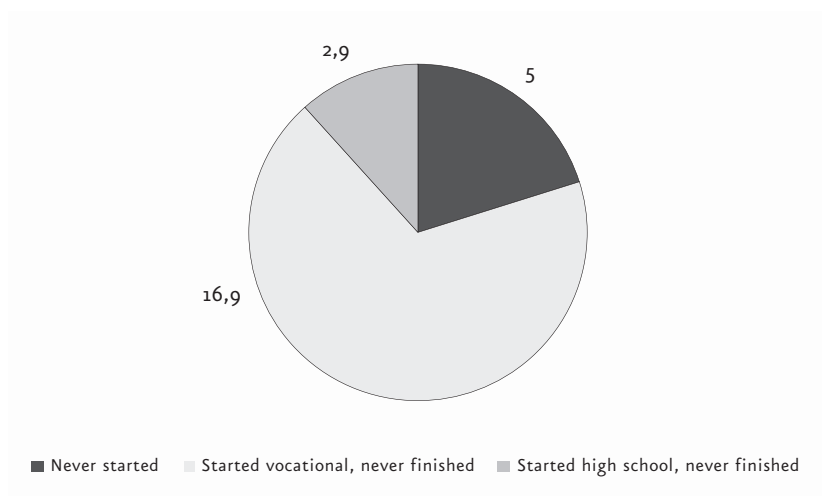
Source: ECLM on basis of statistics from UNI-C (The Danish IT Centre for Education and Research).

Far too many drop out of school

Education in Denmark is almost free of charge so in that respect it would seem surprising that so few choose to complete an education that qualifies for jobs other than low-skilled jobs. The truth is, however, that quite many actually begin some education beyond lower secondary education. Looking at the current 26-year-olds, only 5 per cent never even started taking an education beyond lower secondary education (Figure 5). The rest of the 25 per cent, who have not completed education beyond lower secondary education at the age of 26, have actually begun an education but have dropped out of school. This is especially pronounced within the vocational schools where more than 50 per

cent drop out. The share of students dropping out of vocational educations has been increasing since year 2000 (Figure 6).

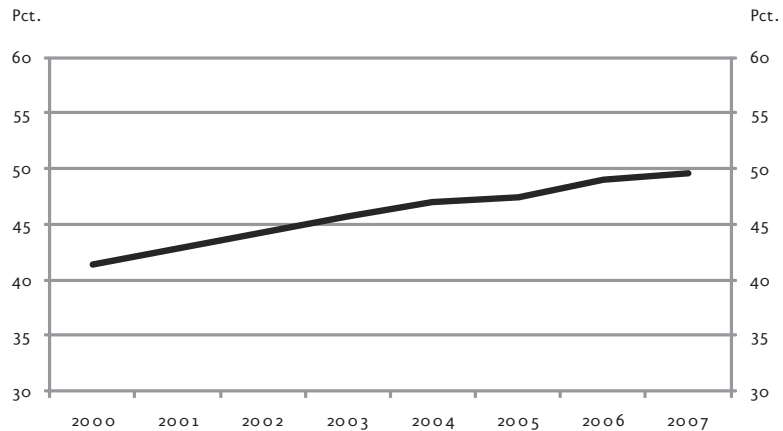
FIGURE 5: Reasons for not getting an education



Note: We are looking at people 10 years after graduating lower secondary education meaning that people in the sample are 26 years old.

Source: ECLM on basis of statistics from UNI-C (The Danish IT Centre for Education and Research).

FIGURE 6: Share of students dropping out of school within vocational educations



Source: ECLM on basis of statistics from UNI-C (The Danish IT Centre for Education and Research).

SHORTAGE OF SKILLED AND HIGH-SKILLED LABOUR

The lack of educational skills in the Danish labour force combined with the increasing demand for knowledge and skills is not sustainable in the long run. Not many years from now, Danish companies will lack skilled and high-skilled workers. Even the current economic and employment crisis cannot prevent the emergence of this imbalance. The consequences might be severe not only for the companies and the society that will face productivity, growth and welfare losses but the lack of skills also has depressing effects at the individual level.

Although it is difficult to assess the exact imbalances of demand of and supply for educated workforce today, it is possible to make some assessments on how much the imbalance will worsen over the coming years. Table 3 demonstrates the likely worsening of the imbalances on the Danish labour market over the next ten years. The demand for low-skilled workers who have no education beyond lower secondary education will decrease by almost 190 000 people. The supply of low-skilled workers is, however, only expected to

decrease by a little more than 100 000 people thus creating an excess supply of low-skilled workers by almost 90 000 people.

TABLE 3: Imbalances on the Danish labour market in 2019

	Supply	Demand	Imbalance
1.000 persons			
Low skilled	-102	-189	88
Skilled	-52	-7	-45
High skilled	102	207	-105

Source: ECLM

If we look at the skilled workers, those who have completed some vocational education, the demand is expected to drop only by 7 000 people. However, the supply is expected to drop by more than 50 000 people during the next decade or so. The expected shortage of skilled workers in 2019 is in total 45 000 people. The shortage of qualified workers is even more pressing in the case of high-skilled workers who have completed a higher education. The supply of high-skilled workers is expected to increase by a little more than 100 000 people towards 2019 but the demand for high-skilled workers is expected to be more than double that number. So, in the case of the high-skilled workers, Denmark is facing a shortage of more than 100 000 people.

WHY IS THE LACK OF EDUCATION A SOCIAL RISK?

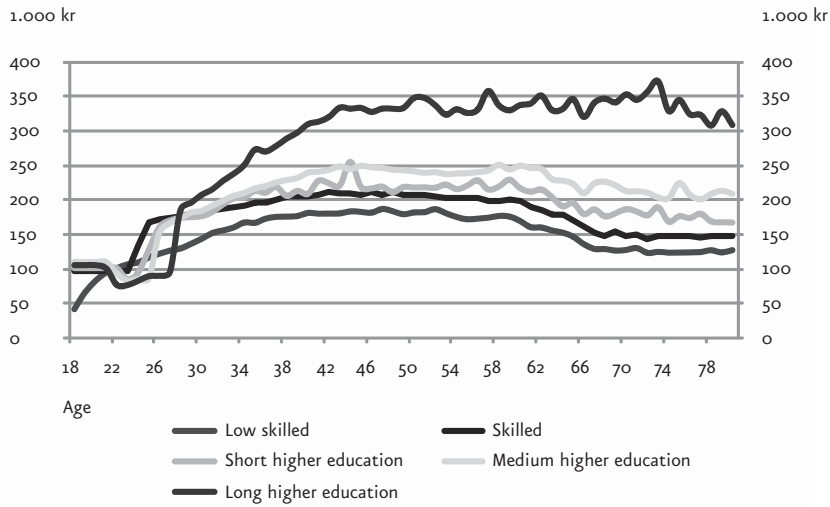
As the analysis above shows, the Danish labour market will very likely have major imbalances in terms of supply of and demand for educated workforce. The social risk of not getting a sufficient education will be thus magnified in the near future. For individuals, the consequences of not getting an educa-

tion range from higher risk of unemployment and lower lifetime income to becoming redundant or to being stigmatised as a burden to the society. The lack of educational skills in the labour force and the resulting imbalances also have severe consequences for society especially in forms of lower productivity and hence lower growth potential, larger expenditures for unemployment benefits and more inequality. The purpose of this section of the chapter is to explore these risks in more detail.

The higher the education, the higher the lifetime income

Workers with some education beyond lower secondary education tend to get a higher lifetime incomes in comparison to those who have not completed any secondary education. This might be all but surprising, but it is nevertheless an important consequence of not getting a sufficient education and thus essential for the understanding of failing to get sufficient education as social risk. The expected lifetime incomes are illustrated in Figure 7, which shows the income for workers at different ages with no education (low-skilled workers), workers with a vocational education (skilled workers), and high-skilled worker with a higher education (short, medium or long). The higher the level of finished education is, the higher the lifetime income will be – especially if one has a postgraduate degree (Master`s degree, PhD. etc.). Even after having passed the age of 70, employees with postgraduate degrees are still earning about 300 000 – 350 000 Danish kroner while the corresponding income for, say, low-skilled workers is less than half that amount.

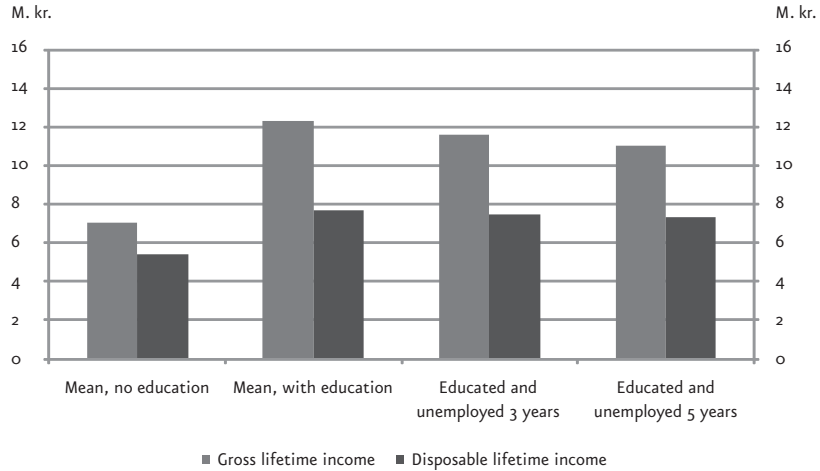
FIGURE 7: Disposable income over life



Source: ECLM on basis of the IDA-databank, Statistics Denmark.

Education pays off even when one gets unemployed. Figure 8 shows the gross and disposable lifetime income for those with an education beyond lower secondary education and for those without. Those with an education beyond lower secondary education will on average earn between 11 and 12 million Danish kroner before taxes and just below 8 million Danish kroner after taxes over the lifetime – even if unemployed for a total of five years. Those who have not finished an education beyond lower secondary education can only expect to earn about 7 million Danish kroner before taxes and just below 6 million Danish kroner after taxes.

FIGURE 8: Lifetime income in case of unemployment

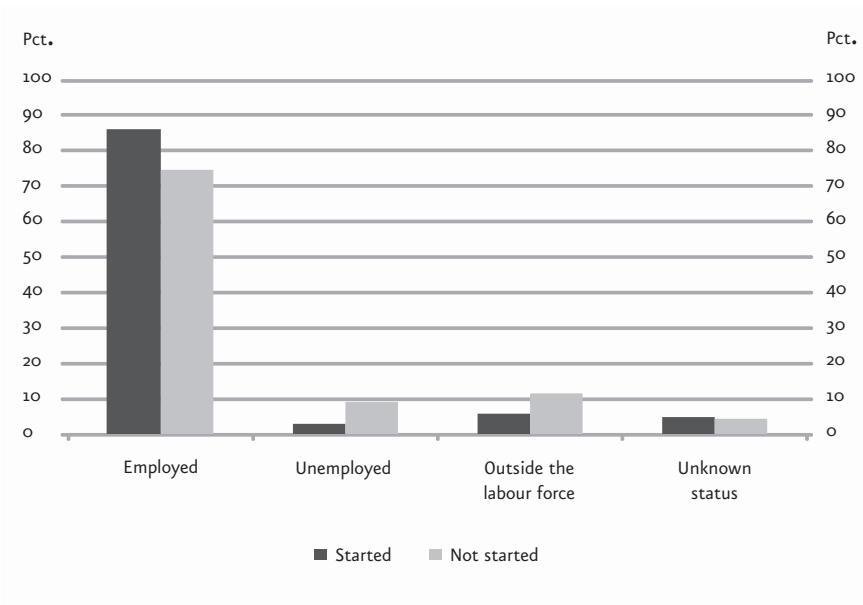


Source: ECLM.

Low education leads to higher risk of unemployment

Another conclusion that can be drawn from empirical studies is that if you have begun an education beyond lower secondary education you are more likely to be involved in the labour market. In Figure 9, the labour market status of those without starting education is compared to those who have started an upper secondary education within three years after graduating lower secondary education. 85 per cent of those who began an upper secondary education are employed, while only 75 per cent of those who did not begin an upper secondary education are in fact employed. So, the chance of being employed is greater if one has started an upper secondary education soon after graduating lower secondary education. In other words, the risk of being unemployed is significantly smaller if one has started an upper secondary education. All in all, any education beyond lower secondary education leads to tighter and more secure connection to the labour market.

FIGURE 9: Upper secondary education and labour market status



Note: We are looking at people who began upper secondary education within 3 years after primary and lower secondary education was completed and those who did not. Source: ECLM on basis of the IDA-databank, Statistics Denmark.

Large positive effects to public finances

The lack of sufficient education is not a risk at the individual level only but also at the societal level. The society gains when individuals educate themselves. One good example is the current state of public finances, which can benefit significantly from education beyond lower secondary education. Table 4 shows the effects of different education levels to the national budget. For example, a worker with no education beyond lower secondary education society can expect to produce tax income of 4.2 million Danish kroner over the worker's lifetime. On the other hand, this worker also causes almost the same amount of costs in unemployment benefits, sickness benefits, different retirement/pension schemes and other public transfers. Workers with low

education thus produce hardly any financial profits for the state. The skilled workers who have a vocational education typically generate tax revenue of 5.2 million Danish kroner over their lifetime, while society can expect a cost of about 3 million Danish kroner in public benefit and transfers. The total cost of the skilled workers' education amounts to about 0.3 million Danish kroner, so all in all there is a surplus of 2.4 million Danish kroner on the public budget. A person with a longer (postgraduate) higher education generates over his lifetime a positive net effect of about 9 million Danish kroner to the public budget.

TABLE 4: Net effect on the public budget from education

	Tax	Public benefits transfers	Cost of education	Total
Million kroner				
Low skilled	4.2	4.1	-	0.1
Skilled	5.2	3.0	0.3	2.4
Short higher education	6.1	2.5	0.4	3.2
Medium higher education	6.7	2.4	0.4	3.9
Long higher education	11.4	2.0	0.4	9.0

Source: ECLM on basis of the IDA-databank, Statistics Denmark.

Indeed, the longer the education is, the higher the tax revenue and the lower the expenditure for public benefits and transfers are. Education thus generates a higher net effect on the public budget – it is an investment that more than pays off for the society. The simple reason for the high gains of education to the public finances is that the workers' lifetime income is higher the

higher education they have completed but the risk of getting unemployed and being absent from the labour market is smaller. The relationship between education and absence from labour market is illustrated in Table 5, which shows the share of workers with different educational levels being absent from the labour market due to unemployment or any other type of absence in 2007. From the low-skilled workers, 7.3 per cent had been unemployed, 11.2 per cent went into early retirement due to health problems, 4.3 per cent went into voluntary early retirement, 0.6 per cent were at some stage absent due to health problems and 9.9 per cent were absent from the labour market due to various other reasons. All in all, more than a third of the low-skilled workers experienced some kind of absence from work. The corresponding share for high skilled workers with a long higher education was only 11.3 per cent. Table 5 thus strongly highlights the key argument in this chapter: the better educated you are the better position in the labour market you will get.

TABLE 5: Unemployment and absence from the labour market

	Unemployment	Early retirement due to health problems	Voluntary early retirement	Sickness benefits	Other things	Total absence
	Pct.					
Low-skilled	7,7	11,2	4,3	0,6	9,9	33,8
Skilled	3,3	4,3	5,2	0,5	4,8	18,1
Short higher education	3,1	3,1	4,1	0,3	5,0	15,6
Medium higher education	2,4	2,7	4,2	0,3	5,9	15,5
Long higher education	3,0	1,5	2,0	0,2	4,6	11,3

Note: The table shows the average share of the 18–65 year old affected by different kinds of absence from work. All the figures are 2007 figures.

Source: ECLM based on Statistics Denmark.

Education increases productivity

The increasing levels of education can lift productivity, which has been one of the driving forces in the growth of the Danish economy this far. Table 6 shows the value created for society over a lifetime from workers with different educational levels. After the educational costs are taken into consideration, an average low-skilled worker produces earnings of about 9.2 million Danish kroner over his/her lifetime. A high-skilled worker, on the other hand, generates a value from 14 to 22 million Danish kroner with his/her and his/her employer's earnings. The conclusion is very clear – the higher education a worker has completed, the more value does that worker produce for himself and his employer to the benefit of the society. Society can thus prosper with increased education, and in that respect, the lack of education in the labour force is expensive for the society.

TABLE 6: More value of education

	Million kr.
Low-skilled	9.2
Skilled	11.8
Short higher education	14.3
Medium higher education	14.2
Long higher education	22.5

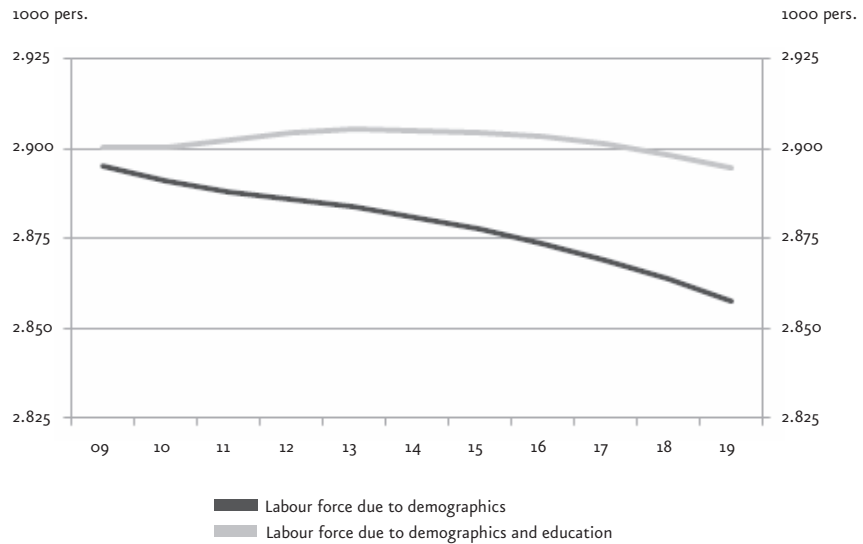
Source: ECLM on basis of Statistics Denmark.

Education can reduce the demographical reduction in the labour force

The lack of skills in the labour force causes less economic output per working hour, which means that the productivity and the potential growth in the Danish economy will be lower in the future unless the trend in the education levels is changed. This is distressing because Denmark (like many other European economies) is already facing very moderate growth rates in the coming years. This is due to a number of reasons, but the decline in the so-called dependency ratio is one of the main reasons for moderate growth rates (as in many other countries). This refers to the decline in the number of people in the active labour force in relation to those outside the workforce. In Denmark, the decline has almost been eliminated with the welfare reform in 2006. The reform will for example gradually lift both the early retirement age and the ordinary retirement age until 2019.

However, a better educated labour force can also help to increase the size of the labour force. This is illustrated in Figure 10. The dark blue curve represents the development in the Danish labour force from 2009 towards 2019 taking into account demographic factors like age, gender and origin in the population. According to this scenario, Denmark is facing a decline of about 40 000 workers in the labour force during the next decade or so. However, if one also takes the change in educational background of the population into account, the decline in the Danish labour force is almost eliminated (this is illustrated with the light blue curve). Why? As demonstrated in Table 5, workers with education beyond lower secondary education stay longer on the labour market and are less absent from it. The better the education, the more there's involvement in the labour market. Because the education levels are slowly rising, so is the involvement in the labour market. That said, keeping the disappointingly large share of young people without education beyond lower secondary education in mind, it is obvious that things could and ought to be better. The growth potential of the Danish economy could be increased through education not only in terms of higher productivity but also in terms of a better (lower) dependency ratio.

FIGURE 10: The development in the Danish labour force, 2009–2019

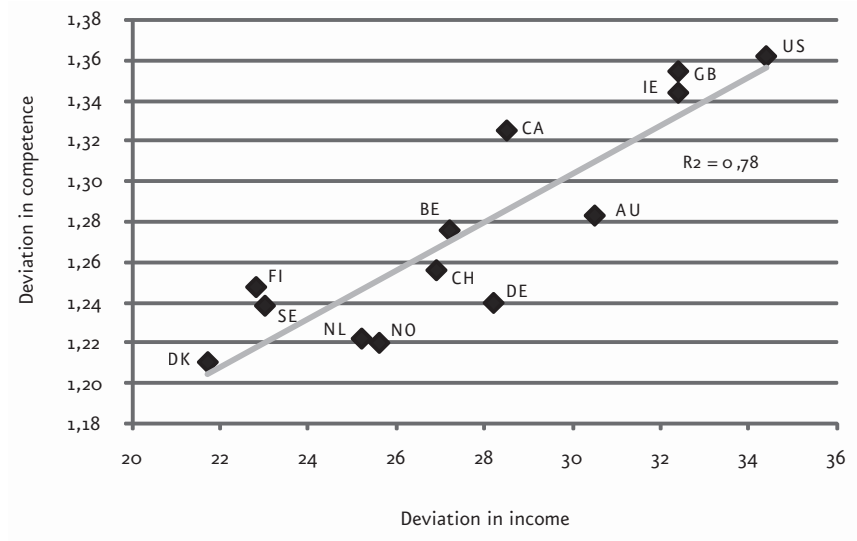


Source: ECLM on basis of the IDA-databank, Statistics Denmark and own calculations.

Education leads to less inequality

As we have seen, education can be a solution to many economic problems, be they concerned with public finances or economic growth. At the socio-economic level it is also worth noting that education can also reduce inequality. This is illustrated in Figure 11, which compares the deviation in skills and competences to the deviation in income in selected OECD countries. There is a linear relationship between the deviation in skills and income. High deviation in skills leads to high deviation in income (i.e. more inequality). Low deviation in skills on leads to less deviation in income (i.e. less inequality) which is the case especially for the Nordic countries.

FIGURE 11: Relationship between difference in skills and income



Source: ECLM on basis of OECD 2000.

CONCLUSIONS

In this chapter, it has been argued that the lack of skills due to insufficient education has severe consequences at the individual level. The transition from low-skilled towards high-skilled jobs means that workers with no education face the risk of becoming redundant and a (financial) burden to the society. The educational imbalances in the Danish labour market represent a waste of resources, which has for the entire society. By increasing education, the society could prosper with higher productivity, larger growth potential, better public finances and less inequality. The lack of sufficient skills in the workforce is definitely a social risk we as a society ought to address.

The lack of skills in the Danish labour force that qualify for skilled and high-skilled jobs is mostly the result of too few people getting an education. However, as we saw earlier in Figure 6, only 5 per cent have not started an education 10 years after graduating lower secondary education. So, the main

problem seems to be that far too many drop out of vocational education. Denmark needs an educational system that can embrace both the academically talented pupils and those not so talented. This can be achieved with better tutoring and guidance and perhaps also with a broader variety of available educational alternatives. Education should emphasise the practical aspects of training and still allow continuing to higher education. If one shows talent for, say, mathematics or physics, but has trouble with subjects like literature, language, history or so, why should that person not be allowed to study engineering for instance? It would certainly make vocational education more prestigious if there was a substantial chance to continue with a higher education later on.

Young people tend to face difficulties in finding an internship, which is a general requirement to complete a vocational education in Denmark. The trainee job requirement in a firm could be substituted by on-the-job training at school if no internship is found. Then again, the difficulty of finding an internship might be one of the main reasons for the students to drop out of school. To prevent this, firms have to take in more trainees in future. One possibility is to provide subsidies for the firms if they take trainees and make firms pay duties if they refuse to take them. Furthermore, education could be compulsory not only for those below the age of 15/16 but also for those below 18. One instrument for example could be to make it illegal for firms to hire young people below 18 who are not enlisted at some school. Whatever the means, the vision and goal should nevertheless be that the lowest educational level in the future would be the upper secondary education (i.e. vocational training and more general education that qualifies for a higher education), not just the lower secondary education.



3.



Are financialisation, privatisation and individualisation the same thing?

The Swedish experience

ANNE-MARIE LINDGREN

INTRODUCTION

Social services such as welfare, education and day care of children and the elderly are primarily tax-financed in Sweden, with very low user fees. School is completely free of charge. The political reasoning behind this paradigm is that the access to such important services should be determined by the economic resources of individuals and households. Even the social insurance – unemployment insurance, sick leave and parental leave – are predominantly tax-financed through payroll taxes. The reasoning behind the tax-financed social services and the social insurance is the same: security in case of illness or unemployment cannot be dependent on the individual's income.

Until 20 years ago, the tax-financed services were predominantly provided by public authorities. Schools, child care and home care for the elderly were organised by the municipalities, while the Swedish regional authorities (*landsting*) were responsible for providing health care. Since the early 1990s, private actors have been increasingly allowed to access the tax-financed serv-

ices sector. Services are still financed through public funds and the private providers cannot charge fees above or beyond those politically mandated. In other words, what was privatised was the provision of services, not the financing. Although the private actors are formally supervised by national or municipal authorities, the actual means of control are – as has become evident in recent years – insufficient. The principle of transparency does not extend to the private actors and citizens' rights to access economic data are limited.

The privately provided services still amount to a relatively small share of the publicly funded services but the share is growing fast. The private actors operate mostly in the large cities where they may be responsible for large shares of the total provision. For example, while 20 per cent of Swedish secondary school students attend private schools, in Stockholm the share of private schools is over 50 per cent.

There are several concurring factors that lie behind the privatisations. The demand for greater choice over schools or health clinics – the individualisation – that has emerged since the mid-1980s is the most cited reason in public debates. Increasing individual choice was thought to require private actors. Behind the scenes, however, there are the neoliberal ideas that seek to diminish political power in favour of market solutions as well as strong economic interests coupled with the growing financial markets, which have sought to enter the large and profitable health and education sectors. After about twenty years of privatisations we can now see that it is the strong private equity companies that dominate private health care. They have gained even more ground in the private education sector. This has come as a somewhat nasty surprise. When the privatisations started, the idea was to give opportunities to small enterprises, employee cooperatives, non-profit associations and so forth. These kinds of actors indeed dominated the emerging sector in the early days, but their share is now steadily declining, as they are outcompeted or bought by big corporations.

The purpose of this chapter is to discuss the recent developments in the Swedish public service provision and how they have affected the politics of social risks in Sweden. The text is divided to two sections. The first section addresses the changes in social policy regarding the demands of greater individual choice. It demonstrates the ways in which the concept of individual

choice has become its antithesis in the contexts of social services and social insurance. The second section then extends the discussion to the social consequences of privatisation and financialisation of the tax-funded 'service markets'.

INDIVIDUALISM AND INDIVIDUAL CHOICE IN SOCIAL POLICY

Social policy has two key dimensions in terms of welfare provision: social services (such as health, education and social care) and social insurance (such as sickness allowances and unemployment benefits). In broad-brush terms, the social services distribute opportunities, whereas the social insurance system pools risk. Education and social care serve as possibilities for individuals to improve their lives in different ways. Unemployment and sickness insurance, on the other hand, are protections against risks that make life difficult: the risk of losing your job, of falling ill or being injured so that your capacity to work changes. The fact that social services are paid through taxes means that citizens guarantee each other certain fundamental possibilities. The fact that social insurance is paid by taxes means that citizens share the individual risks together. In both cases, it is about a collective responsibility over individual welfare.

It is common to say that the society has become more individualistic since the 1980s. However, the concept of individualism has two different meanings. Firstly, it can refer to the broadening of individual life choices – that is, to individual rights. Secondly, individualism can also stand for more individual responsibility. This can mean that the problems caused by the wider economic and social changes are presented as individual problems, which ought to be solved with individual choices. The latter understanding of individualism can be used as an argument against public responsibility for welfare.

The changes in Swedish social services and social insurance in recent years demonstrate clearly how 'individualisation' can mean diametrically opposite welfare policies in practice. In politics of social services, 'choice' is the leading concept. The citizen/consumer is free to choose the school or preschool to her children, the health clinic for her family and so on. For this choice to be real the service provision should not be regulated and extra charges should

not be allowed. Sweden has free establishment of providers in school, child care and primary health care. The municipalities and regional authorities are obliged to compensate all producers according to the same rules. The private producers are not allowed to charge any fees above or beyond those set for the public actors.

In case of social services, 'individualisation' thus means more rights to choose but no greater individual responsibility for the economic consequences of those choices. Quite the opposite, it is considered meaningful for the choice that there is no such responsibility. The collective responsibility for financing these services stands. There is in practice a bigger collective cost burden because the system becomes more expensive for the funds. The allocation of fund assets has, however, been privatised. The possibilities to control costs or the distribution of funds by political or social priorities have thus diminished.

The development has been the opposite within the social insurance system. Individual rights have been circumscribed and the responsibility of individuals increased. Social benefits levels have not followed wage growth. There are deep cuts after a certain time of sick leave or unemployment. The requirements to enter the earnings-based unemployment insurance system have been made stricter and the individual contribution levels have been raised. Stringent time limits have been introduced in the sickness insurance system. The control over people in the case of sickness or unemployment allowance has become strict. The assessment of individual needs is now driven rather by administrative regulations than by the individuals.

The underlying idea of these reforms is that 'too generous' benefits make people passive and less inclined to accept work. The sick and unemployed are under severe economic incentives to hasten their return to work. The economic and social cost of illness and unemployment have thus been individualised and privatised, whereas the administrative control on those who need sickness or unemployment allowance has increased. Although the demands that the sick and unemployed should improve their social status on their own have increased, the actual possibilities for doing that have in many ways decreased. The availability of adult education and labour market training has been cut. The resources for medical rehabilitation of employees are all

but sufficient. The number of people on sickness leave has increased but the resources for rehabilitation have been cut.

THE BACKGROUND OF DIVERGENT DEVELOPMENTS

The demands for more choice in social services emerged in the 1980s. It can be seen as a natural consequence of the rising prosperity. As education, health and childcare became to be taken for granted the demands to choose between alternatives became stronger. There were also rigidities within the public sector where the internal interests of public authorities sometimes overshadowed the need and demands of citizens. This also strengthened the demands to be free to choose and to avoid bad solutions prescribed by the public regulations. Parallel to these understandable wants by citizens, there were strong commercial interests that sought to enter the large and profitable publicly financed markets. A combination of civic demands from well-established and articulated groups and economic interests of private service providers pushed for privatisation, choice and less political control but with the same level of public tax financing as before. The same level of public financing was a prerequisite for the choice citizens wanted and for the stable and secure markets producers sought.

Today, there is in principle an unlimited right to establishment for private companies in primary care, education, childcare and home care for the elderly. There is a requirement for a formal licence by the regional authority for primary care, by the Swedish Schools Inspectorate for education, and by the municipality for all other services. A licence must be accorded, however, if the company fulfils mainly formal requirements regarding personnel, premises and professional knowledge. In principle there is no possibility to judge whether or not the activity is in fact needed. The private companies are then remunerated for their activities on the same basis as the municipal or regional agents in their respective branches. In other words, it's a fixed-price compensation based on the municipality's costs, not the actual costs for the private service provider. This means that reduced costs in the private sector never benefit the taxpayer.

One substantive explanation for the changes in social insurance lies in high sickness insurance costs and high long-term unemployment. The number of days covered by sickness insurance grew markedly during the 1990s. The main reason for the development was that long-term sick leaves increased. The high unemployment rates, a legacy from the economic crisis years of the early 1990s, diminished tangibly at the end of the 1990s but stayed at a level which would have been considered unacceptable in the 1980s. The rising costs of sickness insurance system and labour market policies became problematic in economic terms. Unfortunately these problems were explained wrongly. The faults in the social insurance system were framed as “too generous” remunerations, which were seen to make people passive so that they did not make enough of an effort to find employment. Although there is some basis in the criticism in that short sick leaves were at times overly generous, the real problems – the increased long-term unemployment and number of sickness leave days – were not caused by the social insurance system. They were caused by a variety of reasons like the faster tempo of working life, the cuts in regular staff by firms and the higher know-how requirements, which all took a large share of people out of work.

In 2006, the right-wing parties won the parliamentary election and entered government on a promise of “Jobs Policy”, which was predominantly about economic incentives: about lower income taxes to make work profitable and about stricter requirements for sickness and unemployment allowances to force the sick and unemployed to find work. The “Jobs Policy” does not take into account that individual qualifications and the actual capacity to work influence individuals’ chances of employment given the requirements of the labour market. The program adhered to economic theories that have dominated the public debate but that have been put into question during the past years. The OECD (2006) for example has clearly changed the perception that unemployment insurance should be such that the time of unemployment is as short as possible. Today the view is that the unemployed should be given some time to find the best job, not just the first on offer. The prolonged unemployment is fully compensated by the increase in productivity that follows from the individual finding the right place to work.

Class dimensions of social services and social insurance reforms

Individualisation is two different things for the social insurance system and social services. Unemployment and illness are transformed into individual problems and the solution lies in the individual's will and ambition. The public support for these systems has been diminished while the control over individuals has increased. The social services on the other hand are still seen as an important public responsibility that ought to be paid through taxes. The public responsibility has been extended to choice as right, which has been implemented in a way that limits the possibilities to control costs. In the first case (social insurance system), the rights of individuals have been limited but societal control increased. In the latter (social services), individual rights have been expanded while public control has been decreased.

There is a clear class dimension to this development. The idea of individual choice has been mainly driven by the well-off middle class groups, and it is mostly these groups that take advantage of the individual choice. Highly educated and high-income groups use more public services than the unskilled groups and they also demand more of them. The right to free establishment for service providers in the publicly funded services sector is also backed by powerful economic interests that also have their stronghold in the well-educated and established social groups. The social insurances are of importance for blue-collar employees but in a different manner. The risk of unemployment and work-related injury or illness is higher for blue-collar workers. Although unemployment has become more common even among white-collar professions, they in general have better complementary economic security through collective agreements or trade union income securing measures. In addition, their financial resources to manage a period of unemployment are on average better as are their prospects of finding new employment than in case of blue-collar workers.

The powerful opinion-forming groups have less interest in the social insurances but vital interests in the social services. The changes over the last decades largely concur with these interests. In public debate the social insurance system and services have even been pitched against each other. The conservatives in particular have put forth the thesis that the costs of social insurance

are taking money from the “heart of welfare”, the social services, and from tax cuts. In general, there always seems to be potential distrust of public sector support, as there have often been claims of fraud or over-generous public spending. The claim that higher costs are due to over-generous spending has been compelling and, consequently, it seems clear that lower benefits are the right solution. This argument makes the cuts seem psychologically positive, not unsolidaristic, because it is supposed to help people get back to work.

Of course, one should not deny that the increase in long-term sick leaves and unemployment is a problem, both in social and economic terms. However, the problems do not lay in “too generous” benefits. The experience of the last years demonstrates this well. The strict new rules in the social insurance systems have all but solved the problems. The problem is caused by tougher requirements in the labour markets that cast more workers aside than before and make it harder for outsiders to return to the market. Social problems such as labour market exclusion are being currently portrayed as individual problems. This clearly demonstrates how the Swedish public debate has changed over the decades. The left-wing perspective highlighted how the social and economic structures affect individuals’ equality of opportunity and the social risks that individuals face. This has been replaced by a liberal/conservative perspective, which emphasises the individual’s will and ambitions without wanting to see how the individual’s choices are linked to social structures.

PRIVATISATION AND FINANCIALISATION

When the privatisation of the Swedish public sector started in the early 1990s, the general perception was that it would lead to many new local businesses, to teachers and care staff taking over their workplace in order to run them on their own, and to non-profits being able to provide care and education according to their distinctive profiles. Twenty years later we have the results – and they show something completely different. During the first years of privatisation the expectations were largely met. Many local companies emerged in the home care sector. Among private child care providers, parent cooperatives became the dominant form. Now, however, the picture has changed dramatically. The private care is today dominated by less than half a dozen large

companies backed by international venture capital. The same development is taking place in education. The share of schools managed by independent companies or non-profit organisations is declining while the share owned by large corporations is growing. Of the private pre-schools over half are now limited companies although the parent cooperatives were still predominant just a few years ago.

The increased concentration is not always apparent, however, as many of the corporations work under different names. The largest corporation of free schools, *Academedialia*, has schools under seventeen different company names (*Didactus*, *Vittra*, *Fenestra*, *IT-gymnasiet* etc.). The many different names reflect the fact that *Academedialia* is constantly growing through acquisitions of formerly independent, smaller companies. The private equity companies in the care and education market are all in the buyout segment. Such companies do not seek to develop long-term ownership and they should thus be regarded as financial rather than production companies. The basic idea is not to make money off the service provision: the profits are made buying and selling providers.

These companies borrow money from other financial actors like banks, insurance companies and pension funds that are allocated in limited maturity funds. The funds are invested in activities with stable market shares with the intent to increase profitability by selling them for a large profit after a few years. The sales profit is the rent the investors get as the fund is dissolved. Because the funds are usually placed in tax havens, the company does not pay any capital gains tax. The businesses are built as long chains of holding companies that link the main owner (the fund) and the different service providers at the end of the chain. As a rule, every producing entity – no matter how small – is a company on its own. This makes it possible to move money up and down the chain to minimise the tax burden. The so-called shareholder loans, the loans to the producing companies with an internal interest that naturally exceeds the market rate, are one common practice. The interest pay-

ments reduce the producing entities profits, while the shareholder company in a tax haven can avoid taxes on the interest gains.¹

The construction of businesses demonstrated above highlights the financial character of the Swedish social services companies. This logic is also compatible with how real estate companies financed by multinational venture capital funds are built. In both cases profits are made with buying and selling on markets that are expected to produce ever rising prices. The likeness to the stock market behaviour before the collapse of Lehman Brothers in 2008 is clear. Many of the large care corporations have already changed owners several times, but this has always been about sales from one venture capitalist to another. The same development has begun in the education sector, where a number of companies founded in Sweden have been sold to multinational private equity companies in the last year alone.

Because large care and education corporations have been regarded as financial companies, the Swedish School Inspectorate has now hired economists to examine how the large corporations act financially. The private but publicly financed care and education sector in Sweden has proved itself a very attractive market for financial interests. It is easy to see how the pressure to turn over tax-financed services to private providers increases with the growth of the international financial markets and the need to find new sectors where to invest and yield interest. Indeed, “privatisation” does not have to mean “financialisation”, as the first years of privatisation showed, but as powerful financial interests need new markets to invest in and when social services provide a stable market with secure profits, then privatisation becomes financialisation. The financial actors compete or buy out the local cooperatives and small businesses with their economic upper hand.

¹ *The Swedish Tax Agency recently won a court case against one of the large care companies in Sweden (Attendo) with regard to this sort of internal interest. The court found that the interest was not a market rate and thus not tax deductible. That meant about SEK 80 million in tax surcharges.*

Why the big interest?

The tax-financed services such as health care and education are not sensitive to changes in the business cycle – the demand is great and the payer very reliable. When it comes to health care, the producer also has good chances of increasing demand by ordering follow-ups, routine check-ups and other service extensions. It is a well-established fact that private for-profit production combined with third party financing (taxes or insurance policies) increase demand for services. The producer has an interest in driving consumption, while – in contrast to normal markets – there are little or no economic restrictions on demand. The result is higher costs.

This explains the interest shown by large financial corporations towards the social services sector. The interest is likely to be increased by the very generous (or more frankly, clueless) rules of compensation, which make it rather easy to make a profit. Sweden, as opposed to many other countries, allows payouts on publicly financed services. The private companies in the health, education and care sector had in 2008 revenues of 13 per cent of the total capital compared to the average of only 9 per cent for other private companies in Sweden. It is not likely that the higher revenue would be due to private health and education companies being much more efficient than the private companies for example in the highly competitive export industry. The much more likely reason lies in the compensation schemes that enable easy profits.

There are many problems associated with the financialisation of social services. A common argument for privatisation has been that private companies are more efficient than public ones because requirements in the authority tend to build bureaucracy and rigidities that lead to less efficient use of resources. The existence of such risk cannot be denied even though they can be counteracted.² However, as modern organisational studies show, exactly the same risks are present in large companies. The idea that private companies work more flexibly and efficiently is based on the owner as the entrepreneur

² *The Swedish Association of Local Authorities and Regions, SKL, says their systematic work of disseminating best practices and measuring quality and efficiency through annual so-called open comparisons of results and costs has led to clear improvements (see Sveriges Kommuner och Landsting, 2010).*

who himself is responsible for management. Yet large companies are led by professional manager-employees who like public servants can face the same (although not necessarily identical) risks of inefficiencies that all large public organisations face.

As will be shown later on in this chapter, privatisations have led neither to lower costs nor to improved quality of services that increasing competition and the number of actors was thought to produce. This may have something to do with not having innovative entrepreneurs and small businesses but rather large companies that rely on mainstream methods of producing the services – and, indeed, companies that put smaller companies where the new ideas might be out of business. Yet many important risks are related to the financing mechanisms. The most important risk is that these large financial owners who never intend to invest for the long-term. The interest in running the company so that it can be sold for a significant profit has become a driving force for the companies. This affects both the target groups and the geographic areas the companies choose to invest in. These strategies do not necessarily correspond to the distributive policy goals. Companies that are systematically set up to avoid taxation are also a problem that requires changes in both corporate and tax laws.

The uncertainties of today's financial markets entail risks. If some financial institutions that back up the funds that finance investments in health care and education fail, it naturally has consequences for hospitals and schools. What the consequences for Swedish the tax payers are remains unclear. A further disturbing question is which interests might come in with the new owners in the case of a sale or financial crash. In analogy, a curious economic play is unfolding at the moment in respect to the car company Saab. There are innumerable complex and none too reassuring financial institutions behind the new official owner. The possibility of similar oddities in privatised schools or hospitals feels discomfoting to say the least.

Private business interests prioritised

Publicly financed private business can take two forms with the current Swedish legislative framework. First, the state and the local and regional authorities

can purchase specified services from private entrepreneurs, or, in other words, provide a private company a commission to do a task according to a contract for a negotiated price. The contract has a time limit, after which the procurement is made anew. There can be procurements for a wide range of activities: rehabilitation of addicts, clearing snow, building roads or hospital food to name a few. The rules for procurements are set in a specific law on public procurement, which in turn is based on EU law. Second, private companies can freely establish and provide services within a specified field, provided that they fulfil certain quality criteria. They are then allowed to compete for customers and to get a fixed compensation for every customer from the public authority. Sweden has such open markets in education, child care, primary health care and home care for the elderly.

Private preschools, schools and home care for the elderly are compensated through service vouchers. For each person, child, pupil or pensioner who uses the private service, a fixed compensation is paid. The value of the compensation (voucher) is calculated on the basis of the costs of the municipal service (schools, child care and home care are managed by municipalities in Sweden, not by the state). The full value of the voucher is paid even if the cost of the private service is lower for example due to fewer personnel. According to statistics by the Swedish National Agency for Education (Skolverket, 2010), the group size is bigger in private preschools than in public ones, and the share of qualified preschool teachers smaller. Similarly, the teacher ratio is on average lower in private schools compared to public schools and the relative number of qualified teachers (i.e. those with completed teacher training) fewer. The fixed compensation scheme means that it is fairly easy to create a profit margin by reducing personnel a bit or by hiring more personnel with slightly lower education, which decreases the personnel costs while the compensation stays the same.

The rationale behind the voucher system is that the municipality should not be allowed to favour their own services over private options and therefore the compensation to the private sector should be equal to that of the public sector. In practice this means that private service providers can be compensated for costs they have never had and that rationalisations in the private sector will never benefit tax payers as lower costs as opposed to those in the

public sector. Furthermore, services provided by the state, municipalities or regions are subject to freedom of information legislation, which means that citizens have the right to full insight in the economy and administration of service provision. When it comes to private actors who perform the same functions that are also financed by taxes, citizens are not privy to that same insight. This is another example of how the producers' interest is prioritised over the tax payers' interests.

The regulatory framework for private but publicly financed services was developed in the 1990s. The process was clearly driven by the producer interest, which reflects the ideological climate of that time. "Market solutions" were seen as superior to political solutions and market solutions required private entrepreneurship by definition. The key was therefore to facilitate private enterprise in the tax financed sector in different ways. The thought that the interests of companies could run counter to those of the taxpayers never occurred. It is not until recent years when a number of problems with the private production have become apparent that the regulatory framework is being questioned. At the same time, the environment for tax financed privatised services has changed with financialisation. The companies that dominate the private care and education markets are of a whole different kind than what was imagined in the early 1990s. The possibility that the companies taking over the sector would be big multinational financial institutions driven by purely financial calculations never entered considerations in the 1990s.³

It can be argued that the analyses of the consequences of opening up the tax-financed sector to private competition that forms the bases for decision-making were flawed. There were for example no analyses of the problem of third party financing even though it is well known in economics. Neither were there any analyses on the effects of the measures in case only the profit incentive would become dominant. The experiences from other countries very

³ *It must be noted here that the social democratic Prime Minister Olof Palme nevertheless stated in a speech in 1985 that "it surely isn't a coincidence that demands of privatisation are being voiced at a time when there are lots of capital in companies. It's quite simply about a hunt for new profitable markets for the money. [...] In the USA, where a good part of the social services are managed privately, this sector is more attractive for investors than the industrial sector!"*

clearly demonstrate these effects and even ordinary market logic tells you that companies that look for a profit will locate where prospects for making a profit are the best.

Today, the pattern is obvious: private medical clinics predominantly choose affluent areas in the larger cities while they avoid areas with multiple problems.⁴ The same goes for the newly privatised pharmacies. Few private schools address children with difficulties in school and these schools have on average a higher percentage of pupils whose parents have higher education than in the municipal schools. The latter is a well-established international pattern.

Indeed, there is a lack of insight on the effects of the profit motive and a poor understanding of economic incentives in general. It is truly astonishing, as the question of incentives plays such a great part in the economic debate over the last decades, not least in the calls for tax cuts and stricter social security. Today, the incentives may be completely distorting. Fixed compensation is one example. Another one can be found in the Stockholm region health-care. In Stockholm, the compensation to health clinics is based on each doctor's appointments. This has led to a situation in which people with several ailments have to schedule a visit for each illness instead of going through them all in one meeting. An additional eccentricity is that the compensation for medical treatment is not paid on basis of the treatment itself but of who conducts it. For example the compensation for a blood test is bigger if it is a doctor that draws the blood than if it's a nurse. This has naturally led to doctors performing procedures nurses used to do.

The economic incentives, as they are today, are counterproductive regarding the one goal stated in favour of privatisations – the lower costs. On the contrary, they often induce seeking a profit through methods that are neither more effective nor increase quality. Privatisations have been driven by ideology and financial interests rather than factual analyses of the prospects for and problems with private for-profit agents in a publicly financed and in principal needs-based system. The assumption for allowing private actors in

4 In 2008, of in total 511 private health clinics in the Stockholm region, 400 were in the northern, more affluent parts of the region, and only 111 in the southern, poorer parts where health problems are greater.

the market was that it was all that was needed to do in order to gain a number of benefits such as lower costs more variety and better quality – or, as a conservative newspaper wrote some years ago, “ever more and better goods to choose from for less money”. (Note that the word ‘goods’ here is used to refer to services such as education and care.) The notions that economic incentives determine the behaviour of companies and that wrong incentives create wrong results were not a part of the picture.

Overall, much of the Swedish privatisation debate seems to have been simplified, even naïve, in relation to serious economic analysis of real life markets in contrast to those of theoretical markets. An explanation for this can of course be that economic interests and political ideology steered policy instead of economic and political analysis of what means achieve the best results for the publicly finances services. The starting point was not to find out if, and under what circumstances, the introduction of private elements could make public services better and less costly. The point of departure was that private companies without a doubt and in all circumstances would have these effects.

CONCLUSIONS: THE ECONOMIC AND SOCIAL EFFECTS OF PRIVATISATION

Despite the critique presented above, it must be noted that there are, of course, a number of private schools, preschools, clinics and other organisations that function very well. There are also some that have been disastrous and some that are neither particularly good nor particularly bad. Disregarding individual cases, what does the picture look like if one tries to evaluate the overall results? Above all, what are the effects like in comparison with the hopes of lower costs and better quality that were used to argue for privatisations? Incredibly, there are no extensive evaluations on the effects of privatisations. One would think it evident that the effects would be monitored, both with regard to the hopes associated with them and with consideration of the importance of the services. Yet no such general follow-ups have been conducted. In order to get an idea of the effects, one needs to lay a puzzle made up of numerous specialised research projects or reports about specific sectors.

The Association of Swedish Local Authorities and Regions (SKL) use several cost and quality indicators to annually compare results for instance in the care of the elderly and children in the municipalities. These comparisons show no systematic differences between municipalities with high and low share of private and public providers respectively. Within education the costs have increased due to excessive supply and fragmentation of resources. There is also a clear tendency of weaker results in education on average. The costs for primary care have grown rapidly since the right to establish was instituted. A recent comparison of private and public employment agencies shows no difference in results. The privatisation of pharmacies has been accompanied by higher costs and many complaints of worse customer service. There was until recently only one large hospital that has been transferred to a private actor (ST Görans in Stockholm). Based on dozens of quality indicators, comparisons with publicly run hospitals in Stockholm place it in the middle of the pack.

The effects of private schools – the free schools – are among the most controversial. Undeniably, the average grades in the free schools are better than in the public schools. However, as the student population of free schools has a different social composition – there are more children of highly educated parents – the results are not comparable. A study from 2002 claimed that the establishment of free schools in a municipality in general led to higher average scores, but it was heavily questioned on methodological grounds, and in a revised version the results had been played down. International studies show mixed results: some studies from the US suggest that competition between private and public schools tend to raise the average scores, while studies from other countries show no such effects.⁵

PISA, a recurring comparison of the OECD countries schools, notes that private schools and public schools with student populations from socio-economically advantaged backgrounds benefit the individual students who

⁵ *A review of the research mentioned can be found in a study by the University of Aarhus (Calmar Andersen & Serritzlew, 2006). This review is of interest because it tracks the development in the Danish school system, which has had privately run but tax-financed schools for nearly a century, and the effects have thus had time to stabilise. The study finds no effect of competition on quality, but some tendencies of rising costs and a clear tendency of social stratification.*

attend them, but there is no evidence to suggest that private schools help to raise the level of performance of the school system as a whole (OECD, 2011). The difficulties of comparing private and public schools has to do with differentiated student populations, and the student population influences school results both according to both research and practical experience. Some effort has been afforded on developing methods of comparison that would correct these differences in student selection. The problem arises in that this necessarily involves some kind of weighting. The tools can only be argued for on a theoretical basis but neither empirically proven nor falsified. Moreover, there are many ways to conduct the weighting, all of which can be theoretically motivated but give different results. (The problem is familiar from political opinion polls.)

What can be empirically stated on grounds of results in national tests as well as of international comparisons such as PISA or TIMMS is that the average results of Swedish students show a faint but steady decreasing tendency since the 1990s, which is particularly apparent in mathematics. The reasons are naturally complex. However, it is somewhat odd that the decline coincides with a period that has been distinctive in the increased interest in pedagogical development and evaluation. The decline does coincide in time with two significant organisational changes: the emergence of free schools and the decentralisation of primary schooling to the municipalities. Both are considered to have contributed to the increased disparity between schools – that is, the equality of education has diminished. The differences between schools are still small by international standards, but the fact that they have grown is troubling as such.

Free schools have clearly increased social segregation within education. This kind of stratification has clear negative effects for schools in socio-economically disadvantaged neighbourhoods. The communalisation, the decentralisation of the responsibility for schools from the state to the municipalities, has implied more disparity in the resources allocated for schools depending on differences in the municipal economy. The differences in political interest for school issues have possibly also played a part. The parliament has made a decision that the effects of the big structural changes, the decentralisation and

the free schools, should be evaluated in a study by the state but no inquiry has been yet initiated by the government.

A research review published in the fall of 2011 by one of Sweden's biggest and oldest think tanks, the Centre for Business and Policy Studies (*Studieförbundet Näringsliv och Samhälle*), concludes its results:

To summarise, the consequences of increased competition are remarkably unexamined. The research results that do exist show neither any unambiguous efficiency gains nor losses in public expenses for welfare services. The private providers do have lower costs in several areas, but the functions are not comparable. Moreover, the savings usually result in higher profits for the producer, so it does not reduce costs for the public. In most areas there are no clear-cut quality gains either. The available measures on the whole indicate no real change in results, or the results are different depending on the study. (Hartman, 2011, 265, my translation.)

The studies that have been made can hence be summarised as not to give any credence to the theory that private companies are more efficient than public organisations. The studies do not show that changed mode of operation and competition between providers would have brought any general improvements as to quality and costs. What has happened is that the supply, in particular of schools and health clinics, has increased in the more densely populated areas, especially areas with relatively high proportions of highly educated and wealthy inhabitants. This gives more choice but also drives up the costs. The often distorting incentives, the problems of third party financing and an insufficient regulatory framework that leave great loopholes for 'shadow companies' can be contributing explanations to why privatisations have not given particularly positive results. Today, the demands for clearer regulation and stronger controls are growing and a discussion about the necessity to change the economic incentives is on the way.

European Observatory on Health Systems and Policies⁶ (2002, 1) stated already in 2002 that the

⁶ *The European Observatory is a cooperative including for example the WHO, The European Investment Bank, the World Bank and the London School of Economics.*

“experience so far indicates that entrepreneurial behaviour does not make for an effective health care system in an unregulated “free-for-all”. Supporting regulation is needed to avoid some of the dangers inherent in entrepreneurialism which could sacrifice the core policy objectives of a socially responsible health care system.”

Private profit interests and the interests of the society at large are not always compatible. It should be obvious that it is the social interest, not the private profit motive, which should be guiding all publicly financed functions. This requires regulation and well designed incentives. It appears likely that a change of the distorted incentive structure in combination with stricter regulation that keeps the ‘less serious companies’ out would sort out at least some of the problems we have today. Cost-based compensations instead of fixed compensations would diminish the incentive to reduce teacher ratios in order to increase the profit margin. Narrower profit margins and better controls would likely mitigate the risk of misallocated investments.

These changes are important and necessary. Yet they do not solve the problems that arise from financialisation. Nor do they solve the problem of profit incentive – companies going where it is most profitable – which influences where they locate geographically and the groups they address. This may require compensating actions for the areas and groups that are left out. Whether or not the gains of a well-functioning system with private providers really outweighs the extra costs for an expanded control system and for compensating distributive measures is up for debate. However, the experiences indicate that the biggest possible gains are not necessarily of an economic nature.

Are there really grounds to expect any economic gains from privatisations in the first place? There is very little in the Swedish experience to support the thesis that private providers lower costs. There are international studies that point to private companies having higher productivity but other studies show this is not quite the case. Comparative studies on schools and health care show no systematic differences between countries with high proportions of private providers and countries with high proportions of publicly managed services. The PISA studies for example show no connection between school results and

the proportion of private schools. Finland, with a very low number of private schools, is at the top of the comparison while the US with a significant share of private schools is far below average. The health care statistics from the industrialised countries show that the lowest costs (as share of GDP) are in countries with rather high shares of publicly financed and provided care such as Denmark, Finland and Sweden. Countries like France and Germany, with more private care and compulsory insurance schemes, have somewhat higher costs while the US, with the most private care, has the highest health care costs (but hardly the best and most comprehensive care) (Dahlgren, 2010).

So it must be asked: why should private provision be better than public? After all, efficiency and quality are not dependent on the mode of operation but rather on organisation, human resources management, competent personnel, available resources and so forth. There are no magic tricks in these areas that are held only by the private companies: what is done well in a private company can be transferred to public entities, and vice versa. Besides, it is not “only” a question of efficiency and quality. It is also a question of democracy. The debate of the last few decades has been about individual choice, and the possibility to choose is indeed a quality the public sector should provide. Yet choice is never unlimited, neither in the private sphere nor in the public. Economic resources are always a constraint. There is never enough tax money to cover all expectations and wishes and therefore it is necessary to make priorities. If the objective of equal access to social services of equal quality for all is to be achieved, politicians need to be able to ensure in an open and democratic process that everyone can influence that money is spent accordingly.

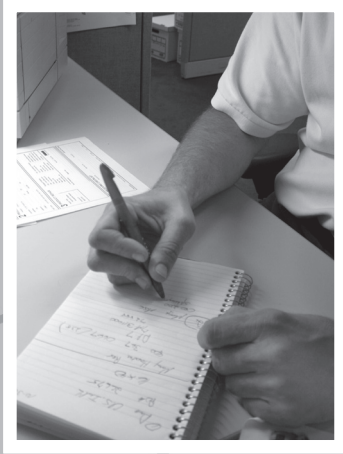
To control the distribution of tax revenue has become more difficult for example due to over-investment that the freedom of establishment for private companies leads to and to the clear distortion in favour of financially privileged groups. In the 1980s the democratic “exit” option, the possibility to choose according to your preferences to use Hirschman’s (1970) terms, was too small. Today, the democratic part of the society that deals with “voice” – the common decisions about common affairs – has been forced too far into the background. We need a new balance!

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Markets: source of efficiency or costs? An analysis on the production of public services in Finland

JOONAS RAHKOLA

INTRODUCTION

Public services are among the key mechanisms of social risk management. It is evident that one needs much understanding on the nature of public service provision and on their broader political significance in order to assess and evaluate the politics of social risk management comprehensively. For building such comprehensive account, it is at minimum necessary to understand the basic institutions and political characteristics of public service delivery systems addressed. Most importantly, one must understand the broader political role of social risk management mechanisms like public services. The purpose of this chapter is to discuss these basic issues in the context of public services provision in Finland. The chapter starts with an overview of the relationship between public services and one major political issue – income inequality – after which I will discuss the organisation and financing of public services in Finland in more detail. Of course, income inequality as such may be an important topic in debates on social risk for a number of reasons. Many

studies have for instance found strong correlations between income equality and longevity or health. The purpose here is not, however, to discuss the relationships between income inequality and social risks but only to show that social risk management should be regarded not just as isolated mechanisms tackling individual social risks but as a part of broader political questions like equality.

PUBLIC SERVICES AS PART OF THE INCOME REDISTRIBUTION STRATEGY

Income disparities have substantially increased in Finland over the past 15 years, resulting in aggravated social inequality. While only seven per cent of Finns lived below the poverty line in 1995, by 2009 their share had hiked to 13.1 per cent according to Statistics Finland.⁷ As worsening income inequality has gained considerable political attention, voices calling for a change of direction abound. In this section, I will discuss some of the mechanisms behind income inequalities in Finland and the means with which the problem could be ameliorated, focusing especially on the role public services.

The level of income inequalities depends on three fundamental factors: firstly, on the number of people receiving factor income (income based on labour or capital); secondly, on the distribution of income between labour and capital; and thirdly, on income redistribution through taxation and transfers. When people talk about reducing income disparities, however, they often tend to focus only on redistribution through taxes and income transfers. Indeed, they play a major role. For example, the Gini coefficient⁸ for factor income in Finland in 2008 was 0.46. This figure describes the level of income inequality without taking into account taxes and social benefits. After taxes and wealth transfers the figure came down to 0.27, which is to say that taxes and benefits had a considerable impact.

⁷ *The poverty line in Finland is 60 per cent of median income.*

⁸ *The Gini coefficient measures the equality of income distribution. Smaller values mean more equal distribution. A value of 0 signifies total equality, and a value of 1 means that one person gets all the income.*

In absolute terms, the most important taxes and benefits that reduce income inequality include state and local income taxes, earnings-based pension, basic pension, unemployment benefits, health insurance allowances and income support for the poorest. In a macroeconomic analysis, redistribution through other tax and benefit systems is of little significance for the amounts thus allocated are smaller. This does not mean, however, that these other systems would not have important social impacts. Decreasing income transfers (in relation to income levels) and a decline in the tax system's effectiveness to even out income differences have contributed to increasing income inequality since mid-1990s. The policy conclusion to be drawn out of this development is that income redistribution should be augmented and taxation should be made more progressive in order to decrease income inequalities.

However, a more even income distribution cannot be achieved solely by means of taxation and income transfers. Debates on enhancing income transfers for instance largely deal with improving basic social security. Yet raising the Finnish basic security allowance by 100 euros per month would lead to a change of less than 0.02 in the Gini coefficient⁹. That measure alone would thus have only a minor effect on income disparity. This does not mean that the basic social security should not be raised – it most definitely should. Its present level does not suffice to cover even the most vital expenses of daily life and thus any increase would alleviate the plight of the poorest.

With regard to taxation, there is much talk in Finland about steepening the progression of income taxes and making taxes on capital gains progressive as well. Both of these are easy ways to affect income distribution, but on the macro level they would produce only mild changes in income inequality. For example in 2009 the capital gains tax brought in 1.5 billion euros in revenue while Finland's national income was 179 billion. So even a radical tightening of taxes on capital gains would not result in substantial decreases in income inequality at the macro level. For the sake of fairness and social justice capital gains should of course be taxed progressively and with higher rates than what is the case today.

⁹ *The newly elected government in Finland has announced that it will raise "basic security" by 100 euros in January 2012. With the term basic security the government is referring to basic unemployment benefit and labour market support.*

The division of factor incomes must change

In the present situation, the most effective way to reduce income disparities in Finland is to change the distribution of income between labour and capital. The first thing to consider is to make sure that wage differences do not get out of hand. Finland has a pretty good track record in this regard: for decades, a sense of solidarity has prevailed in Finnish incomes policy, resulting in exceptionally equal wage distribution in international comparison.

Secondly, functional distribution, or the division of factor income between labour and capital income, must be reasonable. Much of the growth in income disparity experienced during the past 15 years can be attributed to changes in functional income distribution: the share of capital income (of national income) has gone up while the share of wages has gone down. As income on capital is largely concentrated among the wealthiest, any increases in its share will boost income inequality. The relative share of capital gains has in practice increased in all industrialised countries. Two common trends have contributed to this development: globalisation has weakened the bargaining power of wage earners, and national tax policies of most countries have followed similar paths. In Finland, the 1993 tax reform, which separated capital and labour income taxes from one another, seems to have been a major watershed.

When the tax and redistribution systems even out income disparities sufficiently, and income is fairly split between labour and capital, one other means of improving income equality remains: we must make sure that as many people as possible earn factor income. In practical terms this means that people are employed and do not need to resort to transfer payments. To an unemployed person, a job is a much more significant income boost than improvements in unemployment benefits. Therefore the most important means of curtailing income inequality is to get all those who are of working age and fit to work to work. This is where services that can ameliorate a person's possibilities in the society and the job market play a key role.

Services and income disparity

Services provide means to increase the share of people who earn their living from work. When work income is the primary source of income, the need for income transfers is smaller and the distribution of income more equal. When they function as they should, social and health services balance the income earning possibilities of the entire population by supporting citizens' capacity to work, by preventing exclusion from the job market, by helping those already excluded to return to work and by making it possible for all adults or the only adult in a family to work. Accessible, high-quality education assures that all citizens are given equal chances to succeed in the labour market and earn income. Services must guarantee each person's ability to function as a member of society.

Perceiving welfare services as one component of the income redistribution strategy is also efficient in economic terms: redistribution through taxation and income transfers alone is considered to create negative incentives for the demand and supply of labour. Such problems can be mitigated with public services. First of all, public services are labour intensive and thus have a direct impact on the demand for labour. Secondly, many public services, such as day care, complement and increase the supply of labour. In addition to directly addressing the underlying causes of income disparities, services smooth out differences in standards of living also by reducing social inequality caused by income disparities: the better individuals can satisfy their needs through public services outside the markets, the less their disposable income matters.

Equal schooling lays the foundation for each person's ability to be a full member of society. With regard to children and the youth, the quality of the Finnish educational system is relatively good. The main problem is that a considerable proportion of young people continue to lack adequate basic training – more than 10 per cent of each age cohort does not complete secondary education. The position of these people in the labour market is often permanently weak and other social problems tend to concentrate among them as well, also later in life. Social and other problems in the family often contribute to a premature termination of studies. Thus a low socioeconomic status is easily passed on from one generation to the next. Day care plays a pivotal role in

identifying such problems and its role as supporter of families with children should be strengthened.

In theory, difficulties caused by the lack of education are easily fixed: just make sure that everyone receives secondary education that allows them to succeed in today's job market. Standard school style learning does not suit all people, however. Therefore reaching the objective calls for a multiplication of different methods of learning tailored for different needs, workshop-like activities and so on. The so-called "schooling guarantee" – making sure that there is a place in an upper secondary school, vocational school or some other education institution for all those who have completed their nine years of basic education – much favoured by politicians is not enough: we also have to see that everyone is given the necessary support to be able to advance in their studies. If problems at school are linked to other problems, they must all be addressed simultaneously.

More flexibility

Of course, income redistribution is not and should not be the main goal of all public services. The purpose of elderly care, for example, is simply to enable senior citizens to lead a dignified life. A civilised society has to provide all its members with the means to live in dignity, and it is clear that services are about a lot more than improving people's labour market status. Moreover, citizens are not merely targets of the service system or passive clients who are provided with whatever it is the system happens to produce. In the worst case, when a person using public services feels like her daily life is a constant struggle in the abyss of bureaucracy, the services have completely failed to enhance her capability to act independently. The social goals that are the *raison d'être* of services should be made more visible in their provision and production. For example, the objectives of social empowerment and strengthening people's ability to act as members of society should be stressed more in all social services.

On many occasions, the need for public services is determined too late and too bureaucratically, often only when the need is already great. At worst, different problems like the lack of social capabilities, substance abuse or mental

health issues have already intermeshed and developed into a complex snarl by the time the person becomes a user of social services. At that point it is much more difficult to ameliorate her situation and to support social mobility than it would have been at an earlier stage. At the present, services are doing a particularly bad job in preventing social exclusion from the labour market and early intervention. All too often social services become available only when the problems have already developed too far. This applies to both health and social problems. In order to prevent such problems, persons in need should be reached early enough and provided with the type of service that addresses their problem(s). It is the service system that must show flexibility vis-à-vis people's needs, not the other way around.

Social work should be directed towards people with both economic problems and the kind of social problems that make employment difficult. The right types of services must be provided at an early stage so that the problems do not become a permanent barrier to entry into the active workforce. Since the 1990s it has become common in Finland to support employment through various activation programmes. The main incentives for participating in them have been sanctions triggered by non-participation. While the idea itself may be good, such forced activation has not proved very effective in practice. The quality of the programmes has been anyone's guess and their impact on real employment chances often negligible. In addition, people undergoing activation programmes have often experienced them as humiliating. So, at worst, when the targets of activation feel like they are forced to dance to bureaucracy's tune, they become even more passive and suspicious of society.

PRIVATE OR PUBLIC SERVICE PROVISION?

Privatising the provision of public services and inviting companies to tender are often justified with enhanced efficiency. Judging solely by short-term costs and quality – with the focus often heavily on the former – it may sometimes seem that private suppliers do a better job. Nonetheless, there exists no generalisable or universal proof of the superiority of public or private service provision. There are good and bad experiences of both. It usually does not

matter much to the user of the services whether they are being produced by a public or private entity.

The problem with opening public services to competition is fragmentation. Outsourcing and shopping around require detailed “productisation” of the services. When a person has multiple needs and no single service product meets those needs, there is a problem. As services are organised through predetermined and strictly defined products, comprehensive long-term service becomes more difficult. Service chains break and overall responsibility is obscured. Naturally these types of difficulties emerge without outsourcing as well, for the public sector is also perfectly capable of creating unreasonable service systems.

Turning services into products, opening the provision of these products for tender and outsourcing them take up a lot of administrative resources. Slashing bureaucracy is sometimes presented as a reason for privatising but in reality the shift towards private production of services has made their administration heavier. Procurement contracts, invitations to bid and the court processes related to them, and monitoring private producers all create new administrative responsibilities that do not exist when the services are publicly produced. In some cases even the user of the service has faced increased bureaucracy.

Outsourcing and various purchaser-provider models require a lot of expertise from the buyers. They must possess complete information on the content and quality of the services. If this is not the case, they are buying a pig in a poke. All too often Finnish municipalities and their joint bodies lack adequate purchasing know-how which inevitably leads to unpleasant surprises.

It is often the case that when private production is argued for on the basis of its lower costs compared to public production, the costs are assessed through a very narrow lens. In reality the costs at a single point in time tell nothing about the long-term evolution of the cost structure. This problem can be addressed by signing only short-term procurement contracts that allow for a re-evaluation of the situation if it changes, but this reduces predictability and stability, resulting in uncertain “stop-go” provision of services that does not benefit any of the parties concerned. Problems due to fragmentation also increase. Fragmentation problems can be avoided by long-term cooperation

between the public sector and its private contractors. There have been good experiences of such collaboration. Private production does not always have to lead to a fragmented service system.

In addition to trying to estimate what is effective and efficient, the criteria of “good” and “just” must also be put on the table. The development of services and their production is ultimately about political choices. Nobody would disagree that the aim is to produce high-quality services with as little costs as possible, but how this double objective can best be achieved is not a technical question that can be resolved with a set of correct answers. This tends to be forgotten in debates on service provision. Huge and often conflicting interests are vested in the development of services. The users of the services, the employees providing them, private companies and many other stakeholders are directly affected by the choices made in the process. The needs and goals of different interest groups should be analysed more carefully than what has been done. More often than not the needs of some interest group underlie any proposal to improve the production of services. It is important to recognise this. Arguing about the superiority of one procedure over some other is pointless unless the interests at play are identified.

Once the various interests at stake have been identified, services should be developed so that they best suit the needs of their users and advance the social goals that are their ultimate objective. All other interests are secondary. Service production should never be turned into an instrument of industrial policy, for example. Of course, it is not always easy to assess whose interests are ultimately served by which proposal.

Profit seeking and social goals

When reforming public services, one should be cognisant of the reasons for their existence and the social ends that they are meant to promote. The logic of the reforms must be built on this foundation. It cannot be copied from some other context. During the past two decades, however, there has been a strong tendency to develop services according to principles borrowed from business management and the corporate world. Efficiency gains have been sought by separating the purchasing and production of services. This has also

enabled their privatisation. In the public realm, copying micro-level incentives from private companies has been perceived as a way to promote efficient use of resources. Such practices have originally been tailored to serve completely different ends than those of the public sector. When the models and measures of the private sector are used as a yardstick for public sector reforms, attention is easily drawn to the wrong things and not enough consideration is given to the social character and functions of the services. Consequently the role of the public sector as the guardian of the ends particular to it is blurred and social expertise makes way to business practices.

The operational logic of private production differs fundamentally from that of public production. The key question is: what is the true motivator? Among private actors, the answer is almost always profits. If the social objectives of the services in question do not fit nicely into a company's profit function, they are usually excluded from the company's decision-making. It is extremely difficult to construct service production agreements between public and private actors in such a manner that they encompass the ends society strives to achieve through the services.

When the focus lies on profits, it is all too easy to concentrate on minimising costs and maximising income and not pay enough attention to quality issues. One thing should always be borne in mind when contemplating different ways of producing services: in all circumstances the method of production must be compatible with the quality requirements and wider social goals of the service. Quality control is often quite expensive. Food service in day care centres provides one example of this. Especially in the bigger Finnish cities it has been outsourced to the private sector with the hope of cutting costs. Indeed, the costs have often decreased, but so has quality. Finnish media have reported on several cases where nurseries have repeatedly run out of food, the food served has not been what had been ordered or the quality of the food has deteriorated. This type of "increased effectiveness" could probably have been achieved without outsourcing as well – although minimising expenses at the cost of quality is admittedly easier for profit-seeking companies.

Even though it is in practice difficult to include quality issues in corporate decision-making, no matter how carefully drafted the purchase agreement,

a common argument for privatising public service production is improved quality. After all, private medical clinics often have much more comfortable waiting rooms than public health centres, right? In reality, high quality is not a natural characteristic of either sector – it is the result of a sufficient amount of human and other resources. They may exist on both sides.

One threat posed by privatisation and market competition is that all services may be organised and priced in such a way that committed, long-term efforts to promote the common good become impossible. Then we will have entered a greedy man's market – the opposite of responsible public service provision. In order to reap the benefits that privatisation and marketisation yield in theory, there must be enough producers on the market. Without genuine competition the benefits will not materialise. Paradoxically, during the entire period when the role of the private sector in service provision has been increasing, we have been moving into the other direction. The service market is controlled by fewer and fewer actors. This has happened especially in countries where marketisation has been taken further than in Finland. In Sweden, for example, the care market is heavily concentrated in the hands of a few companies. The position of small enterprises and associations seems to have weakened, while large corporations account for an ever-increasing share of the pie. The role of institutional investors in the service market has also grown. Given the high yield demands they have for invested capital, the public sector may be turning from a promoter of social ends to investors' profit machine.

To some extent, the Finnish public service provision has also been delegated to non-profits, especially care services for the elderly and disabled. Associations are not like companies, for their operational logic and objectives are not focused on profit: they exist to advance certain social goals or to help certain groups of people. Thus the social character of services is the major determinant of their activities. This combined with the strong expertise one often finds in associations usually makes them good service providers.

In a privatised service sector it is possible to seek profits by focusing solely on the types of services that are easy to produce. This is called 'creaming off'. Privatisation is most attractive in the services that are the most profitable, simplest to define and easiest to organise. Still, any mistakes that occur in

their provision are ultimately left at the public sector's responsibility – the private producer has in any case already made its profit. Even when a service has been privatised, public authorities are always responsible for prevention, handling complications, costly specialised services and crisis preparedness. Maintaining them separately is often expensive and difficult to organise.

Production method and legal protection

Public and private sectors differ considerably in their ways of dealing with a service user who is not pleased or disagrees with the service producer. When problems arise, a user of a service is in a stronger position and enjoys greater legal protection if the service is publically produced. The activities of the public sector are regulated by detailed laws that are meant to reinforce preventive legal protections, avert arbitrariness, promote appropriate and professional conduct, and prevent corruption. Regulations also cover retroactive legal protection and the procedures related to it. Some of this heavy juridical regulation admittedly smacks of unnecessary bureaucracy.

The activities of private actors are regulated much more light-handedly. At best this may mean smoother practices and service, but at times of trouble the user of the service may have weaker legal protections and find it harder to get help. Lesser regulation can also mean more inequality and more possibilities for abuse. In the private realm, the limits of lawful conduct are not easily breached: sometimes it takes even abandonment or bribery before a service provider must assume its responsibility.

In terms of transparency and openness, public and private provision of services differs considerably. More transparency is required of public actors. All their expenses and finances, for example, must be made public. Private actors do not face similar requirements, nor do they wish to disclose their finances in detail to the public. This is a key difference from the perspective of democratic control. Yet, outsourcing services is sometimes justified by increased transparency: when a particular service is purchased from a provider, the real costs of the service become visible and we know exactly what it is we are paying for and how much, the argument goes. However, there is no special link between the production or purchase method of a service and the

transparency of its costs. Since public finances are by definition public information, the cost structure of a service can be determined without outsourcing.

FUNDING

It is important to reinforce the Nordic principle of universality whereby all persons covered by the legislation are regarded as potential users of the same system and specialised services are resorted to only when special needs cannot be met otherwise. The ultimate goal of public services – increasing people’s ability and scope for action and wellbeing – must not be forgotten. Shared responsibilities guarantee that each one of us has a chance even when facing difficulties. However, it must not be forgotten either that the financing of public services is always subordinate to all these goals as well.

The funding for public services may be raised by taxation, public social insurance or private insurance schemes. Public services can be produced privately or publically. In the Nordic models, the universal public services are funded primarily by taxes: everyone pays and everyone benefits. This principle has proven its economic efficiency. Public services in the Nordic countries are generally of good quality, they have extensive coverage and their costs are quite moderate in relation to the benefits. High quality and universality are also preconditions for the broad political support they enjoy.

At the moment, the most burning financial issues have to do with healthcare. The problems of multichannel funding are widely recognised. From an economic perspective, the most efficient and unambiguous system would consist of public services funded by a single payer alongside private services that do not receive any public funding. It seems that taxes are the most efficient means of public funding and superior to models based on public insurance, for instance. In the latter, costs get more easily out of hand than in a tax-funded system in which public authorities can directly control the supply of services. Public control is more difficult in insurance-based systems and can only be exercised by managing the range of choices offered to service users. This is prone to lead to bureaucratically heavy structures with rising costs. The best example of this is the US healthcare system. Based on private insurance plans, it is extremely expensive compared to public systems. Yet a large

proportion of the American population had no access to healthcare before the most recent reforms. To some degree, continental European systems with their mandatory health insurances have faced similar problems of spiralling expenses. It would thus appear that tax-funded health systems produce reasonable results with the lowest costs.

Models that shift the financial burden more upon individuals via care insurances or private accounts have also emerged in the funding debate. The resulting reductions in public responsibilities would be met by service users' increased dependency on the markets and their families and friends. This would aggravate inequalities, undermine the insurance character of social security and be in direct contradiction with the mechanisms that have made the Nordic model such a success. In and of themselves, private accounts do not include any risk-sharing mechanisms. The Nordic model, on the contrary, is based on shared responsibility: everyone pays a share of the costs and the risks, no matter who they fall on, will not result in unreasonable economic burdens on those suffering from them. This principle has proven its economic and social effectiveness, and we should hold on to it. Private accounts would mean a step in the opposite direction.

It must be noticed that problems related to multichannel funding cannot be solved simply by switching to a system with only one funding instrument (taxes). It is also vitally important to make sure that the regulative limitations of and between various branches and budget articles, even when under one public authority, do not hinder effective provision and organisation of services. No public sector actor should ever face a positive incentive to juggle service users or costs onto other government branches or units. Within the Finnish tax-funded public sector, perhaps the most difficult problems have to do with the boundaries between state and municipal responsibilities. Sometimes these administrative barriers make it impossible to create sensible service systems. For example, municipal social and health services and the regional Centres for Economic Development, Transport and the Environment – charged with managing the regional implementation and development of state administration – should really step up their cooperation in the provision of services aimed at improving people's ability to succeed in the labour market.

User fees

With regard to equal and universal accessibility of services, fees charged from users are of particular importance – fees must not create a barrier to service use. Compared to other Nordic countries, user fees comprise a relatively large part of the funding of Finnish social and health services. Take the municipal health services, which are of key interest due to the Finnish decentralised model of national public service provision. According to the Association of Finnish Local and Regional Authorities statistics, in 2009, they totalled 1.5 billion euros and covered slightly over seven per cent of municipal social and health expenses. As a percentage of overall service production costs, user fees play the biggest role in day care and home services, the smallest in specialised medical care.

The explicitly stated policy goals of user fees are to fund services and to manage the way they are used. Both goals are somewhat problematic. The actual share of user fees in the funding of public services is quite modest. Although they amount to over seven per cent of the production costs, they do not lead to a corresponding decrease in public sector expenses. There are several reasons for this. The poorest people cover their user fees with income support. Fees paid are also included when assessing a person's eligibility for care and disability allowances, thus transferring part of the payments to the Finnish Social Insurance Institution (*Kela*). So, in practice, user fees lead to money being moved from one public institution or budget article to another and do not cut public funding responsibilities as much as their nominal value suggests.

Likewise, the rationale for viewing user fees as instruments to shape behaviour is also questionable. The goal here is to decrease the use of services. This will inevitably worsen inequality, for low-income people will be hardest hit. Fees may even prevent someone from seeking a service she would need. The behaviour of those with higher income, on the other hand, will not change much because of a fee. These observations apply mainly to fixed fees but also, though to a lesser extent, to income-dependent fees that are used primarily in healthcare, institutionalised care and home services. There is empirical proof that user fees postpone the decision to seek treatment, which ultimately

increases rather than decreases costs. User fees also seem to have a considerable impact on health differences between different socioeconomic groups.

Service vouchers

Increased freedom to choose and efficiency gains from more market competition are often stated as benefits of service vouchers. In principle, these are sensible goals: why force people to use a service decided on by a public authority when they might as well decide for themselves? In practice, however, the additional freedom to choose may be ostensible. If a service user does not possess sufficient resources to make an informed decision, the freedom is merely an illusion. It may be difficult for an ordinary citizen to acquire sufficient information on the real content or quality of the services of different producers. Genuinely relevant information is often revealed only when the service is being used. In such a situation the “choice” may in fact resemble gambling. If you do not have luck placing your bets, it may be difficult to rid yourself of the consequences later on.

Choosing the best service is especially difficult for a person who is in a weak condition. If not supported by able and well-informed family members or friends, such a person may experience this as an extra burden in an already difficult situation. What is supposed to increase freedom may become a mandatory evil, another seemingly senseless bureaucratic demand. Fortunately the voucher systems presently in use in Finland do not allow problems to develop this far. It is always possible to refuse to accept the voucher, in which case the municipality is obliged to arrange the services needed. This seems somewhat inefficient. On the one hand the municipality offers vouchers and on the other it must maintain an alternative service system.

With service vouchers, responsibilities related to market competition are nevertheless shifted onto the end user. Considering that the municipalities purchasing privately produced services have at times had difficulties managing these responsibilities, it is obvious that all service users cannot handle them much better. In the worst case, vouchers spell more trouble and bureaucratic obstacles to a user of public services.

While individual freedom for all is a fundamental principle of a democratic society, freedom is conceived of in rather narrow terms as freedom to choose if all it means is that a user may choose the producer of a certain service. Services exist so that the freedom of those who have little of it can be augmented and that responsibilities are borne collectively. Reducing freedom to the right to choose a service provider obscures this fundamental premise.

It must be also noted here that the voucher system turns the logic of funding on its head. The logic of Finnish public service fees works so that there is a maximum amount any single user has to pay. Once the total amount of fees paid under a given period reach this threshold, the public sector takes over additional expenses. The aim of this is to guarantee equal access to services and to make sure that each person has a real possibility to use services according to her needs. Vouchers work the opposite way: the public authority pays a certain (fixed) amount and the user's share is the difference between voucher value and the real price of the service. The voucher system also scraps the maximum limit applied to user fees. It goes without saying that vouchers perpetuate inequalities in the use and accessibility of services. They move us closer to the demise of collective responsibility over welfare.

Multichannel funding is widely perceived as a problem, especially in health services. Vouchers add another channel to the mess. In practice they resemble the health insurance compensations used in private healthcare. Careful analysis is needed to clarify whether we really need yet another system that subsidises privatised care with public funds.

Vouchers may lead to public authorities de facto escaping their legal obligations. It is easy to narrow the scope of public responsibility by letting the value of the voucher fall in comparison to the prices of the services it is used to pay for. In the longer run, vouchers may also contribute to polarisation: they become a form of subsidising the private treatment of people with enough money to go private, leaving public services to those who cannot afford anything else. This would further undermine political support for maintaining high quality public services.

CONCLUSIONS

Extensive welfare services are an integral part of the Nordic welfare model in general and social risk management in particular. Besides tackling social risks, they promote economic efficiency by increasing and redistributing the factors of production available on the market. As they enable each citizen to be a full member of society, welfare services also contribute to social justice. When they function as planned, public services improve the income earning possibilities of the entire population by supporting citizens' ability to work, preventing exclusion from the labour market and helping those who have fallen outside the labour market to return to work. They also provide all citizens with equal possibilities to fulfil their basic needs outside the labour market. The guiding principle of any service reform must be improving the achievement of these goals.

In discussions on reforming public services, their users and broader social objectives often do not get as much attention as they should. As a result, services have been developed in a system-oriented manner in line with principles and models borrowed from the private sector. These models often do not play well with the logic of public services. Thus many reforms have been mere administrative exercises, and services have become fragmented and service systems obscured. In worst cases, users of the services feel like they are fighting an increasingly inflexible bureaucratic machine.

Given all this, services must be made more flexible and user-oriented. Citizens are not mere passive clients who are provided with whatever it is the system happens to produce. It is the system that has to adjust according to the particular needs of each person. This is not easily done in a system consisting of strictly defined service products, all produced by different actors. Sometimes even the legal protection of a service user may be put to test. Production methods do matter as well. Public and private service production is guided by completely different objectives. The production method must always be compatible with the social goals of the service in question. Also, the political and other interests underlying different methods of production must be recognised and included in the decision-making process.



5.



Subversive neoliberalism and the financialisation of Swedish pensions: failure or opportunity?

CLAES BELFRAGE

INTRODUCTION

Pensions typically constitute the largest form of savings in advanced capitalist economies. Therefore, depending on how they are saved, invested and distributed, they often function as the key mechanisms in the institutional and normative frameworks coercing and mediating social behaviour to stabilise accumulation in general and choices between saving/investing and consuming in particular. They are not only extremely large redistributive systems, but also contribute to the formation of economic subjects (Aglietta, 1998; Lipietz, 1987). For instance, it is widely argued that post-World War II pension systems played an integral part in the construction of solidaristic “social citizenship” as the key element of welfare systems (Marshall, 1950). Similarly, it has been argued that neoliberal pension reforms tend to support an individualised, “self-responsibilising” citizenship connecting citizens to financial market performance, in which there is little place for norms, values and practices of solidarity (Harmes, 2001; Langley, 2006).

The Swedish ATP pension system (*Allmänna Tilläggspensionen*) introduced in 1959 was at the heart of the construction of the “Swedish model”, while its successor, introduced in 1999, is central to what can be called *subversive neoliberalism*. Subversive neoliberalism seeks to popularise values of private property rights and market exchange, and does so in a more discrete (or subversive) way than earlier neoliberal projects, championed famously by for example the UK Margaret Thatcher administrations. It does not aggressively attack the welfare state and no longer has much public property to privatise. Instead, it channels neoliberal values, norms and practices *through* the welfare state. The most prolific process for this promotion is *financialisation*, which seeks to create interests in economic policies of low commodity inflation at the same time as it promotes an attachment to price inflation on assets (e.g. real estate, corporate shares, etc.). Indeed, the main aim of subversive neoliberalism, at least in terms of welfare provision, is the normalisation of “asset-based welfare” (Finlayson, 2008).

As I have argued elsewhere (Belfrage, 2008; Belfrage & Ryner, 2009), subversive neoliberal aspirations lay at the heart of the 1998 Swedish pension reform. The aspirations of subversive neoliberalism are seemingly in direct opposition to the values, norms and policies underpinning the “Swedish Model” of solidaristic redistribution of wealth and opportunities supporting a perpetually rationalised export-led economy. Solidaristic values and norms underpinning the “Swedish Model” remained very popular when the new pension system was introduced (Svallfors, 1999; Rothstein, 2001). Of course, the Swedish model never was a finished product: it was an unfinished (albeit arguably quite successful) project that was in most parts reversed from the late 1970s onwards (e.g. Mahon, 2007). A Pension reform in the mould of subversive neoliberalism could be anticipated to provoke strong popular reactions especially in countries like Sweden where the expansion of the welfare state has been central to the labour movement and the popularity of social democracy.

At the time of the pension reform, Mark Blyth (2002, 246) asked what he called the “Swedish question”: the question about the ability of neoliberalism to incorporate the Swedish society into its project. Partly in response to this question, I have elsewhere presented two arguments concerning the pension

reform. Firstly, this formulation of the question seems dangerously to overemphasise the power of political elites and to neglect the power of social citizenship. In the end, without citizens supporting the policies with their actions, no neoliberal order of whatever kind can emerge. Secondly, had it not been for the fears of the political elites concerning pension reform, there would have been only limited reasons for the subversive approach to the reform (in contrast to less subversive approaches). The subversive approach nevertheless requires very much political support. Perhaps counter-intuitively, the social democrats have often been the elite co-authors of subversive neoliberalism in Sweden. In other words, Social Democracy has been seeking to discretely subvert the attitudes, values and norms that it has itself created and benefitted from. This is particularly relevant in the social democratic economy par excellence, Sweden.

In this chapter, I will discuss the history of Swedish pensions, particularly the public pension systems, and their significance for the Swedish model and subversive neoliberalism, respectively. The embrace of financialisation in pension provision is, as I will argue, in the mould of subversive neoliberalism, which depoliticises the popularisation of private property rights and market exchange. The Swedish Social Democratic Party's (*Socialdemokratiska Arbetarpartiet*, SAP) subscription to this policy paradigm has in part undermined its power base and hollowed out its identity. Indeed, channelled through the universalist welfare state, these reforms have considerable impact, and can be loosely expected to reduce the SAP's chances of re-appropriating identity and power base in the near future. SAP has slowly and reluctantly come to this realisation. Neither sponsorship of "Subversive Neoliberalism" nor the realisation that it has come to hollow out the foundations for Social Democratic politics is specific to Swedish Social Democracy, and this paper thus contains potential lessons for Social Democracy more generally.

The significance of new politics of pension provision and the rediscovery of social democratic values promises to be of growing importance in the near future. The SAP's new leader, Håkan Juholt, has, since taking the head role in March 2011, stated that if the other parties are not willing to substantially reform the pension system, he will make it a central issue to the next elections, anticipated to be held in 2014 (Sveriges Radio, 2011; see also SAP, 2011).

Agreeing with this statement of intent, I will argue in this chapter that a central strategy for the SAP (and thus Social Democracy elsewhere) should be to focus on re-politicising the financialisation of pensions. The myths supporting financialisation must be revealed for Social Democracy to rejuvenate itself.

The chapter has the following structure. Firstly, the paper outlines the Swedish model and demonstrates how the key policy area of pensions was fitted into this model. Secondly, the chapter is focused on the policy paradigm of financialisation in the context of pension policy and how it is linked to the decline of Swedish social democracy. While pension policies were central to the Swedish model, their reforms are of equal significance for grasping what subversive neoliberalism is and how financialisation has transformed the conditions for social democratic politics. In the third section after the introduction, I will briefly look at the reform trajectories in this policy area to further illustrate this significance. Fourthly, I will discuss some of the more general political consequences of the process of financialisation in Sweden. Finally, I will conclude by arguing that what Social Democracy needs now is not policies of de-financialisation, but rather the re-politicisation of financialisation, not least in the policy area of pensions.

PENSIONS AND THE SWEDISH MODEL

The purpose of this section is to firmly establish the significance of pensions for the Swedish economic and social model. This will subsequently be crucial for understanding how subversive neoliberalism seeks to transform and then make use of pensions to cultivate neoliberal values, norms and practices among Swedish wage-earners. Before that, however, we must briefly look at the Swedish history of economic policy in order to provide better understanding of the socio-economic role of pensions.

Pensions and the Rehn-Meidner plan

The small size of the Swedish economy made the development of an encompassing productive system very difficult in the post-war decades. Goods for mass consumption were primarily imported. Export industries were crucial

for balancing of the external accounts by earning foreign exchange (Mjøset, 1987, 410). Although the domestic economy grew in significance and provided an important base in terms of production, consumption and investment during the 1950s and 1960s, foreign markets remained critical to Swedish industries. Indeed, “Swedish mass production and consumption [were] mediated by the world market” (Ryner 2002, 69). Foreign demand for Swedish products was high, which made the economy very dependent upon world markets. According to dependency theorist Samir Amin, this exposure does not need to result to dependency in the core economies in contrast to the peripheral economies. Given certain “regulatory moves”, a national economic model could be made successful (*ibid.*). This idea became central to the Swedish post-war economic policy.

Especially the tendency to overproduction and under-consumption had to be regulated through the stimulation of “domestic consumption in a manner which simultaneously counteracts the tendency of the organic composition of capital to increase” (Ryner 2002, 68). Hence the growth in productivity and consumption had to be made synchronous. The Swedish labour movement sought to ensure this synchronicity by developing a highly innovative macro-economic model. The model, which can be positioned in between Keynesianism and monetarism (see Erixon, 2002), was developed by two LO economists, Gösta Rehn and Rudolf Meidner, and became official LO policy in 1951.

Put crudely, the model can be characterised as a recommendation of a fairly strict financial policy over business cycles in the medium-term, but as different from the expansionary Keynesian policies with the use of disinflationary, as opposed to Keynesianism’s inflationary, policies. These ideas were further combined with a selective labour market policy, which was supposed to enable inter-sectoral labour mobility and full employment in times of recession. Rehn and Meidner argued for a strictly solidaristic wage policy through central wage-bargaining in combination with taxes on corporate profits in order to avoid wage drift (Martin, 1984, 205–208). This sped up the structural transformation of the economy in favour of firms that could be internationally competitive while paying for solidaristic wages in firms in the less competitive, sheltered industries and the public sector. The navigation between the Scylla of unemployment and the Charybdis of wage drift required consider-

able capacities of counter-cyclical management, and powers over exchange and interest rate setting. Hence the Rehn-Meidner model depended on strict capital controls domestically, as well as internationally, as facilitated by the Bretton Woods system (Ryner, 2002, 82–91, 95–98).

As such, the model sought to “combine full employment and growth with price stability and equity through the use of extensive selective employment programs, a tight fiscal policy and a wage policy of solidarity” (Erixon, 2000, 1). By adopting this model in 1955, the social democrat government was able to combine objectives of productivity growth with socio-economic security and to actively integrate these in order to resolve the tensions mentioned above. The SAP sought to impart Swedish political life with a reformist paradigm “at once pragmatic and ideological, adaptable and moralistic” (Heclø & Madsen, 1987, 27), and to appeal both to its primary LO electoral constituents and to Swedish capital. Moreover, it had also laid the foundation for a class alliance with large segments of the middle classes. The expansion of the welfare system, including the pension system, was regarded as the primary means to secure the support of the middle classes for the model.

Welfare reform had been on top of the SAP agenda since their 1936 electoral victory. A struggle between SAP minister Gustav Möller on the one hand and the Social Welfare Committee and LO on the other over the basic principle of social insurance had extended over 15 years between 1937 and 1951. Möller, supported by the SAP, advocated flat-rate benefits while the Committee had stubbornly argued for benefits being linked to income in order to “uphold the standard of living as far as possible” (Lundberg & Åmark, 2001, 165). The LO agreed with the latter in order to uphold its principle of ‘equal work, equal wage’. A former LO representative Gunnar Sträng replaced Möller in 1951 and immediately embarked on coordinating a system of sickness, work accident and unemployment insurance on the grounds of the principle of income security, which also made social insurance more interesting for white-collar workers. Following an unproblematic legislative process, all social insurance systems in Sweden became subject to the principle of income security in the first half of the 1950s (ibid., 165–168).

A de-commodifying welfare system (see Esping-Andersen, 1985), which was capable of sustaining consumption levels throughout life as shielded

from the extremes of cyclical market performance, was now in the making. For substantial de-commodification to be achieved and mass consumption to be sustained under the high growth conditions, however, two immediate policy objectives had to be met: full employment over the business cycle and high income-replacing pensions. Reaching the objective of full employment was facilitated by the creation of a manpower policy and a labour market board (*Arbetsmarknadsstyrelsen*) in 1948. In 1957, labour market policies were expanded by providing additional funding to the board in order to alleviate cyclical unemployment (Martin, 1984, 217; Pontusson, 1992, 64–65). The expansion of the labour market policy was politically all but controversial, as it was made prior to an expected minor recession in 1956–1957 and was expected to be partly rolled back once the recession had passed.

In respect to pensions, the 1944 reform of the “People’s Pension” was still made on the grounds of Möllerian universalism. A flat-rate system replaced the average industrial worker’s wage by about 20% in retirement. This was sufficient, according to Palme (1990), to survive without having to rely upon poor relief. However, it hardly sustained consumption in the booming 1950s and 1960s. While the scheme constituted a considerable improvement for blue-collar workers and farmers, the white-collar workers often already had pension schemes – albeit limited – provided by their employers. Indeed, LO disagreed not only with the universalism of the reformed scheme, but with the continued inequalities in the retirement income between blue-collar and white-collar workers as well as between workers in the export-oriented and sheltered industries. Company pensions were not provided by a majority of the main employer association’s (*Svenska Arbetsgivareföreningen*, SAF) member firms to blue-collar workers, while the larger ones provided rather meagre pensions. In fact, there had been a veritable freeze on these pensions among SAF members, as a means to avoid competition for labour on the grounds of pensions (Swenson, 2002, 283–4).

Despite the 1944 reform, the SAP had right away motioned to put together a commission to look into the pension issue. The resulting 1950 report proposed the legislative introduction of obligatory supplementary pensions accumulated in pension funds. The 1951 LO congress supported this idea and set up a LO committee to study possible designs of a supplementary system and

political strategies of its implementation. While there was a near consensus in the committee on the design of the supplementary system, there were significant disagreements over whether to seek a legislative solution or a bargain with SAF to the issue. Also SAF was divided on the issue. Like the centre-right parties, SAF was especially critical of the funding mechanism. (Stråth, 1998; see also Swenson, 2002, 284–290.) Despite the ambivalence of the labour market forces, supplementary pensions became an issue of highest strategic importance to Swedish politics. Neither the contours nor the functionalities of a policy model resembling the Rehn-Meidner model had been popularly established, so the field was still laid open for struggle over the general direction of economic development.

The birth of the national earnings-related pension scheme

Without going into any specific details of political struggles behind the birth of the national earnings-related pension scheme, the SAP-LO suggestion was to retain the People's Pension and complement it with a large and obligatory pay-as-you-go (PAYG) defined benefit (DB) system guaranteed by the state. The SAP-LO proposal was not only attractive to blue-collar workers but also to white-collar workers who were also affected by the employers' varying commitment to company pensions. With Fordist Taylorism affecting this latter group of workers as well, its status had dropped rendering the distinction between blue and white-collar workers increasingly hard to make. (Stråth, 1998, 34, 45–46.)

Rehn, the LO economist, had played an active part in the formulation of the proposal and had advocated the accumulation of large pension funds with employer pension contributions, the so-called AP Funds (*Allmänna Pensionsfonderna*), to serve as buffers in a future PAYG DB system. In its initial phase, the funds were supposed to function as a mechanism for squeezing profits and hence preventing wage drift. The AP funds were also supposed to provide the credit market with investment capital for selected sectors and firms, and would as such contribute to the rationalisation of the economy (Pontusson, 1984). The design, in accordance with the Rehn-Meidner model, was finan-

cially restrictive in order to contain inflation (Erixon, 2002, 9), while promoting rationalisation as well as growth (Ryner, 2002, 90).

The SAP-LO proposal won by one vote and soon SAF turned to support the new earnings related scheme ATP – to the great surprise and dismay of the centre-right political parties (Swenson 2002, 282). The ATP scheme was financed through employers' and self-employed contributions, and was initially managed by three tripartite 'AP-funds' (Pontusson, 1984). Given a required working life of 30 years, it was designed to reward employees with a pension roughly equivalent to 60 per cent of their 15 highest salaried working years (the so-called 30/15 principle) (Palme, 2005, 43). The system was gradually introduced as it was built up, and the 'ATP-pensioners' of 1979 were the first to receive full benefits. In addition, the People's Pension brought income replacement to the level 65 per cent of the highest salaries (Swenson, 2002, 281). Moreover, following a series of increases and streamlining of company pensions, 90 per cent of wage-earners could expect a sizeable addition to this replacement ratio (SOU, 2005, 54). Such highly de-commodifying system built on the basis of income replacement was rather attractive to the white-collar middle classes.

After the SAP victory in the 1960 election, the ATP system would not be seriously challenged until the 1980s. The ATP system became the symbol for labour's increasingly unified struggle and power, and may be characterised as a breakthrough for Swedish Social Democracy (Pontusson, 1992, 79). The SAP also captured a substantial new constituency of white-collar workers through the pension struggle. As Heclo and Madsen (1987, 27) argue, social democrats "captured the idea of the nation – they [...] successfully interpreted the national identity as one of an ever-reforming welfare state". Indeed, the pension system provided the glue that put a lid on conflict in the Swedish society. As LO and SAP were moving to assign the AP funds to tripartite boards, and as SAF had already become convinced of the ATP system, the centre-right parties also turned towards acceptance of the creation (and growth) of the AP-funds following the unsuccessful 1960 elections.

The AP funds became "a natural [and normal] component of the mixed economy" (Pontusson, 1984, 10) and became incorporated into the structures of the hegemonic LO-SAP accumulation strategy to ensure its sustainability.

This was, however, facilitated by the labour movement's recognition of the "free market" as "the most efficient mechanism to allocate capital within the private sector", and the value of business collaboration in order to transform AP fund "pension savings into productive investments" (ibid., 94). The ATP system served to support the growth model mostly by enhancing the regulatory capacities of the credit system. In particular, the AP funds eased significant policy conflicts within the Rehn-Meidner model.

There was no guarantee that the two chief objectives of the Rehn-Meidner model – ensuring adequate investments for full employment and profit squeeze to counter wage drift (or promote wage equality and union cohesion) – could be achieved at the level of wage agreements. Macroeconomic policy was supposed to reduce the tension between these objectives, but it required favourable structural conditions that eroded as the Fordist growth trajectory was being progressively exhausted. To reduce this tension, the bank-centred credit system was strictly regulated to minimise the cost of credit for productive capital at the same time as facilitating capacities to pursue effective macroeconomic policy (Pontusson, 1992, 70–83). The regulations also covered foreign exchange and credit controls, with penalty rates for excessive borrowing from the Central Bank. It also covered the so-called Investment Funds with which corporations could avoid corporate taxation on profit and enjoy favourable depreciation allowances through deposits at the Central Bank. Liquidity could be regulated that way without resorting to high and variable interest rates, and assets held in the Investment Funds were released to the corporations in recessions in accordance with counter-cyclical principles.

As the ATP system was slowly maturing, the AP funds came to play an increasingly important role in these functions. Since they were financed through employers' contributions, set to generate surpluses, they contributed to the profit squeeze that counteracted wage drift. Simultaneously, they made credit available for private as well as public investments. The three AP funds were only allowed to invest in bonds and could not purchase shares in corporations. Corporations could re-borrow 50 per cent of the fees that they paid into the system, provided that a commercial bank took the risk of these 'retroverse loans'. This reflected converging interests between the welfare state complex in having ample access to cheap credit for public investments and

the Swedish financial circles, who did not want to see a competing centre of corporate control emerging under labour inclusive tripartite auspices.

A certain kind of growth regime was emerging and the ATP pension system played an absolutely central role in its regulation. Given the profit squeeze requirement for solidaristic wage policy, LO's growing preference in AP fund investments was to work along the principles of the Rehn-Meidner model. These funds had already started to play a significant role in urbanising the economy by funding large parts of the mass housing programme (*Miljonprogrammet*) started in 1965, as well as by lending to the corporate sector. A hegemonic social democratic societal paradigm was established around a project of modernisation and growth, which was to guide subject-formation during the 'golden age' of "the Swedish Model". As Jenson and Mahon (1993, 79) argue, there are times when there is a relative societal consensus about the names of actors, their interests, and the political spaces they inhabit. Debates occur but the voices heard are those that speak the hegemonic language, even if in their own 'dialect'.

THE DECLINE OF THE SWEDISH MODEL AND THE EMERGENCE OF SUBVERSIVE NEOLIBERALISM

The period from 1970 to 1999 saw the decline of the "Swedish model" and the emergence of subversive neoliberalism. This section will discuss the political-economic developments from the dismantling of the Bretton Woods system in 1971, which marked the end of a period of remarkable productivity growth and welfare state expansion in Sweden, to the explicit enforcement of subversive neoliberalism in the following decades, and firmly situate pensions as a crucial feature in these developments. The discussion requires a short revisit to the formative thinking of the previously so successful construction of the Swedish Model in the post-1970s crisis years. Perhaps the most important aspect in these debates is the changing attitudes to finance within the labour movement.

Pension reforms and social democrats

In a sense, the decline of the Swedish model can be directly traced back to the position and actions of the SAP. The support from Swedish capital for the project of dismantling the model was ambivalent but secure as long as profit rates could be sustained (Swenson, 2002). The support from collaborating political parties was similarly ambivalent. In the first instance, support was subject to political consensus because there was some degree of agreement on the necessity of the Swedish model, which SAP was uniquely positioned to manage. In the last instance, however, the model was only coercively ensured through SAP's potential ability to mobilise power resources to enforce it. The power of SAP had become institutionalised constitutionally by the creation of an Upper House conserving Social Democratic power and electorally by a disproportionality principle that provided the SAP with a very beneficial seat-to-vote ratio (see Immergut & Jochem, 2006). This enabled the SAP to typically cherry-pick support from any possible ally when necessary.

The late 1960s presented a number of challenges to SAP and its ability to rely on the Swedish model. Firstly, the turbulence created by US hegemonic decline at a global level – not least evidenced by the suspension of the dollar-gold convertibility and thus the international fixed exchange rate system in 1971 – enabled financial markets to release its speculative “animal spirits” and exploit price movements. Secondly, price hikes in primary goods (especially crude oil) markets in the 1970s contributed to an extended period of combined stagnation and inflation (“stagflation”) in the world economy. Thirdly, the competitiveness of Swedish businesses was in decline. The reason for this decline can be derived from stagflation and reduced demand for Swedish products, from growing competition from German and Japanese corporations, and from the absence of sufficiently effective mechanisms in the Swedish model to secure the investment capital necessary to continue the rationalisation process and thus sustain profit rates in key Swedish corporations. With profit rates under threat, capital's support for the Swedish model was falling away. Fourthly, cracks within the labour movement had started to grow as significant parts of it had become radicalised partly in response to the decline of US hegemony. The SAP was increasingly seen as a “state management party”,

which had lost its radical ambitions to democratise the economy both at the workplace and in terms of ownership. It was further facing accusations of being a “chauvinist” party that prevented women from liberating themselves by obstructing their entry onto the labour market (Jenson & Mahon, 1993).

In its response to these challenges, the SAP “policy-fumbled” and lost its (near-)monopoly on government, and with that the “Swedish model” started to crumble. The quest for new funding mechanisms took a radical turn in the famous wage-earner fund struggle. Responding to the radicalisation of the labour movement as well as to electoral challenges from the political Centre for the SAP’s white-collar support, the labour movement proposed a radical move towards “economic democracy”, combining long-standing ambitions for more decision-making power with an acceleration of the business rationalisation process. The centrepiece of this strategy was the wage-earner initiative, or the Meidner Plan. The Meidner Plan devised new branch rationalisation funds and assigned the tripartite AP Funds with a significant role in the acquisition of up to 49% of the stock of Swedish corporations and for the expansion of the selective and rationalising investment strategy at the core of the Swedish model. However, the plan received heavy criticism from within the SAP, which divided the labour movement. It also served to radicalise Swedish capital, springing into motion an ambitious, and ultimately successful, neo-liberal counter-hegemonic project seeking to undermine Meidner Plan and divide a labour movement which it saw as too radical, as its decision-making powers and share of future profits were challenged (see Stråth, 1998).

The much-diluted policy package that resulted from the initiative provided a very limited boost of investment capital. It certainly did not satisfy a radicalised labour movement, and the cracks grew even wider making the mechanisms for the mobilisation of power resources weaker. Potential consensual support from the centre-right was effectively cut by the struggle. It had also turned Swedish capital against the SAP with employers’ organisations mobilising to respond to the radicalisation of labour. Any coercive power to enforce support had been removed by the 1970 electoral reform, which completely removed the Upper House and weakened SAP’s seat-to-vote ratio by making the system more proportional (Immergut & Jochem, 2006). This further weakened the party’s ability to ensure a degree of peace in labour market

relations while national wage-bargaining started to lose its disinflationary potential. Global stagflation that hit the Swedish export-industries in 1975–1976 had not helped either. The SAP's hegemonic position and its managerial confidence were rapidly being swept away.

Swedish Neoliberalism

The 1976 election of a Centre-Right government (1976–78) and the subsequent three Centre-Right governments' (1978–1982) set the stage for the emergence of neoliberalism (Ryner, 2002). The 1979 government, strongly supported by SAF and led by the neo-liberalised Moderate Party (Ljunggren, 1992, 393–400), initially continued the “policy fumbling” but soon, controversially, adopted austerity measures, embarked upon the retrenchment of the pension system and devalued the currency in order to tackle the growing deficit. It came into conflict with the labour unions over growing unemployment, wage and welfare policy (Mjøset, 1987, 448). The Swedish version of neoliberalism became most visibly accommodated in the late 1970s, although not unambiguously, by the political party Moderates (*Moderata Samlingspartiet*, MP) (Ljunggren, 1992). Enjoying firm support from “radicalised capital”, it aggressively attempted to strengthen private property rights and “free market mechanisms” by reference to a “there is no alternative” (TINA) rhetoric. It especially targeted sectors, policies and regulations that “distorted” the price-setting mechanisms of the market. Inspired by the monetarist economics of Milton Friedman, budgetary deficits and inflation were constructed as public enemies number one and two (Grassman, 1986, 59–67; Sverenius, 1999) and social democrats and particularly the labour unions represented as the main culprits.

The failure to counter the rising neoliberal powers by turning more radical through the wage-earner fund initiative led to growing divisions within the labour movement and the SAP itself. In the early 1980s, sociologist and welfare state doyen Esping-Andersen (1985) stated that Social Democracy had come to face unprecedented challenges from within in the form of the decomposition of the welfare state and from without with the rise of East Asia. Without a phenomenal economic upswing, he claimed, the only hope

was a new highly investment-intensive export growth strategy coupled with rationalisation policies targeting accumulation regimes and welfare systems. No upswing followed. Instead the labour movement (including its representatives in the government) soon came to learn about the disciplinary impact of rapidly growing and mobile investment flows on globalising and innovating financial markets. Social democratic politics were severely punished by these flows and subject to the ideological critique from the New Right with policy fumbling and internal divisions. The labour movement became divided between the radically utopian and the cautiously pragmatic, between the neo-classical and the Keynesian, between the public sector and the exporting sectors, between the city and the periphery, and so forth.

A defensive strategy of sustaining and modernising welfare systems became the policy goal for social democrats but only secondary to the imperative of satisfying financial market forces through fighting inflation and cutting public expenditure. SAP returned to government in 1982, and the new Finance Minister Kjell-Olof Feldt gathered an influential group of young economists who in opposition to the previously dominant Keynesians were inspired by Friedmanite ideas. During the formulation of the Swedish “Third Way”, this group of economists played a central role in policy-making (Feldt, 1991). Key neoliberal ideas thus came to be diffused into Swedish Social Democratic politics. For example, fighting inflation through “rules-based monetary policy” became a fundamental tenet of the intellectual framework of the group (Lindvall, 2009, 719) – even though inflation was in Sweden, on aggregate, far from exceeding the OECD average at that time. This conviction was consolidated not only by the famous “U-turn” in monetary policy by the French Socialist Mitterand government in 1982, but also by SAP’s own difficulties in setting discretionary monetary policy upon its return to the government later that year.

In contrast to the traditional profit-squeezing policies of the SAP and LO, increased corporate profits were now considered necessary to boost productivity and competitiveness in order to reinstate employment and equity – a fact presented as something that “the labour movement of today has to accept!” (Bergström et al., 1981, my translation). These new ideas resulted in tensions within the labour movement, within the SAP leadership, between the

unions and the party, and in between different ministries (Lundberg, 2003, 234). Modernisation of welfare systems became the misnomer for subtle welfare retrenchment, and the issue of pensions was positioned at the centre of this over-arching discussion.

Amidst cutbacks, austerity measures and overall language of ‘economic realism’, the symbolic significance of the ATP system was exemplified when the SAP vowed to restore the guarantee of the pension value in order to ensure the support of the rank-and-file social democratic voter. As Lundberg points out, it is in this context extraordinary to find the retained, if not strengthened, commitment to the values underpinning the ATP-system. The bourgeois government’s removal of the guarantee was framed as a clear assault on the principle of de-commodification. At a special session on social insurance and pension provisions at the 1981 SAP party congress Sven Aspling, a top member of the SAP, referred to the ATP-system as the greatest institution of social security of the time, ‘the jewel in the crown’ of the Swedish system of redistribution (Lundberg, 2003, 118).

While the foundations for the neoliberalisation of Swedish Social Democracy had been rolled out, pensions were still defended. As Svallfors (1989) argues, the welfare state funded by high taxes was an unchallenged and significant part of Swedish daily life still in the 1980s, and pensions were a central part of it. From the perspective of social democrats, the ATP system was central to the ideological power of SAP. While other supposedly costly historical commitments were to be profoundly questioned in the name of economic realism in order to clean out the state budget, pension provisions were to be guaranteed at any cost in the early 1980s. The cost of restoring the ATP system was considered independently from the threats and fears expressed in the context of the precarious economic situation. Undeniably, “at the congress pensions were made into a kind of yardstick for the party’s continued adherence to Social Democracy” (Lundberg, 2003, 120; my translation).

SAP would have seriously struggled to return to power in 1982 without the credibility in restoring income and pension security after the elections. However, the focus on pension security proved to be a mixed blessing for the social democrats. The Swedish currency, the *Krona*, was devalued immediately after the 1982 elections, which made the restored value guarantee of pensions a

quite slender compensation. In 1984, a parliamentary commission was set up by the SAP government to review the ATP system following the identification of a new, burgeoning threat to the welfare state – the rapidly aging population. The ATP system was also losing its significance as a mediating mechanism in the economy, particularly in relation to the supply of investment capital. As wages were failing to keep up with price developments, the credit provided by the AP Funds to the economy was shrinking relative to other sources of investment capital (Pontusson, 1984, 64–65). The market for bonds through which the AP Funds was issuing credit had become less significant with the growth of other financial markets. The defeat in the wage-earner fund struggle also effectively ruled out collectively owned equity as a policy option. Indeed, pensions were becoming a costly, risk-prone and economically less vital political issue than before.

The SAP government's reply to the calls for increased private equity savings in the 1980s was the launching of the tax-exempted Public Savings Scheme (PSS) campaign (*Allemanssparandet*) after the elections. The centre-right government had sought to increase private equity savings through the Tax Fund (*Skattefond*) initiative already the previous year. Prior to these initiatives, Swedish households had a relatively limited degree of savings (Klevmarken, 2006). Combined, however, these initiatives led to a mass popularisation of private saving forms, which continued in the 1990s (Grip, 2001). While the different initiatives were part of the political struggle between the SAP and the neoliberal alliance, together they represented the burial of any meaningful wage-earner fund initiative. This can also be seen as the point from which LO became increasingly marginalised from the processes of economic policy making. The neoliberal Tax Fund initiative was a weapon against LO and the SAP's PSS campaign symbolised a break in the relationship between SAP and LO (Jonsson & Lounsbury, 2004, 27–35).

SAP lost both the 1976 and 1979 elections partly due to its continued support for the wage-earner fund campaign. The encouragement of household equity savings through PSS estranged the increasingly neoliberal SAP from the radical elements within the labour movement and distanced it from the idea of wage-earner funds when returning to power in 1982 (Feldt, 1991). Furthermore, the boom in private retirement savings was causing worries about

the ability of the ATP pension system to survive the competition (Dagens Nyheter, 1982). By encouraging private equity savings, an even larger part of the wage-bill was transferred to corporations. This change was underpinning the Swedish 'third way'. It meant the replacement of the Rehn-Meidner model's combination of efficiency and equity with a neo-classical outlook emphasising the dual commitment to price stability and efficiency.

Growing tensions between SAP elites and LO, however, undermined solid support for the Third Way, and the SAP used pension policy to reassure LO voters. Following SAF's move to stop central bargaining on wages, SAP put pressure on LO to restrain wages, even though the weakened control over wage-setting would render LO incapable of preventing wage-drift effectively. As a consequence, LO took "a less cooperative stance with the state". (Blyth, 2002, 221–222.) As the 1982 devaluation turned out unnecessarily sizeable, import inflation added to the "distributional anxieties" of an increasingly isolated LO. In a situation where the state was seen by labour to be abrogating its commitment to equality and universalism with its new distribution policy, where the burden of the solidarity wage and increased import costs fell all the more heavily on the unions, and where business were seen to be reaping profits from what LO perceived as a zero-sum redistribution, the unions started to turn against the 'third way' (Blyth, 2002, 222).

The increasing antipathy of the labour movement towards the social democrats resulted in the so-called War of the Roses (*Rosornas Krig*) between the SAP government and LO. SAP had slowly moved towards the political centre and emerged now more distant from LO and closer to the neoliberal ideas of the centre-right parties. Given the fear of workers' disaffection before the 1985 elections, finance minister Feldt nevertheless went ahead reluctantly with a compensation to pensioners for the reduction in pensions that the excessive devaluation had caused (Svensson, 2001, 55). Again, the SAP commitment to the ATP pension system helped to re-elect the party even when it had increasing tensions with the labour movement.

The financialisation of Swedish economy and pension provision

Financial intermediaries created by the large commercial banks and operating beyond the organised credit market (“disintermediation”) emerged in the 1970s and 1980s for the purpose of circumventing the regulations of the Swedish Central Bank. High-profit engineering firms like ASEA, Alfa-Laval and Volvo had turned to the creation of financial subsidiaries in order to reduce their dependency upon their ‘house banks’ (Olsen, 1991, 128). The SAP governments in the mid- to late 1980s saw no alternative to a liberalisation of the financial system, thus undermining any remaining labour union control over investments. The financial lobby emerged as highly influential in this policy process (Svensson, 2001, 254–270). Policies ensuring financial liberalisation at macro (monetarism, central bank independence, credit and capital controls), meso (principles and values of shareholder value) and micro levels (“embedding” everyday life/households in processes of financialisation through housing, saving/investment/consumption/credit and welfare policy reform, including pension reform) were introduced during the 1980s and early 1990s largely under social democrat leadership. Liberalisation was supposed to increase investment capital flowing into the economy and thus to relieve the state and corporations from financial market exposure, responsibility and budgetary burdens.

The centre-right government of 1991–94, led by Carl Bildt of the neoliberal Moderate Party and strongly supported by SAF, sought for further neoliberal restructuring. Indeed, the Bildt government constructed the most radically neoliberal discourse witnessed so far in Sweden. Neoliberal social forces openly targeted what remained of the ‘Swedish model’ with a discourse of ‘no alternative’. Union interference with the economy, the welfare state and the politically dependent central bank were blamed for the economic crisis. Immediately after the government had come to power, businesses were called upon to exit tripartite cooperative forms indefinitely. (Blyth, 2002, 228–230.) SAF drew up “a detailed plan for the complete privatization of the welfare state by the turn of the century” (Pestoff, 1991, 153). These goals were justified on the grounds of market efficiency and consumer choice, resulting in the establishment of public-private mixes. As private solutions were primarily made

accessible to the affluent, a two-tier system of welfare provision was becoming a fact (Blomqvist, 2004). This indeed increased private savings rates in general (Pettersson, 1993, 26), and in particular raised equity ownership up to 60 per cent of the savings stock by 1994 (Fondbolagens Förening, 2004). The financialisation of everyday life was thus gaining rapid momentum.

The early 1990s also saw the emergence of a more subtle, indeed subversive, form of neoliberalism. Just like TINA neoliberalism, subversive neoliberalism seeks to popularise values of private property rights and market exchange. Growth is understood as driven by global financial markets who reward and discipline economic agency. Yet subversive neoliberalism does so more discretely than the TINA version by not targeting the welfare state aggressively. Instead, it makes use of the welfare state to promote neoliberal values, especially “financialisation”. This has typically been combined with the knowledge-based growth model (Jessop, 2006; Van Apeldoorn, 2009).

This is by no means less effective a strategy particularly in the context of the Swedish model where the welfare state is universalistic, thus affecting the whole of society. On the contrary, Sweden is an extremely fertile environment for subversive neoliberalism – especially when undertaken and defended by social democrats. In the full belief that there is no alternative and continuing to play the role of state manager, Social Democracy becomes both the administrator and the defender of neoliberalism. Its sponsorship of the 1998 pension reform is a significant example here (Lundberg, 2008).

While several key initiatives of the early 1990s can be seen to be in the mould of subversive neoliberalism – including EC membership (see e.g. Bieler, 1999, 2003) – I here focus only on the key initiative of pension reform. The ATP pension system, which already in the mid-1980s had become regarded as a stumbling block to the “international process of deregulation and increased financial sophistication” (SNS Konjunkturråd, 1986, 73) driven by neoliberal forces, was identified as the main target in the privatisation of the welfare system. Pension reform was understood as critical for the deepening of financialisation. The discursive construction of an aging population became absolutely fundamental to the achievement of this objective. Upon the elections in 1992, the centre-right government, firmly supported by a grand coalition of three centre-right parties and SAP, set out to replace the existing public

pension system with a completely new system. However, with its voter credibility so closely associated with the historical values embedded in the old system of substantial redistribution and income security, the co-sponsoring SAP insisted that the new system to be represented as commensurate with such values. This could be done quite convincingly because the new system bore some resemblance to the old one apart from a new funded element. Still, undoubtedly, the new system introduced in 1999 differs radically from the old system (Lundberg, 2008, 16).

The new pension system is a hybrid, three-pillar system. The first pillar is constituted by the means-tested and tax-financed Guarantee Pension (*Garantipension*), which replaced the universalist People's Pension (*Folkpensionen*) of the old system. While the People's Pension was provided as a solid foundation to all pensioners, the Guarantee Pension only kicks in for those whose pensions do not reach the Social Assistance threshold levels of subsistence. Moving away from universalism towards residualism is a typical feature of (neo)liberal welfare systems.

The second pillar is constituted by the Income Pension (*Inkomstpensionen*). Accumulating over the duration of working life and rewarding disproportionately work in the years immediately preceding and after standard retirement age of 65, the Income Pension strongly incentivises a relative extension of working life. As such, it also standardises expectations of the length of working life with no, or limited, consideration of work demands. Moreover, demands on intergenerational solidarity are reduced as there is an automatic adjustment process relating to size and longevity of age cohorts. Such an automatic balancing mechanism also attaches to economic growth (*Bromsen*, or "the brake"), which adjusts benefits to economic growth. Altogether, this new second pillar is no longer intended to provide a normal standard of living, but rather to add insecurity and thus incentivise to increased private savings levels and engagement with the funded third pillar of the system.

The third pillar of the system is arguably the most controversial one in the new system. A seventh of pension contributions, or 2.5 per cent of total individual annual earnings, goes towards building pension savings through the fully actuarial Premium Reserve System (*Premiereservsystemet*, PRS). The PRS exposes individual pensions directly to financial market performance.

Thus a central objective of its introduction is the normalisation of financial market participation. Pension savers can choose up to five among 750 to 800 trust funds operating in accordance with conventional commercial criteria. This “opportunity” is intended to incentivise pension savers to learn how to choose and manage portfolio investments. This process is managed by the Premium Pension Authority (*Premiepensionsmyndigheten*, PPM), which constructs perceptions of risk levels and provides information about individual pension accounts. It has also actively sought to discourage relying on the passive, index-tracking default fund, which manages the savings of those who do not “take advantage” of the fund choice.

All in all, the direct form of financialisation that the PRS ensures, combined with the intended inadequacy of the other two pillars, spells a highly significant qualitative shift toward re-commodification in Sweden. Moreover, redistribution is kept to a bare minimum. Combined with the financialisation of all supplementary pension schemes since the early 1990s, pensions now rather contribute towards than against the increase in inequality (Svenska Dagbladet, 2007). Risks have been radically redistributed from the state and employers to the individual level with relatively lower employers’ fees. The automatic balancing of the system with the introduction of “the brake” in the second pillar and the “actuarialism” in the third has sought to remove pensions from political arenas. Finally, further weakening scope for political intervention, any corporatist steering of investments in the PRS system is effectively undermined as a consequence of the fragmentation of investment decision-making.

As I have argued with Magnus Ryner elsewhere (Belfrage & Ryner, 2009), the 1999 pension reform represented a significant dilution of social democratic principles in a number of respects. Firstly, and most significantly, the reform represents a significant degree of re-commodification, because pension savers become increasingly dependent on a market-determined cash nexus. This was so because, contrary to the old ATP system, the new Income Pension did not – and this was deliberate in the policy – guarantee a normal standard of living, hence making the pension saver dependent on the purely actuarial and market-oriented PRS as well as additional voluntary savings. Secondly, the universal and flat-rate People’s Pension was replaced by the means-test based

Guarantee Pension, introducing a significant element of stratification. In addition, the increased reliance on highly capitalised security markets has divested the pensions system of any potential role in corporatist steering.

Arguably, the Swedish pension reform is not a new type of pension formula, but rather a novel pension policy instrument designed to obscure the shift in underpinning values and norms from typically oppositional actors in the electoral base, particularly the labour and pensioners' organisations (Cichon, 1999, 1; Myles & Pierson, 2001; Lundberg 2003). Indeed, the Swedish pension reform was a distinct elite project under the auspices of a coalition of the main political parties very much including the social democrats, who excluded such organisations from the design process and kept the opportunities for public debate small (Lundberg, 2003). The adoption of the new system is intended to generate "a new 'zeitgeist'" in the economy (Cichon, 2005, 1). Risk sharing and collectively agreed norms of fairness are done away with and replaced by risk privatisation and "actuarial fairness" (World Bank, 2001, 1; Lundberg, 2003).

Shortly after the legislation of the reform, the social democrats returned to office in 1994, drawing on traditional social democratic imagery to represent itself as the defender of the welfare state. Successful in this endeavour, its return was "interpreted in Sweden as [...] a fierce determination among the voters to protect the extensive welfare system, which came under sustained attack during Bildt's tenure" (Blyth, 2002, 236). Using a very different, sometimes seemingly radical, language to legitimate its policies, SAP nevertheless rerouted neoliberalism onto a more clearly subversive neoliberal path. This based on a new discourse celebrating notions of human capital and the rational investor in the new knowledge-based economy as rendering the critique of capitalism unnecessary with labour now endogenously owning the means of production and capable of rational financial management (Andersson, 2007).

Soon, the role of the state was reconceived as the so-called social investment state (Giddens, 1998; Jenson & Saint-Martin, 2003b), with which security was redefined to refer to the capacity to face risks in the market, not protection from such risks. The social investment approach has involved the 'disciplinisation' of labour through the promotion of flexible labour (qua labour markets, e.g. flexicurity) and financialisation of everyday life. The new

attitudes and practices required by labour were even sometimes represented in terms of play: continuous learning, flexibility and adaptability like when playing with LEGO. Like with LEGO, the attitudes and practices required to play in life have now to be learnt intuitively – that is, without any direct public investment and by incentivising individuals to activate themselves and to build up human and social capital (Jenson & Saint-Martin, 2003a, 15).

THE CONSEQUENCES OF FINANCIALISATION FOR SOCIAL DEMOCRATIC POLITICS: REPHRASING THE SWEDISH QUESTION

The Swedish party political convergence around the objective of a finance-led knowledge-based economy emerged around a symbiotic relationship between finance-led growth (see Boyer, 2000), active labour market policy and “modernised” welfare systems with a cultural ethic of self-responsibilisation. The pension reform arguably set the tone for subversive neoliberalism in Sweden. Yet it is far from clear whether Subversive Neoliberalism has been successful in universalising neoliberal norms and values, and thus in undermining social democratic politics in the future. Blyth’s (2002, 246) ‘Swedish question’ – “will the lack of public support for neoliberal ideas and the policies they augur prevent their consolidation or will such an order be constructed despite the wishes of the majority?” – is in a dangerous manner potentially overstressing the power of political elites and neglects popular resistance to elite projects.

Indeed, governments formulating policies in the mould of subversive neoliberalism are fully aware of how severely punished they can be at the polls. This is the case especially with big welfare transfer systems like pension systems over which trade unions and other stakeholders hold powerful sway both in terms of management and public opinion (e.g. Pierson, 1995). In Sweden, which is generally recognized as the advanced capitalist society with the highest degree of mobilisation of organised labour and has a hegemonic social-democratic ideology and welfare policy regime, taking potential resistance seriously in neoliberal policy-making is crucial (Belfrage & Ryner, 2009).

The embrace of subversive neoliberalism and financialisation has led to a situation in which the meanings of Swedish Social Democracy and of being a Swedish social democrat have been severely diluted. The leading centre-right

party, the Moderate Party, has sought to take advantage of this dilution by establishing itself as “the new labour party” and have done so with considerable success. It has abandoned TINA type neoliberalism and bought into the subversive approach by for instance claiming to defend the welfare state and merely modernising it. Certainly, the financialisation of the welfare state serves the purpose of commodifying labour, which is in perfect line with neoliberalism and which implies that the welfare state becomes a vehicle for promoting neoliberalism. The Moderate Party has, partly as a consequence of the abovementioned claim, made considerable inroads into previously Social Democratic constituencies and thus won two consecutive elections (in 2006 and 2010).

That said, the universalism of financialisation in Sweden has not created the desired effects benefitting all but rather created stronger social divisions. As a central example, the pension system has not successfully normalised financial market investment – certainly not in any universal manner. Although the new pension system has produced a society in which financial market investment is prevalent, it has not brought about a ‘mass investment culture’, in which daily interaction with financial markets is “commonsensical” or an acceptable part of everyday life to most (see Harmes, 2001). The ‘active’ participation rates in the PRS system do not testify to such a development. This shows the limits of the Swedish subversive neoliberal project – at this point of time, at least.

The PPM chief economist Daniel Barr (2008) admitted right before the 2008 financial crisis that the active involvement of Swedish daily life into circuits of financial capital is limited to around twenty per cent of the Swedish population. The large majority of pension savers are instead remaining ‘passive’, index-tracking investors “committing” their savings to the 7th AP fund, the default fund. This group corresponds largely with the constituencies from which SAP mobilises its voters: women, working and lower middle class living in the semi-urban hinterland (Belfrage & Ryner 2009, 280). Those who are ‘active’ tend to be those who are the most confident in their financial literacy. This is the typical middle class suburban Centre-Right voter. Thus the deployment of the new system seems to have reinforced growing societal divisions rather than universalising the commitment to neoliberalism (Belfrage, 2008).

The de-commodifying welfare provision remains very popular and values of solidarity and equality of outcome are held in high esteem in Sweden. This may present a lifeline, albeit thin, for Social Democracy. As the societal divisions become more apparent, the subversive neoliberalism may backfire if any of the political parties in the grand coalition sponsoring that removes the commitment to the system a serious political move. SAP could make an “apology” for its neoliberalisation, a symbolic launch of a left-turn in its politics. Indeed, SAP has in the last few years made noise about its discomfort in the sponsoring coalition. In July 2006, in the mid-stage of the election campaign, former SAP Prime Minister Göran Persson (2006) stated that the new pension system had to be critically revisited in order to address the growing injustices within it. Two years earlier, the SAP Finance Minister Pär Nuder had provocatively stated that the large “40s generation” was going to cause considerable problems to subsequent generations given the large pension expenditures expected and the automatic adjustment this was going to trigger (Expressen, 2004). There seems still to be scope for SAP to credibly make the move.

Turning against subversive neoliberalism by re-politicising financialisation?

“The new pension system has now been in operation for more than a decade. In some sense, the system has proven successful, in other ways it has shown to have disadvantages. It is too vulnerable during dips in economic growth, which the repeated kicking in of “the brake” has shown during recent years. Pensions have become too small while administrative costs have increased at the same time. Class divisions grow among the elderly as demands on longevity of contribution are strengthened and impact on pension levels. Fundamentally, the system is underfinanced. The system must now be evaluated, its funding strengthened and be made more fair.” (SAP, 2011, 18; my translation)

In lieu of a conclusion, I would like to discuss recent developments in SAP politics, in specific those relating to the pension system in the context of the financial crisis and indirectly in relation to financialisation and subversive

neoliberalism. At this difficult moment for Social Democracy in Europe in general and in its Swedish heartland in particular, distancing from subversive neoliberalism promises to be the only way for Social Democracy to reconstruct its identity and electoral foundation. Turning against the current pension system would be the ideal move to do so. If pensions could play a central role in ensuring SAP popular support during its glory days, maybe pensions can return some of that glory now. If it is a high time to re-politicise financialisation why not start with pensions.

As I argued in 2008, right before the outbreak of global financial crisis, popular responses to financialisation may in the context of great instability on global financial markets increasingly contribute to the outcome of Swedish electoral politics in the near future. As I have argued in this paper, subversive neoliberalism was to a large extent about the subtle de-politicisation of financialisation, about the normalisation of everyday finance and about connecting the size of household wallets to financial outcomes. For the rejuvenation of Social Democratic politics, it would seem promising to take advantage of the financial crisis and the simmering discontent the impact of financial markets.

While SAP remained reluctant to do much more than revisit aspects of the design of “the brake” in 2011 as a member of the “grand coalition”, more noise has recently been made. Indeed, the SAP Crisis Commission stated (cited above) in March 2011 that the pension system was unfair, divisive and under-financed. However, formulating pension politics that are capable of gaining substantial support is a complex matter because pensions themselves are complicated. Indeed, I argue here that to be successful in this endeavour, SAP politics must cultivate critical financial literacy that re-politicises the pension system. It should aim at constructing new forms of solidarity around a critical knowledge of finance. This can subsequently serve as a platform for the rejuvenation of social democratic politics. The crisis is an opportunity because it has brought about anger, a critical attitude to and a thirst for knowledge about rather than exuberance or indifference in the face of finance. Social Democratic politics has to intervene and do so in a manner that informs an understanding of finance as underpinning commodification in the first place: as a force deeply commodifying and destroying social cohesion, which undermines social democratic politics.

“Financial literacy”, not least in the form constructed by PPM in relation to the pension system, was represented as a politically neutral issue, simply as the knowledge required to make the best choice between the mutual funds participating in the PRS. Financial literacy was rolled out by means of incentivisation to choose from a large range of financial services with some basic information and steering mechanisms, of shaming those who did not frequently trade and of “nudging” pension savers in the right direction according to self-constructed risk profiles into an enormous choice (over 2 million targets and funds). This is not politically neutral. It seeks to construct a mass investment culture populated by day traders (Belfrage, 2008; Belfrage & Ryner, 2009).

Social Democracy should not continue to sponsor the construction of this “neutral” policy of financial literacy intended to promote neoliberalisation, but rather question it. It should ask the questions of how the Swedish pension system produces unfair pensions and forms an integral part of subversive neoliberalism and financialisation. It should further ask why it was set up to do so. On the one hand, these are uncomfortable questions to ask for Social Democracy because the answers will implicate it in the neoliberalisation of the Swedish economy. On the other hand, it may enable it to reconstruct its identity and its electoral foundation in a period of financial upheaval, which it is considerably better positioned to manage than its Centre-Right competitors.

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6.



Tripartite political exchange and the Finnish social model

ANTTI ALAJA

INTRODUCTION

The Finnish model of labour market bargaining has been characterised by centralised and comprehensive incomes policy agreements starting from the late 1960s. This era of centralised incomes policy was believed to come to an end in 2006 when the Confederation of Finnish Industries (*Elinkeinoelämän keskusliitto, EK*) announced that it would no longer negotiate over comprehensive incomes policy agreements. Yet the institution demonstrated its elasticity again in October 2011, as the labour market parties declared that they have settled for a new comprehensive agreement. Incomes policy has been a central part of the Finnish models of social risk-sharing and of governance of social risk management most importantly because the tripartite policy-makers have not only agreed on wages and tripartite exchange also influenced much more general level economic and social policies. Incomes policy agreements have typically combined wage bargaining and collective wage agreements with changes in taxation, education policy, earnings-based unemployment insurance and pensions, unemployment benefits, work protection or even housing conditions.

The idea of incomes policy agreements was adapted to the Finnish debate from Western European countries over the 1960s. Incomes policy was especially presented as a tool for macroeconomic stabilisation. The economic context of the first incomes policy agreement (*Liinamaa I* in 1969) was the significant devaluation (31 per cent) of the Finnish currency *markka* in 1967. The aim of the incomes policy was to guarantee competitiveness of the export sector, to curb inflation and to stabilise the economic development and wage share. Jäntti et al. (2006) refer here to Finnish “devaluation cycles”, which occurred in 10-year intervals (1949, 1957, 1967 and 1977–1980). From 1967 onwards, the decisions to devalue were combined with incomes policy agreements which moderated the wage growth for two or three years.¹⁰ Pohjola (1995) sees that the incomes policy structures were designed to support the Finnish growth model. The post-war growth model in Finland was based on a high investment rate in key manufacturing sectors, high savings rate and credit rationing.

Although the economic policy rationale for incomes policy agreements was based on macroeconomic foundations, it is not the topic of this chapter. In contrast, this chapter emphasises the idea that the institution of Finnish incomes policy agreements created leverage for political exchange, which thus have had a profound impact on the balance of power and structures of the Finnish social model. The importance of this dynamic institution has indeed been extremely high in terms of both policies and politics. For example of the former, Kiander et al. (2009) have portrayed the Finnish incomes policy as institutionalised tripartite co-operation between the labour market organisations (or labour market parties) and the government, which has, among other things, fostered social capital formation in Finland. For example of the latter, the significance of centralised bargaining is well demonstrated by the fact that during the period from 1969 to 2007, the number of wage settlements made (in contrast to central agreements) at the sector level was only seven – all of them signed for one year only (Asplund, 2007).

One of the key ideas of the model was that the compromise in the tripartite negotiations would represent the “general interest” over “special interests”. The

¹⁰ A wage-norm was widely adopted, which outlined that nominal wage growth should match the rise of labour productivity. As Sauramo (2004) has emphasised, the real labour market development did not always follow the theoretical wage norms.

incomes policy has indeed been interpreted to represent the idea of parity in the Finnish society, the symmetry of power between capital and labour (Ket-tunen, 2009). Although the role of the state in incomes policy has historically been stronger in Finland than in case of Sweden for example, as Sauramo (2004) argues, the tripartite agreements were of highest political importance *for the state*. In the 1970s for example, the prime minister or even the president could take a direct active role in the negotiations.

The purpose of this chapter is to demonstrate the importance of the tri-partite political exchange and incomes policy agreements for the Finnish social risk-sharing model, social capital formation and the mobilisation of power resources. To an older generation of labour market economists and welfare state researchers, this kind of starting point is hardly anything new. The Finnish economic and social history literature has already much dealt with the relation between labour market bargaining and social policy reforms. The history of the Finnish social security has been even read as an “extension of social wage” because so many reforms on social security were agreed in incomes policy negotiations (see Kiander et al., 2009). Regarding the current Finnish political debate on the welfare state, however, the historical institutional structures, confrontations and political contingencies are widely undermined. To a younger generation of Finns, the welfare state institutions and mechanisms just “are”. There is too little awareness of the processes that initially led to collective risk-sharing institutions that are considered to be part of the “praised Finnish model” of risk-sharing today.¹¹

It is, of course, out the scope for any single article to provide any in-depth and detailed social history of the era of central incomes policy. Rather, the aim here is only to underline the importance of the incomes policy agreements for the historical development of the Finnish social model. The reason for this is that the history of this institution is often undermined in interna-

¹¹ For example, the Research Institute of the Finnish Economy (ETLA) published in 2007 an influential study on the Nordic Model (Andersen et al., 2007). Its basic premise and definition of the Nordic model is that the collective risk-sharing institutions provided by the welfare state enhance globalisation and adjustment to structural change. This definition is widely shared in the current Finnish debates, and the line of argumentation starting from this point is commonly used to legitimate the welfare state.

tional debates. According to Bergholm (2009), the comparative international debates still portray the Finnish social risk-sharing and collective bargaining arrangements as one of a “junior” Nordic country. Following the Swedish historical experience, many analyses refer to a Nordic model that has been built around the strong parliamentary position of the Social Democratic Party. The Finnish model, however, has been typically more shaped by the tripartite corporate political exchange than other “Nordic models” because of the weaker position of social democracy in the parliament. The incomes policy institutions have been central in strengthening the structural position of the labour movement in the Finnish society.

In the following section of this chapter, it is described how the general incomes policy agreements structurally shaped the Finnish model in the era of welfare state expansion from the late 1960s until the late 1980s. In the 1970s and 1980s labour unions were able to promote welfare reforms as a part of the incomes policy deals. “Social wage” was exchanged for modest pay increases. Significant work-life legislation was introduced and work-time was also shortened during this period. Overall, Finland experienced the era of welfare state expansion. The content of the incomes policy changed in the 1990s as the new economic and growth paradigm emerged. This is the topic of the third section of this chapter. The paradigm shift in economic and social policy was driven by European integration, neoliberal ideological change, and the deep depression in the early 1990s. The era of incomes policy started in 1968 and seemingly came to an end in 2007 at latest. The last section of the chapter provides an overview on how the long-lived institutional continuity produced new forms and different outcomes in the changing economic and political contexts.

THE EMERGENCE OF SOCIAL CORPORATISM

As emphasised by Jäntti et al. (2006), the post-war economic policy in Finland was strongly influenced by President Urho Kekkonen’s (1952) pamphlet *Has our country the patience to prosper? (Onko maallamme malttia vaurastua?)*. Kekkonen proposed that Finland should adopt a state-led investment program in productive means. A high investment rate in key manufacturing sec-

tors, high savings rate and credit rationing were indeed typical characteristics of the Finnish growth model in the post-war decades. State-interventionist industrial policy was of course typical to all of the Nordic countries but the Finnish policies were even more interventionist than in the Swedish or Danish models. The Finnish growth model of the 1940s and 1950s was based on “pragmatic interventionism and co-operation between the state and the private actors” and the growth model acquired a “conservative character” (Jäntti et al., 2006). According to Pohjola (1995), the Finnish corporatist model was based on the policy coordination between the state and the businesses while the trade unions were weak and divided.

Several studies have emphasised that the nature of the post-war class compromise in Finland has been weaker in Finland than in other Nordic countries. In the 1940s and 1950s governments often reacted to economic fluctuations with pro-cyclical fiscal policy and the whole welfare state development progressed later than in other Nordic countries (Mjøset, 1987). The civil war of 1918 was certainly a major cause for the late development of the welfare state and tripartite corporatism, as the employer-side refused to acknowledge the bargaining rights of the trade unions during the inter-war era. A new era of more collaborative industrial relations emerged in 1940, as the labour market organizations acknowledged each other as bargaining parties (Ministry of Labour, 2011). Still, the labour movement was internally divided and employers still conceived the wage bargaining process as a zero sum game in the 1940s and 1950s (Bergholm, 2009). The agrarian interests were also powerful in shaping the Finnish policies, because of late industrialisation and the strong parliamentary position of the Centre party (Andersson et al, 1993)

New systems for wage-bargaining developed already in the 1940s and 1950s. Bergholm (2009) has traced the birth of a new kind of political exchange and understanding between the labour market parties to the late 1950s and early 1960s, especially underlining the importance of the earnings-related pension scheme of 1961¹², which “completed the process of class compromise” that had already taken steps forward in the late 1950s. Employer and employee organisations, as well as the Social Democratic party and the bourgeois par-

¹² *The national basic pension scheme had been established in 1956, which gave labour market parties an incentive to start working for a new earnings-related pension scheme.*

ties, cooperated closely during the pension reform process. Employers and employees had already been able to find a compromise concerning the unemployment insurance reform in 1959–1960, but this was only after the general unemployment reform had failed earlier in the parliament. The reform processes of the late 1950s and early 1960s established Gent-style unemployment insurance funds and decentralised private pension insurance companies with paritarian control.

Earnings-based pension and unemployment insurance institutions have shaped the Finnish model for more than 50 years now. The reforms also paved way for further tripartite political exchange and social corporatism. The Finnish employers were not always that eager about centralised wage negotiations, but as the power of the left in the Finnish society increased, the employer-side became more willing to accept collective bargaining (Kettunen, 2009a). The election victory of the Social Democratic Party in 1966 and the radicalised young generation further shifted balance towards the left. The power of the left forced the employers to seek cooperation and common standpoints. However, for many in the far left, the general incomes policy represented a rather negative “class compromise”. Other critics pointed out that the tripartite cooperation might undermine the parliament in decision-making processes.

Kettunen (2011) has argued that the ideas of parity and virtuous circle of economic and social development were important guidelines for the Nordic development in general in the post-war era. The influential *Vordenker* of the Finnish welfare state, Pekka Kuusi, believed that economic and social development were to be closely interlinked. This idea was dominant in Kuusi’s classic book *The social policy of the 60s (60-luvun sosiaalipolitiikka)*. The economic, social and human sphere would accumulate to wider progress. Kuusi’s thinking was influenced by Gunnar Myrdal’s notion of ‘circular and cumulative causation’. Unlike in Sweden, where policy makers were conceptually referring to the Swedish Third Way between communism and capitalism, the Finnish welfare state thinking was inclined to depoliticise social policy (Kettunen, 2001). The Cold War confrontation was perhaps important but this was not emphasised too much in the public debates. Instead, authors like Kuusi portrayed social policies in terms of pragmatic adjustment, modernisation

and national unification. The idea of parity in the labour market was part of this wider process.

The transition to comprehensive incomes policy agreements in the late 1960s strengthened the Nordic tradition and social capital formation in the Finnish society. Finnish incomes policy structures can be perceived to be, following Bo Rothstein's concept, "organised social capital".¹³ The political shift to incomes policy agreements can be interpreted, as Kiander et al. (2009) have done, to have brought the Finnish economy and society closer to the "Nordic standard of development". As Kettunen (2009) has further pointed out, Sweden was portrayed to represent the "future of the Finnish society" already in the 1930s. Though Finland's road to *Norden* and to becoming a "Nordic democracy" turned out to be a long one. The example of the Western countries and particularly the Nordic neighbours paved the way for general incomes policy in Finland and the politics of Nordic comparison has indeed played a central role.

The emergence of the era of incomes policy agreements can be portrayed as a part of a more wide-ranging transition to *konsensusyhteiskunta*, a culture of consensus typical to Finland. According to Saari (2006, 112–113), in addition to incomes policy, the transition to the culture of consensual politics was also fostered by the stabilisation of the political system. Prime Minister Kalevi Sorsa initiated the famous Korpilampi conference, where different interest groups and actors across the political spectrum sought for common understanding in 1977. After 1983, Finnish governments have typically served a full term. In the mainstream debate the consensual cultures of politics and policy making are still typically seen as a source of national competitive strength. The tripartite political exchange is legitimated through the benefits of consensus. Pekkarinen (1990) has emphasised incomes policy as a political tool that can potentially prevent negative externalities because it enables the trade unions to put general interest over special interests.

13 *Organised social capital basically refers to the trust between organisations.*

Interplay between wage-work, social citizenship and universalism

The new structure of Finnish industrial relations, social corporatism and incomes policy agreements reflected a new kind of power balance in the Finnish society. The new kind of understanding between the labour market parties in the early 1960s and the historical shift to the era of incomes policy agreements in 1968 had indeed strengthened the position of the weaker side in the labour market, the employees.¹⁴ The political exchange of the labour market parties became politically essential for the Finnish institutions of social risk-sharing during the classic incomes policy era and welfare state expansion from the late 1960s to the late 1980s. The focus of the analysis here is on the structural development of earnings-related social security and interplay between wage-work, social rights and universalism in the process.

According to Rahkola (2010), centralised wage setting and earnings-related social insurance are the core competencies of traditional Finnish tripartite political exchange structures and they also significantly affect the working life legislation.¹⁵ Especially the earnings-related pensions, unemployment insurance¹⁶, work-injury insurance, sickness insurance¹⁷ and family ben-

14 The “weakness” of employees derives from the fact that at the work-floor level, it is the employer side that organises the work and always has the first-place right to interpretation in cases of conflicts of interest.

15 Many of the rights of workers have been firstly negotiated on the co-ordinated incomes policy tables or even sectoral union tables but have later become parts of legislation. It is hence well founded proposition to state that the Finnish income policy model has been a crucial tool in making Finnish working market better functioning and more equal, step by step.

16 Basic schemes, such as basic unemployment allowance, guarantee minimum income, whereas the earnings-based unemployment allowance is based on insurance-principle. The precondition to receive earning-based unemployment allowance has considered to be a union membership (membership contributions which are tax deductible) and changing “employment condition”. Strictly speaking, it is always (by law) possible to join only the unemployment fund and only pay for the fund fees. The amount of earnings-related pension depended, until recently, on final salary. Various reforms were advanced in the 1980s, which stabilized the roles of the national and earnings-related pension schemes basic unemployment allowance and earnings-based unemployment allowance.

17 In 1981, the labour market parties agreed on sickness allowance and accident and motor insurance as part of the comprehensive incomes policy deal. The level of compensation was improved and the sickness allowance became taxable. (Niemelä & Salminen, 2006)

efits have been generated in the tripartite negotiations. The reinforced role of the labour market parties in the 1960s and the rise of the Social Democrats to a stronger parliamentary position created preconditions for an era of labour market-driven social policy. The establishment of earnings-related pension scheme and unemployment funds administered by the trade unions laid the foundations for the “Finnish class compromise”. These reforms, in addition to sickness insurance, meant no less than the emergence of modern social insurance in Finland. The development of earnings-related social security was given a priority. (Niemelä & Salminen, 2006.)

The structural tension between “insiders and outsiders” deriving from the establishment of decentralised earnings-related insurance schemes and universalistic welfare schemes has characterised the Finnish social model since the beginning of tripartite political exchange. The Social Democratic Party and the Centre Party were the central party political forces in the building process of the welfare state. Social Democratic Party has historically prioritised comprehensive but not catch-all social insurance and welfare services supporting wage labour, whereas the Centre Party has prioritised universalistic schemes (Haataja et al., 2010). In the recent Nordic history of social policy, there are indeed two parallel reinforcing and mutually relating principles at work: the idea of universalist social rights based on citizenship, the idea of workfare, or the normalcy of wage-labour. The Finnish understanding of work and social rights cannot be thus reduced to polarity between commodification and decommodification. (Kananen, 2011.)

The principles of workfare and social citizenship can be best seen in play in the earnings-related pension scheme and unemployment insurance. Earnings-related systems have developed social rights around the institutions of – preferably full-time and continuous – wage-labour and the insurance principle. However, the principles have been combined elsewhere in legislation as well. The labour market parties reached an understanding on the rather all-encompassing Occupational Safety and Health Act in the tripartite negotiations of 1970.¹⁸ The original purpose of this legislation was to protect workers from work-related accidents and diseases (Leppo, 2010). Even the development of universalistic social and health services run by local authorities have

¹⁸ *The act came into force in 1978.*

not thus only served the principle of universalism but also the normalisation of wage-labour. The Act on Children's Day Care, in which quite similar combination of the two principles can be found, was passed in the parliament a bit later in 1973.

It must be noted that workfare should not be understood as a static principle here. For example, the goal of shortening working time was a significant part of tripartite strategies to improve the quality of working life during the period of welfare expansion. Labour market organisations agreed on the five day and 40 hour working week in the mid-1960s. The shortening of the working time was carried on in the golden era of incomes policy agreements in 1968–1988, when the working time was decreased primarily with holiday arrangements and with shortening the weekly working time. The so-called UKK agreement, initiated by President Kekkonen in 1971, guaranteed a 4-week annual holiday for wage earners. In 1979 it was agreed that the right to winter holiday should be broadened. Working time decreased steadily, as average annual hours per worker decreased by 10.2 per cent between 1970 and 1994. (Kiander, 1999; Kiander et al., 2009.)

INCOMES POLICY AND RE-NEGOTIATION OF THE POST-WAR SETTLEMENT IN THE 1990s

Incomes policy agreements have provided institutional continuity and stability, which is often considered a most positive characteristic in the Finnish model. The analyses based on institutional continuity are with no doubt useful but sometimes these kinds of approaches tend to overemphasise the path-dependency of economic and social policies. In Finland, the comprehensive incomes policy institution has produced quite different policy outcomes in different historical periods and in different economic and social contexts. The great depression of the early 1990s was the worst in Finnish history since the 1930s and it generally signified a major turning point in the Finnish societal development. In the early 1990s, Finland, Sweden and Denmark all witnessed a renegotiation period of the post-war collectivist order (Kananen, 2011). The direction of Finnish economic and social policy changed drastically, as presented for example by Julkunen (2001).

The Finnish employer side reacted to the severe economic crisis with wide-ranging reform proposals. In the fall of 1992, the Finnish Employers' Confederation (*Suomen Työnantajain Keskusliitto*, STK) published a list of demands that aimed to reduce the labour costs radically, by 20 per cent. The trade unions quickly dubbed the demands as "The Satanic Verses" after Salman Rushdie's novel. (Vuoristo, 1998.) Esko Aho, the Prime Minister of the centre-right coalition government of 1991–1995, was promoting the view that in the future, the labour market organisations should only focus on wage policies and let the government and the central bank solely decide on all monetary and fiscal policy. Labour unions counteracted effectively and the plans to break the old corporatist model failed. (Kosonen, 1998.) The most radical reforms were not realised but some of the pension and unemployment funding was transferred to the wage earners and a wage freeze policy was adopted for two years. The employer side and the Centre Party did not succeed in breaking down neither the earnings-related social security with corporatist structures nor the corporatist model more generally.

The newly elected government led by the social democratic Prime Minister Paavo Lipponen initiated comprehensive incomes policy agreements for the years 1996–1997, 1998–1999, 2001–2002, 2002–2004, and 2005–2007. The Social Democratic Party and the Left Alliance were parts of the broad rainbow government coalition and they were motivated to further strengthen the tripartite structures (Kiander et al., 2009). The comprehensive incomes policy structures guaranteed that wage growth was to become slower than productivity growth, which contributed to the decline of the wage share in the functional income distribution. Combination of wage moderation, low interest rates and devaluation of the early 1990s was seen to contribute to growth. (Pehkonen, 2002.) At the same time, however, the internationalisation of the Finnish companies meant that labour movement was not able to combine working time reductions with wage moderation, which had been the case in the 1970s and 1980s. Finland experienced a period of strong export-led growth in the late 1990s, which was led by Nokia and the booming ICT sector.

In the late 1990s, the Finnish economy recovered with export-led growth but the wider social legacy of the Finnish policies of 1990s turned out to be more problematic. Julkunen (2001) has stressed that after the era of welfare

state expansion in the 1970s and 1980s Finland entered during the 1990s crisis an era of post-expansive welfare state development. Both the right-wing coalition (1991–1995) and the broad rainbow coalition (1995–1999) governments introduced policies which led to welfare state retrenchment. The rainbow government introduced tough budget consolidation policies in 1995 in order to meet the EMU criteria and to take new steps in Western integration. The state subsidies for the municipalities were cut.¹⁹ The governments also introduced a bulk of cuts in the incomes transfer sphere.²⁰ (Kautto, 2000.) The cuts in the universalistic minimum benefits reflected a new supply-side orientation in the Finnish labour market policy (Kananen, 2011). The volume of the welfare sector cuts was most drastic in the earnings-related pensions system (see Kiander et al., 2009).

The unemployment rate had exploded to around 20 per cent in 1993 and the unemployment rate was persistently over 10 per cent throughout the latter part of the 1990s. High long-term unemployment became a permanent phenomenon in the Finnish labour market development. The economic policy of the 1990s has indeed been criticised for adjusting the economic imbalances (account deficit, the risk of inflation, labour costs) through unemployment. The policy of strong *markka* had opposed the floating the currency and devaluations until the fall of 1992. The adopted pro-cyclical monetary and fiscal policies not only increased unemployment but they also left the public debt problems unsolved. The political elites saw the balancing of the account deficit as a political priority over employment. As Kiander (2001) has underlined, raising the unemployment rate proved to be very easy but lowering the rate proved out to be much more difficult, as seen in the late 1990s.

In the 1970s and the 1980s the tripartite political exchange had often led to welfare state expansion. Employees received social rights in exchange for

¹⁹ *In the Finnish system the municipalities are legally responsible for providing the welfare services.*

²⁰ *Kautto (2000, 44–45) emphasises that Sweden took a more balanced approach to budget consolidation, as the consolidation programme was based nearly half-on-half on tax increases and cuts in expenditures. The social policy cuts were absolutely and relatively higher in Finland. Both of the countries were successful in balancing their budgets, but overall the unemployment level was significantly lower in Sweden in the 1990s.*

wage moderation. The economic and political context of the 1990s, on the other hand, was characterised by banking crisis, economic depression, capital market liberalisation and neoliberal ideological pressures towards the welfare state. True, the political left and the trade unions were able to counteract the neoliberal pressures to break the corporatist structures, but the economic context of the 1990s meant that the tripartite political exchange produced very different kind of policy outcomes than in the “classic” era of incomes policy. Wage moderation for example became linked with income tax reductions at all income levels, which previously could hardly have been the case in tripartite negotiations. Kosonen (1998) has gone as far as to argue that the institution of social corporatism and incomes policy acted as a guarantee for welfare sector cuts in the late 1990s. The political elite portrayed the cutbacks as necessary evil because the financial markets had almost lost confidence in Finland’s solvency in 1992. The high unemployment and welfare sector cutbacks reflected the new balance of power in the labour market bargaining: the labour side was forced to go on the defensive.

Incomes policy, competition state paradigm and the excluded

In 2007, the new central employer organisation, the Confederation of Finnish Industries (*Elinkeinoelämän keskusliitto*, EK), published its labour market and wage policy guidelines, which outlined that there will be no continuation for comprehensive incomes policy agreements, which had been a well-recognised intention already since late 1960s. The employer side claimed that globalisation and the internationalisation of the Finnish businesses had made the centralised incomes policy agreements outdated. The employers saw no reason for compromise with the labour unions anymore. The economic policy interest of the employer side is now focused on keeping the price of labour as cheap as possible.²¹ In social policy, the main aim has been to reduce employer

²¹ In addition, for example Alho (2009) has argued that centralised incomes policy and solidaristic wage policies have led to a situation where high labour productivity is not recognised in salaries and especially low labour productivity is overvalued. In this line of reasoning, more flexibility is needed in order to safeguard national competitiveness and to guarantee growth in employment rates.

contributions. The liberalisation of the capital markets and the globalisation of the production have been mobilised to argue for weakening the bargaining power of the trade unions and for strengthening the employer side.

Many initiatives have come since then from the employers. In the title of his study published by the Finnish Business and Policy Forum (*Elinkeinoelämän valtuuskunta*, EVA), the self-titled “policy and pro-market think tank” of the Finnish business community, Korkman (2007) asked: do incomes policies in Finland have a future? Korkman argued that the Finnish labour market model has worked fairly well due to the close cooperation between labour market organisations. On the other hand, Korkman also argued that the Finnish labour markets functioned poorly in relation to other Nordic countries. He sketches a shift towards more decentralised system of wage formation inspired by globalisation and greater correspondence between wages and productivity. Somewhat paradoxically, Korkman would prefer the labour market organisations to negotiate “industrial peace” at a centralised level yet negotiating wage levels on a sectoral or local level.

The discussions on the global economic competition have strengthened the notion of “competitiveness” in the Finnish public debate. The concept of the competition state describes how “the states are transformed by national responses to globalisation” (Kettunen, 2011, 17). Albeit that the notion of competitiveness has always been a central characteristic of the Finnish economic and social model it has become essential after the mid-90s. The competition state discourse includes a nationalist flavour that defines the interests of the “economy” or the “general interest” as the interest of the employer side. Given this discourse, the trade unions have to be careful in their demands if they aim to “safeguard Finnish competitiveness and Finnish jobs”. The global competition state perspective emphasises the notion of “us” in the global competition and how we must reform “our system” in order to perform in the global markets. The social risk of losing national competitiveness has become a dominant social risk in the public debate: a risk that subsumes all other social risks. When the employer side is able to successfully represent its interest as a general interest – “our competitiveness in the global markets” – the political exchange between the labour market parties makes less sense.

In addition to the challenges posed by the globalised business and neo-liberals, the tripartite system has been challenged by the New Left and the Finnish Green movement. The claim is that the traditional labour movement has been unable to analyse and counteract the precarisation in the Finnish labour market. The analysis is often built around the notion that the incomes policy, the tripartite political exchange and the earnings-based schemes mostly represent the organised and well-established parts of wage earners. The structural exclusion of the unemployed and less organised interests in tripartite negotiations have led to a system in which the earnings-based social security is given a priority over universalistic schemes. Introduction of a Basic Income has been the most visible social policy demand of the new movement. The fact that Finland has become more unequal society since 1990s depression has further strengthened the thesis that the tripartite political exchange has not benefited everyone. A key aspect of the rise in income inequality since the mid-1990s has been the dramatic jump in incomes in the top one per cent of the population, albeit that the poverty rates also doubled from the mid-1990s to 2006 (Riihelä, 2009).

The approaches defending the tripartite structures and comprehensive settlements have stressed that the weakened tripartite cooperation might lead to a situation where only the employers would have the policy initiative and labour unions would assume a purely reactive role in the labour market system. In this scenario, the labour unions would only try to counteract the trends of welfare state retrenchment and the worsening of labour market conditions. The decentralised wage bargaining model also bears the risk that the new sectoral or local wage-bargaining model will overemphasise the role of nominal wage increases over stability, employment, “social wage” and the quality of working life. The question remains, for example, that if the labour movement is able to put enough pressure to promote working life improvements, will they be tied to the wage bargaining process or not. The question of the quality of working life is very important policy question for Finland for the coming years, as there is a wide-ranging political consensus to rise the real pension age in Finland in order to improve the state of the public finances. The labour movement has emphasised that raising the retirement age must be handled through improvements in the quality of the working life.

CONCLUSIONS: THE SURPRISING NON-DEATH OF FINNISH INCOMES POLICY TRADITION

During 2007–2011 Finland was governed by a centre-right coalition government and the return to the era of comprehensive incomes policy agreements seemed quite unlikely. The employer side EK declared frequently that it would prefer wage bargaining at a sectoral or even at a local firm-by-firm level. This all changed when the new rainbow coalition government took office in June 2011. The government consisted of the National Coalition Party and the Social Democratic Party and four smaller parties across the political spectrum. The government and the newly elected social democratic Finance Minister Jutta Urpilainen spoke strongly for the policy of comprehensive incomes policy agreements, which could bring stability and predictability to the labour market development, and which would benefit the wage earners, business sector as well as the consumers. The government indicated that it would be ready to consider tax incentives in exchange for moderate wage settlement.

Eventually, the government initiative was able to bring EK and the labour union confederations back to the table to negotiate over comprehensive agreements in the autumn of 2011. On September 13th, it was announced that the three main labour confederations and EK have found an agreement on comprehensive incomes policy settlement. The framework settlement is being applied at a sectoral level in various industries by the time of writing this chapter. The wage increases will total 4.3 per cent over the agreement period of 25 months. It was announced that the comprehensive settlement would include, among other things, a review agency for work and temporary employment targets, a three day paid training leave annually, paternity leave extension by two weeks to a maximum of 54 days, changes in employer and employee social security contributions, and a minor cut in the corporate tax base.

The settlement proved that the incomes policy institution still has strong support in the Finnish society and within the political elite. The editorial of the influential daily newspaper *Helsingin Sanomat* stated that incomes policy was an important step for the Finnish economy and employment. The speaker of the Finnish parliament Eero Heinäluoma stated that the possible incomes

policy settlement would be “the most positive thing in Finland for years” (HS, 2011, my translation).

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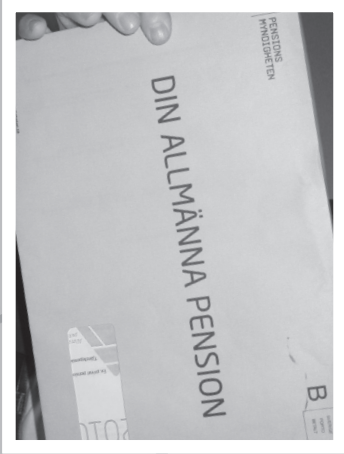
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7.



Contingency in Risk Management: the Case of Pension Funds in Sweden and Finland

VILLE-PEKKA SORSA & ANTONIOS ROUMPAKIS

INTRODUCTION

One of the key methods for providing understanding on the paradigms of social policy has been to classify different regimes according to their approaches to risk management. Esping-Andersen (1990) famously categorised welfare states according to the levels of decommodification implied by the key institutions providing social protection to the citizens of the states. Within his classification, the Scandinavian welfare states topped the levels and were regarded as 'universalist', providing generous replacement levels on the basis of citizenship. Later, Esping-Andersen (1999) broadened his arguments to broader political-economic foundations of modern welfare regimes, ultimately to the ideal type characteristics of policy-making. Various other scholars have as well combined institutions of policy-making with the institutions resulting from social policies. For example, there have been a great number of explicit critiques on Esping-Andersen's classification supple-

mented with alternative welfare state typologies (e.g. Bonoli, 2001; Castles, 1993; Ferrera, 1996).

The problem with Esping-Andersen's as well as most of the alternative typologies is that although they bring political institutions and thus political contingencies into analysis of social risk management, they tend to ignore the practical aspects of risk management. Most importantly, these kinds of typologies do not usually take into account the social risks that risk management institutions *generate*. Indeed, risk management mechanisms not only respond to and reshape some underlying social risks, but also give new institutional forms to the old risks and create new and sometimes unpredicted forms of social risks. The management mechanisms often transmit the underlying risks to a more general level and may magnify them at this level (e.g. Beck, 1999; De Goede, 2004). This generates not only new kinds of social risks and other contingencies but also new kinds of political situations where risk management issues are addressed. Indeed, risk management is always contingent and not without risks in itself, and it is thus absurd to study the policies and political paradigms underlying the risk management institutions without studying how these institutions are governed and managed.

We believe the issue of contingency must be addressed in any valid theory on politics of social risk management. If we ignore the questions of contingency of the social risks and political contexts created by risk management institutions and the contingency of risk management more generally, both understanding of politics and especially the concrete politicisation of social risk management remain too abstracted. We thus need to bring the real-life operational contexts of risk management to the analysis on the politics of social risk if we wish such analysis to have real-life relevance. The primary purpose of this chapter is to see what kinds of contingencies are included in the risk management institutions tackling the social risks related to old age. Our analysis is focused on pension systems, or pension funds, to be more specific.

Generally speaking, pension funds transform the social risk of failing to generate sufficient incomes for the period of old age into investment and other risks embedded in the funding mechanisms. The funding mechanisms are dependent on the nature of pension schemes at a more general level. For

example, ideal type collective defined benefit scheme (DB) models move individual risks to more collective level, as individual pensions are defined first and costs then adjusted, while the ideal type defined contribution (DC) schemes just changes the risks at the individual level, as pension contributions are fixed and pensions variable. The issue of pension fund governance, including for instance contribution collection, asset allocation and funding level decisions, is central for understanding the contingencies of social risk management wherever funded schemes exist.

Funded, partially funded or prefunded pension systems are not only about alternative forms of arranging pension financing, but also about generating vast pools of capital that can be used in various different ways to achieve different kinds of social and economic policy targets. Pension funds are among the most significant sources of power in the beginning of 21st century (Gourevitch & Shinn, 2005), which is why it is difficult to choose any politically more relevant thematic area for the analysis of social risk management. That said, the academic social policy scholars have had quite limited interest in pension funds and especially investments even though most European countries have recently introduced funding components to their statutory systems. To borrow terminology from accounting, the comparative social policy studies have by and large focused on the ‘liability side’ (e.g. social functions, pension benefits) of pension provision, while the ‘asset side’ of pension provision has been somewhat neglected outside pension contribution levels.

Our analysis is in nature a comparative case study, where the focus is on two Nordic countries, Sweden and Finland. To be more specific, we study the institutional differences in the liability and asset ‘sides’ of funding mechanisms of the funded mandatory earnings-related (first-pillar, second-tier) pension arrangements, the fully funded Swedish AP/PPM funds, and the Finnish partly funded TyEL scheme. The schemes have a massive scope in their welfare effects and share various institutional similarities. The Swedish scheme covers over 90 per cent of all working population, and the Finnish TyEL scheme covers approximately 1.5 million current private sector workers. The countries have been traditionally classified under the same variety of capitalism (mixed but coordinated market economies) and welfare regimes (social democratic, Nordic). In pension policy, the Finnish regime has been

understood to combine some aspects of the Swedish model with continental European paradigms (Hinrichs & Kangas, 2003). However, as our analysis suggests, when we study the contingencies in the both 'sides' of funding institutions, the differences are not that straightforward, and two pension systems are perhaps even more divergent in their social risk management paradigm.

The chapter is structured as follows. In the following section of the chapter, we present a very short overview on the development paths of social risk management in Swedish and Finnish pension regimes from the birth of the regimes to the recent reforms of the last few years from the perspective of social risk management. The birth and development of Finnish and Swedish national pension systems have already been well documented in the academic literature (see e.g. Niemelä et al., 1993; Niemelä, 1994; Salminen, 1987; Kangas, 2006; Kangas et al., 2010; Hecló, 1975; Swenson, 2002; Esping-Andersen & Korpi, 1984; Korpi, 1983; Baldwin, 1990), which is why we do not discuss the issues here at the general level of pension reforms, but focus only on the risk management issues. In the third section, we discuss the contingencies in the current funding mechanisms in these two schemes, first from a general perspective of the funding mechanism and then more closely in both sides of the funding mechanisms, the assets and liabilities. In the fourth and the last section, we draw some conclusions on the Swedish and Finnish cases of risk management from a comparative perspective, and discuss the implications our analysis has concerning the politicisation of social risk management in both countries.

A SHORT HISTORY OF SOCIAL RISK MANAGEMENT IN SWEDISH AND FINNISH PENSION REGIMES

The introduction of the Swedish mandatory earnings-related pension system has been one of the best documented policy reforms in the international social policy literature as it exemplified the power struggle between labour market organisations, Social Democrats and bourgeois parties. This struggle was not only a battle over the issue of redistribution of the pension programme costs and benefits, but also an important struggle over the creation of publicly controlled pension funds. The birth of the Finnish earnings pension regime had

many similarities but also more political and institutional “variables” than the Swedish reforms. The agrarian, bourgeois and fragmented left-wing interests also in fact drew the solutions to a somewhat different organisation of the scheme. Given these backgrounds, the starting point for the era of mandatory pension provision was perhaps surprisingly similar in both countries in context of social risk management.

In broad-brush terms, the initial social risk management paradigm in the two pension regimes can be characterized from the perspective of private sector workers as follows. All (resident) citizens were guaranteed a low universal basic pension with which to cover the risks brought by old age. The first tier of the Swedish first-pillar system (*folkpension*), established in mid-1940s, provided a universal flat-rate benefit for all, as did the corresponding Finnish system (*kansaneläke*) established a decade later. On top of that, workers received a compensation for their loss of ability to work with an earnings-related pension. The Swedish national supplementary earnings-related pension scheme ATP (*Allmän Tillägspension*) legislation came into effect in 1960 and the corresponding Finnish scheme TEL (*Työntekijäin eläkelaki*) in 1962. Earnings-related schemes in both countries were partly funded and financed by the employer contributions. They provided a defined benefit (DB) scheme that covered extremely high proportion of the working population. The benefits were defined in Sweden by the average salary of fifteen most highly paid years, and in Finland by the final salary. Both schemes also generated assets in a unique scale for partly funded schemes.

There were a few institutional differences in the original form of the two pension regimes. In terms of social risk management, two differences were especially important. Firstly, the two Finnish mandatory first-pillar schemes crowded out nearly all occupational arrangements, which remained strong in Sweden. This suggests that although the *political* importance of the first-pillar regime might have been high in both countries, the *institutional* importance of the first-pillar regime in overall social risk management related to the old-age was much more important in Finland. This difference was further strengthened in Sweden by the ceiling in first-pillar benefits and later in contributions, neither of which have ever existed in Finland. These differences are crucial in political terms, as the Finnish earnings-related regime provides

the primary pension incomes for workers whereas the Swedish regime is only one albeit very significant component among others in the overall pension provision.

Secondly, the assets generated by the earnings-related schemes were organised and invested quite differently. The Swedish assets were decentralised to functionally divided, publicly controlled but somewhat autonomous AP funds. The original three AP funds were for instance not allowed to invest in equity, as employers feared the possibility of so-called 'pension fund socialism' (Overbye, 1996a; 1996b). The three original funds had tripartite boards with different representative weights in different funds. However, the fourth AP fund that was created in the 1970s was controlled by the employees and had a broader mandate to invest in equity and other assets. The investments were mostly made to so-called social investment targets and government bonds.

In the Finnish case, the funds were decentralised to different privately controlled pension providers (pension insurance companies, company funds and industry-wide funds), which had first weak and later strong paritarian control with no public representation (see e.g. Johanson & Sorsa, 2010). The heavily solvency rule constrained investments consisted almost exclusively of so-called premium loans, in which the employers had the legal right to borrow a great part of the contributions (originally in form of paying the contributions in bonds). Put bluntly, the Swedish framework enabled social investments with publicly defined political targets, while the Finnish framework kept capital purely in private hands and in private economic targets.

The risk management created by the regimes concerned the same issues, but in different ways. Both earnings-related schemes reshaped the social risks of old age and brought them to a systemic level. In both cases, some of these risks also materialised. In the Swedish case, the ATP scheme, including the investment targets and in some scale outcomes, was normatively very legitimate throughout its existence. The main risk of the ATP scheme was related to the somewhat fixed contribution rates. In the initial stage, the contribution levels were set quite high in respect to the early benefit levels, and it was broadly assumed that these contribution rates would be sufficient as the scheme matured. Put simply, the risk of old-age income of all Swedish private sector workers was turned deliberately into the systemic risk of having insuf-

ficient contribution rates and investment returns to pay for the DB old-age incomes.

The original levels of pension contributions indeed proved to be too low, and the investment returns were modest. Although both the first and second tier pension programmes showed remarkable institutional resilience, the pension system was considered, due to the severe economic depression of 1990s, not to be able to ever meet its social policy targets in the long run and to have become simply too expensive (see Palme, 2003; 2005; Selén & Ståhlberg, 2007). We will present the scheme adopted in the reforms of 1990s in more detail below.

In the Finnish case, the social policy targets of the TEL (from 2007 TyEL) scheme have been achieved at least this far, and the 'liability side' risks in general have been controlled effectively. However, this has had less to do with the original scheme design than with the constant parametric changes in the scheme (see below). Lately, there have been some accusations that the social partners did not raise contribution rates early enough to keep the anticipated rises in control (there are now greater pressures than ever to raise the rates), but otherwise the scheme, including its governance system, has been considered legitimate. The risks in the original scheme were more related to legitimacy of investments than to pension provision.

Indeed, the TEL scheme was not only supposed to manage the risks of old age, but also to provide private capital for real economic growth (Niemelä, 1994). The risk here was that if the employers did not for some reason need the premium loans anymore, the system design did not enable pension providers to invest in high-risk high-yield targets due to solvency regulations. As Finland opened and liberalised the financial sector in late 1980s, the firms in fact had no more need for premium loans. The recession of the early 1990s made Finnish sovereign bonds a convenient investment target for TEL providers and thus postponed some reforms, but it was clear in mid-1990s that the institution of premium lending and thus the production of economic growth with TEL capital had exhausted – it couldn't answer the policy goals given to it anymore.

Since the initial paradigm, there have been significant institutional changes in both regimes. There have been major institutional albeit not necessarily as

much paradigmatic changes in basic pensions. Both countries have not given up but strengthened universalism in the basic pension system by guaranteeing a basic pension for all over 65 years of age. In Sweden, the whole basic pension system was replaced by a guarantee pension, thus making the earnings-related scheme primary source of pensions. On the other hand, the guarantee pension is subject to the rule of living in total 40 years in Sweden, which has in fact weakened the universalism understood as coverage of the scheme. The Finns continue having a universal basic pension system for all who have lived in Finland for more than three years (albeit lower in benefit levels if the pensioner has lived abroad more than 20 per cent of his time after 16 years of age), which is now also complemented by the guarantee for all those that for some reason fall outside all pension schemes supplementing the basic scheme. The financing arrangements of basic pensions have been changed in both countries. Finland for instance recently abolished the employers' contribution, thus making the scheme fully financed by taxes, and the amount of basic pension received has made subject to the earnings-related benefits received.

Arguably the most significant political changes have taken place in the earnings-related schemes. The Finnish scheme has been developed in parametric style in numerous small reforms concerning the accrual of pensions, indexation rules, and sharing of costs (see Hinrichs & Kangas, 2003). Perhaps most importantly, the scheme has changed from a classic final or average salary DB scheme into a defined accrual scheme, in which rights to benefits are accrued from the salaries as they are paid. The scheme has also been subject to pressures of financialisation in the 'asset side' and governance (see Sorsa, 2011). The investment rules have been changed for many times to improve the ability to invest in higher risk and more profitable investment targets internationally. The regulations concerning pension providers have been homogenised, the investment functions have been made more independent, and the competition between pension insurance companies has been increased. As result, the legitimacy of the scheme has become somewhat more dependent on successes in international portfolio investments in the individual provider level in order to keep costs lower and public opinion positive.

In contrast to parametric changes in the Finnish earnings-related scheme, the changes in the Swedish scheme have been systemic and quite radical in

terms of social risk management. The pension reform that came in effect in 2001 was from the perspective of pension provision a major path departure from the old prefunded DB system to a new partially funded notional defined contribution (NDC) scheme. This change moved much of the bearing of investment and contribution rate risks from collective system levels (state and employers) to individuals, that is, to their pension benefits that are very much dependent on long-term real investment performance. Many demographic components have been added to the pension formulas, and employees now also share costs with employers by paying contributions. The new earnings-related scheme includes on top of the PAYG sponsored income pension a (small) fully funded premium pension (PPM) that is controlled by private asset managers according to employee choice. This suggests that a (small) part of pensions is directly dependent on the financial skills and even pure chance of the employee. The pension provision is no more in public decision-making but only regulated by a government agency.

To sum up, both regimes have somewhat changed in their old age risk management paradigms. Both mandatory and universal two-tier mandatory pension systems originally managed the social risks of old age by transforming the individual risks to collective risks in forms of variable pension contributions and of investment returns. The Swedish regime shifted investment risks from the system level to individuals after the failure to adjust the contribution rates, and eliminated the risk of variable contribution rates to employers with a fixed contribution rate. The institutional changes were broad. The Finnish regime has individualised some risks and changed the nature of collective risks by changing parameters in the pension formulas but without giving up the original risk management paradigm or reforming the institutional arrangement thoroughly. The Swedish case illustrates a very clear change in generating new risks, while changes in the Finnish regime remain more modest. Albeit in different forms in relation to social risk, the proficient operations of both regimes have nevertheless become equally much dependent on the performance of international portfolio investments. Next, we discuss the current form of risk management embedded in the funding mechanisms of these two systems in more detail.

ASSETS AND LIABILITIES: THE FUNDING MECHANISMS

The current funding mechanisms of the Swedish AP funds and Finnish TyEL providers have many similarities. After all, they are both partly and collectively funded schemes that are very much reliant on the PAYG elements. Yet some visible differences remain when we look at some of the key accounting and administration issues of the pension formulas and funding mechanisms. Indeed, these differences are important in terms of understanding the contingency in risk management, both in terms of generation of risks and in terms of formal governance of risk management.

In the Swedish prefunded AP scheme, the logics of accounting follow a notional capitalised pension model. In a pure DC model, the liabilities (that is, the pension benefits) are defined as the workers retire from the overall capital accumulated, the paid contributions with investment yields. In the Swedish AP scheme, however, the capital is accumulated so that the contributions are given a notional interest rate that is dependent on the growth of average earnings (see Barr & Diamond, 2011). In a pure DC model, all the inflowing pension contributions are in principle invested in financial markets. In the Swedish AP system, most of the contributions (around 90 per cent) are directly used to pay the AP pension benefits, while only the contributions exceeding the liabilities (around 10 per cent of contributions) are channelled to investments. The fund assets are thus used only to ensure the liquidity and long-term sustainability of the scheme. The capital is not invested through individual accounts or even within constraints provided by individual liabilities as in DC schemes but via pooled capital. This suggests that the key contingency related to the funding mechanism is how these buffer funds can exist sustainably in the first place – put simply, if they turn negative, there aren't enough contributions to pay for the pensions, and the pensions must be cut.

The accounting logic of the Finnish TyEL scheme can be in part considered inverse to the AP system. In contrast to a prefunded scheme, the TyEL would be better characterised as a permanently under-funded scheme. In simplified terms, if the funds are not sufficient (as they never are) to pay the individual's pension, the (always certain) deficiency can be covered by variable collective contribution rates. The accounting model is not based on capitalisa-

tion as employees retire, but individuals' liabilities are generated (that is, pension rights are accrued) throughout the working career. The accounting of liabilities is individual-based until the employee reaches the age of 54 after which the contributions are pooled. The individual liabilities are again defined and settled between providers when the pension decision is made. The individual liabilities are paid first from the funded component and when this capital runs out, then by a collective PAYG component. Although the pooling technique brings a flavour of buffer funding to the scheme, most of the liabilities are individually accounted in each pension provider, which provides constraints for investment choices through solvency regulations. (Sorsa, 2011.)

Put bluntly, in Sweden the PAYG component is primary and in Finland secondary in the 'marching order' of accounting flows. Although this difference and the more general difference between NDC and defined accrual scheme may seem only technical, they are quite essential in defining the political and the technical *flexibility* of social risk management. It is thus worth elaborating the contingencies in the 'asset side' of the schemes, the investments and contribution rates, and to the 'liability side' of the schemes, the pension benefits, in some more detail.

The asset side: contributions and investments

In case of contributions, there has been a clear choice in the Swedish scheme to fix the rates to a certain level. Basically this means that the costs of this mode of risk management are fixed while the management mechanism itself has to be flexible. From the perspective of employers and employees as contributors, the costs of old-age social risk management are thus fixed and can be anticipated long to the future – it is the benefits and investments that are adjusted if necessary. If the contribution rates were to be changed, it would call for a review of the entire scheme by the so-called Pensions Committee or, ultimately, the government and the parliament. The lack of flexibility within contribution rates also designates less room for policy manoeuvre in the Swedish labour markets, putting pressure solely on AP funds to outperform its targets in order to cover for the too low contributions.

The Finnish scheme has an inverse logic: the risk management mechanism is fixed but its costs are not. The accrued benefits are protected by the constitutionally enforced property right and thus cannot be adjusted but through very specific mechanisms (see below). So, it is the contribution rates that must be adjusted when necessary. Both the employers and the employees pay contributions, the former covering around three and the latter one fourth of the overall contribution rate (at the time of writing 27.2–29 per cent of monthly salary). Formally, the Ministry for Social and Health Affairs sets the contribution rates annually based on legally enforced calculative formulas, which would suggest that the contribution rates vary directly according to the changes in pension payments. In practice, however, the pension providers and the Centre for Pensions first set the bases for the calculative formulas and prepare the calculations before the rates are actually set, which makes the contribution rates somewhat contingent. Furthermore, the pension providers can (and must) use a part of their investment profits to customer compensations for the employer-contributors, which makes a part of the contribution rates even further contingent. That said, the most significant long-term contingency concerning the development of the contribution rates is that all solutions, including the sharing of costs between employers and employees, are ultimately subject to the decision-making by the social partners and other actors in the field (Johanson & Sorsa, 2010).

Although there are adjustment mechanisms for benefits (see below), the long-term investment performance is crucial in defining the financial and social sustainability of the Swedish scheme. Because contributions are fixed, the AP investment activities *must* be flexible in order to optimize investment portfolios to compensate for the possible failures of the funding mechanism in the long run. It is thus hardly a surprise that the investment mandates of the AP funds are based on quite flexible principle-based regulations albeit with a few direct rules concerning the investments. In the AP1–4 funds, all listed and transferable capital market instruments are in principle allowed with the exception of commodity investments.

However, at least 30 per cent of assets must be invested in low-risk fixed income instruments and 10 per cent of assets must be managed by external managers, and there are various allocation ceilings (concerning currency risk,

single security issuers, unlisted securities, Swedish listed company ownership, and more general single entity ownership). Despite these rulings, the sustainability of the AP scheme is very much dependent on the investment performance, and thus the skills of the portfolio managers and the overall international financial market development. When taking the premium pensions into account, the selection of investors of individual accounts further highlights the issue of financial skills as a crucial factor of risk management in the Swedish scheme. The universal application of personal choice over pension fund investment shifts the risks to individuals regardless of their financial literacy, resources available to monitor market volatility or their skills in calculating financial risks.²²

In the Finnish scheme, the individual providers' mandate to choose investment targets is broad, complemented with various rules and ceilings concerning the investment activities as in the Swedish case. However, the funding mechanism and other regulations further limit the investment activities significantly in various ways, both quantitatively and qualitatively (see Sorsa, 2011, for details). For example of the former, the solvency rules directly control the availability of assets to be invested and the proper overall risk levels of the investments, and make the providers interdependent on each others' choices (in a 'game theoretical' manner). For example of the latter, the usage of mandated external managers (excluding fund investments) is completely forbidden.

Although there are no major obstacles for making investment activities more flexible institutionally, the key issue here is that they don't *need* to be flexible in order to manage the sustainability of the scheme in the long run – it is sufficient to adjust the pension contribution rates that are used to complement the pension payments when the funded assets are not enough to cover the payments. It is, of course, evident that long-term investment performance affects all contribution rates in the TyEL scheme. From the perspective of effectively sustainable social risk management, however, the number one issue is how the contribution rates are adjusted.

²² So far the attempt to establish such mass investment culture based on individuals' capacity to manage financial risk has been considered somewhat problematic (see Belfrage & Ryner, 2009; Belfrage in this volume).

Indeed, the key difference in the flexibility of the asset side of the two schemes is that they give flexibility to different sources of income, which also includes many asymmetries and has important implications concerning the politics of risk management. In Sweden, flexibility is sought by empowering investors, the AP funds, which are made the crucial actors in defining the sustainability of the overall functioning of the scheme, while no flexibility on the contribution rates. This is in contrast to the idea of AP funds as ‘buffer funds’ – the failure to achieve sufficient investment return *is* a social risk that may lead to the lowering of pension benefits. As the AP funds are directly responsible for the level of pension benefits, it would be wrong to call AP funds merely buffer funds. It must be noted, of course, that the funds are only responsible for the downside risks, not any kind of ‘upside risks’ – good investment performance does not increase pensions.

While the contribution rates in the Finnish TyEL scheme will change automatically as the pension liabilities increase, the social partners can control the stability of this rise by deciding to ‘frontload’ expected increases or decreases of costs by agreeing on adjusting the funded amount of contributions. The Finnish scheme empowers social partners, while the investments remain just a matter of lowering the costs of the scheme. In fact, the good investment performance translates only into customer compensations for the employers (which affect employee contributions in the long run as well) while bad investment performance does not, at least directly, imply any changes in contributions.

These differences in the ‘politics of the asset side’ in the two countries directly shift focus on the governance and accountability of these schemes. Take for example incentives. In case of investments, the Finnish TyEL providers are accountable for positively lowering the pension costs of their customers, while the Swedish AP funds are accountable only negatively for avoiding the cuts in their customers’ pensions. In other words, the Finnish scheme structurally provides mostly carrots for developing accountability in investment activities while the Swedish scheme only provides sticks. The Finnish investors have all the reasons to show that they perform well whatever the market situations while the Swedish investors have good reasons to try to shift the blame to financial markets when things go wrong. These are with

no doubt significant differences when we think about the social legitimacy of these schemes. We will return to other governance, legitimacy, and accountability issues in the conclusions section.

The liability side: pension benefits, adjustments and formulas

When it comes to the definition of pension benefits, both schemes share a great variety of contingencies thematically – it is just the mechanisms and their roles that differ. In the Swedish scheme, the pensions accrue from the paid contributions, and the accrued amounts are indexed to the development of average Swedish wage levels. As the pensions are annuitised, the estimation of the pension benefit is calculated based on an annuity divisor with each birth cohort and each retirement age having a specific divisor that directly links pension benefits with life expectancy rates, average ages for men and women recalculated each year. After determining the amount of the pension benefit, this amount is each year calculated based on the annual growth of real wages minus a fixed 1.6 per cent interest rate that supposedly captures the long-term real wage growth. This means for example that if the income index increases by exactly 1.6 percentage points more than inflation, as measured by the Consumer Price Index, pensions will increase at exactly the same rate as inflation. If the increase is lower or higher than 1.6 percentage points, there will be a loss or increase respectively of real income.²³ In order for pensioners to see an increase of their pension, average growth rates should exceed inflation rates and on top of this the fixed 1.6 per cent interest rate.

In the Finnish case, the pensions accrue from salaries variably according to age. For those under 53 years, the accrual rate is 1.5 per cent of the annual wage sum. For those between 53 and 63 years, the rate is 1.9 per cent, and for those between 63 and 68 years, it is 4.5 per cent. The latter, the so-called

²³ *The change in the index consists of two parts. The first is the average annual change in average income for the latest three-year period, excluding inflation; the second is inflation for the latest 12-month period ending in June. Pension qualifying income is not known until after the final tax assessment, i.e. in December of the year following the income year. This means that the income for the two most recent years is based on estimates. Errors in estimates are corrected in the indices for subsequent years. (See Pensionsmyndigheten, 2010, for further details.)*

‘super-accrual’, provides strong incentives to have longer working careers. The indexation of accrued pension is arranged so that 80 per cent of the accrued pension is dependent on the overall wage development and 20 per cent on the consumer price index changes. After the initial pension is set, the amount of future pension benefits is adjusted in collective terms in Finland as well. There are at least two key mechanisms in play here. Firstly, the amount of annual pensions is dependent on the consumer price inflation (80 per cent of the change) and the changes in the real wage levels (20 per cent). This reflects the idea that the purchase power of the pension is more important than the changes in for example labour market conditions and productivity growth. Secondly, the annual pensions are dependent on the expected longevity of an age cohort. Currently it seems that the pension benefits will be lower for the future generations than initially expected due to increasing longevity.

Indeed, the two pension schemes have many similarities when looking at the risks related to the *accrual* of sufficient mandatory earnings-related pensions. Looking at the issue from the perspective of risks during individuals’ working careers, failing to accrue pension is in both countries dependent on the employment record and wage levels from which pensions are accrued. Looking at the issue from a system-level standpoint, there are again strong similarities in the accrual mechanism. In both countries, the accrual is dependent first on the development in average earnings (albeit less in Finland, in which it is also dependent on consumer price inflation) and, as the pension is annuitised, then on the life expectancy rates of the birth and age cohort. If the average salaries in the Swedish and Finnish economies do not rise but the life expectancy does, it will mean lower accrued pensions for workers in respective countries independent of the working career or salary level track records of these individuals. When looking at the accrual of pensions, there are only two important differences in the two regimes: the Swedish premium pension system makes accrual of pension in part dependent on individuals’ financial skills in that regime, and the ‘super accrual’ incentive makes working in the last years of the working career especially important in Finland.

Some similarities exist between the countries also at the moment of annuitisation of the accrued pensions. The Swedish annuity divisor refers to an adjusted estimate of the expected period of pension-drawing based on the

birth year and the average life expectancy in accordance with the demographic trends and medical advances. The divisor is calculated separately for each age cohort. In Finland, a similar life expectancy adjustment factor is calculated for each age cohort in the age of 62 on the basis of last five years' mortality rates. While the differences in accrual and annuitisation of pensions between the two regimes are significant albeit nuanced, we can find major differences only when we look at the question of how the already accrued (that is, final) pensions are *adjusted ex post facto* over time and how this affects individuals' pensions in real value.

For example, the changes in life the overall real wage development affect the pensions in both countries. In the Finnish case, however, the effects of the development is very limited, as real wages affect only 20 per cent of annual adjustments (80 per cent is defined by consumer prices index). In Sweden, the effects can range from ignorable to ones with utmost importance. The effects of the somewhat arbitrary 'real wages minus 1.6 per cent' indexation rule are quite difficult to anticipate, as it is fully dependent on the development of the relationship between wage levels and inflation.

The Finnish TyEL scheme has no other adjustment mechanisms for the final pensions besides the ones already mentioned, and thus the adjustments of the pension benefits after annuitisation remains rather stable although. The Swedish AP scheme in contrast includes a 'brake mechanism' that automatically balances the relation between assets (the value of future contributions plus the cumulative returns from fund investments) and liabilities (future pension obligations), which is activated whenever the balance between assets and liabilities falls below 1. This is with no doubt the key difference between the two regimes in the 'liability side' of pensions. The Swedish 'brake mechanism' affects benefits according to living expectancy age per birth cohorts, labour market conditions, and even immigration rates (Första AP-Fonden, 2007). The balance mechanism is thus prone to be activated on several accounts.

For example, in the aftermath of the US subprime crisis, in 2008, investment returns averaged -21.3 per cent, and the brake mechanism was activated by removing any indexation in both pension accrual and benefits (Sundén, 2009). However, while financial markets recovered and the profitability of the AP funds was restored, the Swedish labour market still faced lower employ-

ment levels and therefore low overall wage increases in 2009. During 2009 and for the first semester of 2010 there was a substantial change in the actual funding of the schemes since the net inflows from the National Insurance Board (RFV) pension system (i.e. the net of incoming pension contributions minus pension disbursements) was negative. The labour market conditions and the economic recession reduced the funded buffer despite financial recovery, and the pensioners started to expect lower retirement income.²⁴ It could be argued that employment actually remains the first and foremost influential factor for the financial stability of the balance ratio with net immigration and birth rates mostly boosting the contribution base of the system. Low contributions channelled in the system as well as negative returns from the buffer funds may continue activating the balance mechanism in the future, with contributors and pensioners losing even more through indexation withdrawals.

²⁴ *Benefits will be affected in 2011 and 2012. The deficit in the system affects indexation with a lag (see Sundén, 2009).*

TABLE 1: Mechanisms potentially causing lower-than-sufficient annual real value earnings-related pensions in the Swedish and Finnish first pillar schemes.

Scheme	SWEDISH AP & PPM		FINNISH TyEL	
	Individual	Collective/system	Individual	Collective/system
Source of risks Location of contingency	Individual	Collective/system	Individual	Collective/system
Accrual of initial pension (a priori)	Too short employment track record, too low salaries PPM: low investment performance	Decrease in national average earnings	Too short employment track record, failure to benefit 'super accrual' incentives, too low salaries	Fall of national average earnings below consumer price inflation
Annuity of the pension		Increase in overall life expectancy		Increase in overall life expectancy
Adjustment of pension benefits (a posteriori)		Decrease in average earnings; activation of the "brake mechanism" (decrease in investment returns, decrease in employment rates, longer life expectancy, lower immigration rates etc.)		Fall of national average earnings radically below consumer price inflation

All in all, the differences between the Swedish and the Finnish earnings-related schemes are summarised in Table 1 in terms of potential negative effects to annual pensions and, to be more specific, of potential causes that can lead to lower-than-sufficient pensions (sufficiency being a political question as such, of course). Perhaps the key difference between the Finnish and the Swedish 'liability side contingencies' is that the annual amount of pensions in Sweden can be very significantly adjusted also with *ex post facto* mecha-

nisms, while the major Finnish adjustments are limited only to the accrual and annuitisation stages. From the perspective of social risk management paradigm, the difference is with no doubt crucial. The Swedish scheme is not necessarily that effective in managing social risks of pensioners, but rather those of employers and workers (see Barr & Diamond, 2011). The Finnish scheme in contrast effectively insures against the social risks of old age, but keeps the division of costs between the employers and the employees an open question.

That said, if we look at the key contingencies in both paradigms more closely, we can see that it is the same social issues that affect the pensions: national employment rates (not just own employment or the success of one's own employer), overall (not just personal) wage levels that define the indexation of accrual and benefits, life expectancy of all citizens (not just workers), birth rates and immigration rates, and all other kinds of issues affecting the basic economic and social conditions of the society. What is easily forgotten here is that automatic adjustments based on these factors are never automatic in the sense that you cannot affect them politically. It just means that the management of the social risks of the old age are made dependent on more system-level issues and, as result, it has been made dependent on more general-level employment, economic, labour market, health, immigration and other national policies. It is not just the risks the individuals face, but also the failures in these policy areas that the pension system as a mode of risk management answers to. In the Swedish case, it is the pensioners who pay the bill for national policy failures unless the funds can compensate for these failures with exceptional investment performance. In Finland, the bill of national failures is not paid by pensioners but the contributors (that is, the operating firms and employees) whose share of the bill can be negotiated. The employers' bill is further dependent on the investment performance of the pension providers.

These issues and linkages may give the governance of these schemes much more political flavour than the issues that seem to be rather technical pension system design issues. For example, the Finnish scheme provides labour unions as well as employer organisations a strong incentive to cooperate in contexts of both national economic policy and of the pension system development in order to avoid rapid growth of pension contributions whatever the reason for the rise (e.g. low employment rates, high wage increases, too low

long-term investment performance). Furthermore, the Finnish pension governance system, which has paritarian elements at every level (see Johanson & Sorsa, 2010), has a strong potential for increasing solidarity between individual firms and employee groups. The Swedish system does not quite provide similar positive incentives. Rather, it provides individual employers an incentive to compete on skilled labour with generous second pillar pension schemes and, as is the case with employees, to question the legitimacy of the rather expensive first pillar scheme whenever pension benefits are cut.

CONCLUSIONS: KEY ISSUES FOR RE-POLITICISING THE PENSION SYSTEMS

The Swedish and Finnish mandatory earnings-related pension schemes we have discussed in this chapter illustrate a great variety of similarities and differences in the contingencies they generate for the risk management. To end the chapter, we discuss some of the key political issues and challenges these differences generate in the respective schemes and countries. The difference between the two schemes can be quite feasibly approached with a few simple questions. Perhaps most importantly, there is the simple question of what can you do if the scheme ‘runs out of money’, that is, if assets are not enough to meet the liabilities. This is not the only important question, however. One must also ask who is accountable for the performance of the scheme and how, and what kind of incentives you have for improving the sustainability of the risk management paradigm. We will shed light over these questions and highlight some key issues that should be tackled when re-politizing the schemes in respective countries.

In Finland, running out of assets to meet liabilities is very unlikely to happen due to strict solvency and liquidity controls, and the simple ‘balancing mechanism’ of pension liabilities reducing whenever employment or wage levels fall. Moreover, if it for some reason is expected to happen, it just implies rather automatic increase in contribution rates for the next year. While the TyEL scheme is considered socially quite legitimate and sustainable (see TELA, 2010), few employers and not that many employees are willing to accept higher pension contribution rates. The increasing contribu-

tion rates have raised some concerns over the justice of generational redistribution, and there have been even some demands for ceilings in contribution rates. These dispositions, and the fact that the scheme delivers primary pensions for nearly all Finns, have led to constant re-politicisation of individual institutions affecting the costs of the scheme. Given the automatic increase in contributions rates when decisions might be pending, the Finnish solution is politically empowering in the sense that the sustainability of the scheme are matters of contingent decision-making over individual institutions of the scheme, not questions dependent solely on investment returns available from financial markets or on the pension incomes of the masses as in the Swedish case.

That said, it must be noted that the development of the TyEL system is dependent on the *ability* to find consensus or otherwise agree on politicized issues concerning the institutions of the field. As the field of TyEL provision is filled with various administrative, political and institutional tensions (see Johanson & Sorsa, 2010; Sorsa & Johanson, 2011), the overall proficiency of risk management is at a very general level dependent on the agreement between the key actors of the field. In practice, there are no institutionalised bodies that would ensure agreement, but all negotiations are based on ad hoc negotiation group arrangements. Although a first-pillar scheme, even the roles of the government and the parliament have been very limited in the development of the scheme. The role of social partners is in contrast crucial: no change is possible without them agreeing, approving and initiating it. While the Finnish scheme is positively prone to re-politicisation, the actual politics of the scheme are often filled with problems and ambiguities. There is no rigorous political or at least democratic accountability in decision-making. Neither have the main political parties any political incentives to take over the decision-making from the social partners, because it would imply loss of support from employer and employee federations and unions. In case the decisions would decrease pension security, it is convenient for parties to leave decision-making to the social partners.

Lately, there have been major difficulties in finding agreement over the development of the scheme, the main issue on the table being the formal minimum retirement age (currently 63 for old-age pension). One reason for

the difficulties lies in the opposing views of employers and employees. The previous would like to raise the age, while the latter opposes it and highlights the importance of ‘super accrual’ incentives and of raising the *de facto* retirement age (which is closer to 60) with informal measures and policies. Another reason concerns the groups or committees in which these issues have been discussed. The mandates that the Ministry of Social Affairs and Health has set for the negotiation groups have been all but fit for purpose.

At a more general level, the main political challenge for finding agreement has been the change in collective bargaining cultures. Formerly the pension system development issues were a part of the annual tripartite bargaining over incomes policy (usually called *TUPO*). The potential erosion of the central bargaining may increase ‘ad-hoc-ism’, and might make it more difficult to get the social partners around the same table with the state, as the partners are already discussing the key issues within the field in various arrangements. The state has, for example, very few concessions in tax policies and economic policy left to lure the employers to ad hoc development efforts. This provides incentives for the government to take direct action, which may distance the parliament from social partners even further. Indeed, while the institutions of the Finnish scheme are constantly prone to re-politicisation, it does not imply that the politics would be democratically accountable, deliberative, or without significant tensions.

If there is something characteristic to the politics of the Swedish AP/PPM scheme, it is the aim at de-politicisation of all individual institutions and variables within the pension scheme. The organisation of the decision-making over the sustainability of the scheme aims at avoiding the re-politicisation of pension governance by placing the system on an ‘automatic trail’. The main question with the Swedish scheme is what happens if or when some of the parameters (fewer contributions, low or negative AP funds investment returns, decline of wage growth, increase of inflation rates etc.) remain unfavourable towards the increase of AP/PPM scheme assets. Given that the contribution rates are fixed, the room for policy manoeuvre is all but spacious. It is all about deciding how pensions are cut – about adjusting individual parameters of the brake mechanism, which will cut pensions in any case. Albeit that the AP/PPM is only one scheme among many in providing the overall pen-

sion income, this makes the whole scheme vulnerable to system-level contestation. Indeed, in the AP/PPM scheme, the social risks are not shared and costs redistributed if necessary, but only elevated at the systemic level.

The paradigm of de-politicisation has been present in the governance as well. In the aftermath of the 2008 financial crisis, the Swedish government reformed the so-called Pension Committee, which was originally put together for the creation of AP/PPM scheme, to discuss issues on generosity levels and, essentially, why the AP funds suffered such severe losses during the financial crisis. The Committee is comprised by technical experts, political party representatives²⁵ and does not include any member from unions or employer associations. Although the government is delegating experts to find solutions (for how to cut pensions if necessary, or how to gain better investment returns), *accountability* is spread among the major political parties and the political system as a whole – it is not directed to experts. For example, the indexation from contribution accruals and pension benefits was removed with the Pension Committee decision to activate the brake mechanism in the aftermaths of the financial crisis, and the government abided. But will this affect the popularity of the government, the whole AP/PPM scheme, or perhaps the AP fund directors? While it is impossible to anticipate the results, it is clear that the government is the only one that can be affected through democratic vote.

The pressure on the sustainability of the AP/PPM scheme lays on the continuation of wage growth and increase of employment levels, but also on the satisfactory returns of the AP funds. As the system is incorporating employment levels and wage growth within the calculation for pension benefits, the employers have no incentives to increase employment levels, as there are no gains in the case of an AP/PPM surplus. Neither is there any indication that the Swedish government would be willing to take an active and intervening role towards the increase of pension assets or shifting the investment principles of AP funds. So it must be asked, would flexibility in the contribution rates be completely unfeasible for employers or politically unacceptable for the employees? While this would with no doubt relieve the negative contingencies of the risk management, it is difficult find political incentives for this

²⁵ *The Left (ex-communist) party opposed the reform and did not participate in the committee.*

happening. There is no clear indication why employers would be interested in increasing their contributions towards the AP/PPM scheme in the first place, since they continue to fund second-pillar occupational pensions for their employees, which can be used as a means for competition.

These issues show that in comparison to the Finnish scheme, there are very few incentives for actually developing the sustainability and to control the contingencies of risk management in Sweden – if the system fails, there are no incentives for employers or employees to increase contribution rates. Unless the government changes fundamentally its approach towards the regulation and sustainability of the scheme, a failure to meet a politically and socially acceptable retirement income will be transformed into a systemic questioning of the AP/PPM scheme, and possibly another epic reform of the system.

To end the chapter, it is worth noting that when we combine both the asset and the liability sides of pensions as risk management in the two countries, we can see that they provide different buttons to push in economic policy. Both pension schemes are in nature pro-cyclic, but in a very different manner. When a combined financial and economic downturn hits, the Swedish AP/PPM will react to it by lowering pensions of nearly all Swedish pensioners, while the Finnish TyEL scheme mildly increases the pension contribution rates for all employers and employees (unless otherwise distributed). In Sweden, this means that the effective real demand of the economy falls, which decreases expectations and makes it difficult to find new real investments, and thus ultimately slows down the emergence of any growth prospects. In Finland, it mostly means that at least labour-intensive new productive initiatives and real investments become slightly more expensive, which is hardly a disaster. However, it also gives incentives to cut down jobs, which may lower effective demand and lead to lower pensions in the long run.

Although it is a matter of theoretical economics to evaluate which one is worse, the decrease in effective demand or higher costs of supply, it is clear that the optimal economic policy (both preventive policies and policy responses) is very different in the two countries if we increase our understanding on pensions. This is ultimately what the contingency in risk management is all about in the first place – without understanding these contingencies, it only leads to false understanding on social risks and their politics.

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8.



Nordic social risk management and the challenge of EU regulation: labour market parity at risk

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INTRODUCTION

There has been a long-standing consensus among the employer and employee representatives in the coordination of labour market institutions in the Nordic countries. This consensus has been built upon the idea of *parity* in collective bargaining, or labour market parity, which refers to the reciprocal recognition of interests between labour market representatives and to parity-based negotiations and agreements in which a consensus can be reached (see Kettunen, 2011). The principle of labour market parity is, in part, related to the Nordic conception of democracy, as the principle was entrenched to the Nordic societies with the extension of democratic rights. For example trade unions were supposed, as Kettunen (2011, 31) argues, to extend democracy in two senses: both as a 'popular movement', following the Nordic tradition of voluntary associations, and as labour market 'party', as one of the two parties making parity-based agreements on the labour market. The institutional mechanisms of labour market bargaining between voluntary organisation representatives

and the norm of parity-based agreements are both intrinsic to the so-called Nordic model in terms of organising power relations in the national governance of social risk management and in social risk sharing more generally.

In this chapter, we argue that the recent developments within what we call ‘the European social space’ prescribe many challenges for the future of collective bargaining in Nordic countries. In terms of labour market parity as a norm, the Nordic model does not quite correspond to the current European policies but rather provides alternative policies and ideas for the future of European integration (see discussions on ‘flexicurity’, Lisbon Treaty targets etc.). While there has been much critical review of the normative contents of the Lisbon Treaty and EU employment targets (see e.g. Carmel, 2005), there has been yet much less attention to the institutional effects of the integration process. In this chapter, we argue that the European regulation of labour market bargaining poses direct institutional challenges for the Nordic collective bargaining institutions built upon the parity principle in particular and for the national governance of social risk management more generally.

Schematically, there are two streams of literature that discuss how the contemporary mechanisms of national collective bargaining have become under pressure in various economies. Many authors have highlighted the importance of globalisation as ‘a temporal and spatial reconstruction of social practices’ that widen power asymmetries between labour market actors and weaken the prerequisites for national social solidarity (e.g. Kettunen, 1999). Others have focused on changes in national labour market institutions and especially highlighted the employers’ role in promoting decentralised forms of bargaining, flexible wage negotiations and regulation of temporary work (e.g. Dølvin et al., 2010; Lindvall & Rothstein, 2006). In this chapter, we demonstrate that these streams can be feasibly combined when we look at transnational regulatory mechanisms. To be precise, they also *ought* to be combined when the goal is to provide rigorous understanding on how the European regulatory environment poses challenges to the national labour market agreements in the Nordic countries. We argue that the ability of trade unions to act as a collective actor in the European social space is significantly hampered by a particular form of (emerging) meta-governance.

The chapter continues with a section that provides definitions for the three key theoretical concepts used in this chapter – structural power, European social space and meta-governance – after which the characteristics of European meta-governance will be studied empirically in more detail. In the third section of the chapter, we first examine what was regarded as a ‘neo-liberal’ attempt to integrate services market through the Services Directive (2006/123/EC). We consider this attempt a typical example of top-down models of regulating national industrial relations. Our empirical research then draws on the European Court of Justice (ECJ) decisions in the cases of ‘Laval’, ‘Viking’, ‘Rüffert’ and ‘Luxemburg’. The Services Directive and the rulings of ECJ cases represent attempts to set competition as the main principle for regulating socio-economic life in the EU. The ECJ cases demonstrate that the main challenge for the governance of labour-capital relations in the EU is not solely the competition of wages between workers but rather how EU institutions might favour the inclusion of other collective agreements than the existing national ones. In this way, there is not just a downward competition between wages, but also a competition between different collective agreements.

In the fourth and last section of the chapter, we discuss the implications that stem from the creation of competitive markets at the European level to the future of the European industrial relations in general and to the Nordic industrial relations in particular. We argue that, fundamentally, the ECJ rulings are about the struggle over the ‘hierarchy of values’ that could frame the European social space and its process of integration. This is a struggle in which, so far, European labour seems to be on the losing side. In this section, we also explore what kinds of effects the power asymmetries within the European labour markets produce to the collective bargaining mechanisms that mediate labour market partners’ interests to social risk management in Sweden and Finland (with the Laval and Viking cases, respectively). We conclude the chapter with a reflection on the challenges that competition and market-based principles pose for the Nordic model of social risk sharing and to the potential attempts to apply the ‘labour market parity’ principle beyond the national levels of action.

STRUCTURING POLITICS AND CONTEXTUALISING ACTION: POWER, SOCIAL SPACES AND META-GOVERNANCE

The purpose of this section is to provide definitions for three key ideas and concepts used in the following sections of the chapter. The first one is *structural power*, which is crucial for understanding the nature of labour market relations in different settings, in our case the difference between the Nordic labour market parity and the European labour market paradigms. When we use the concept of power we refer to a dynamic relation between social agents. We have intentionally distinguished power as a dynamic relation and power as a resource. Instead of referring to actors having power (i.e. the more colloquial use of the term), we understand social agents as exercising power by mobilising power resources in any or all of the dimensions of power: structural, relational and discursive power.²⁶ The dimension addressed here is structural power, which can be seen similar to what Hay (2002) describes as the ‘context-shaping aspects’ of social action. Exercising power in this dimension is achieved by mobilising power resources in order to defend or alter the institutions and/or the mode of governance that regulates the distribution of the power resources – the ‘rules of the game’, that is.

By exploring this dimension, analysis can potentially ‘capture’ the instituting capacity of social agents. Power asymmetries are observable as differences in the capacity of social agents to maintain or alter the rules of the game. In addition, changes in the form and content of institutions follow changes in the agents’ capacity to mobilise structural power resources. In this context, structural power is the dynamic relation between social agents intending to defend or alter how regulatory processes are consolidated institutionally. The outcome of this dynamic relation ‘translates’ into both the contents of the

²⁶ Besides structural power discussed in the text, relational power is the ability to force a social subject to do something that otherwise s/he would be reluctant to do, and discursive power the way that society recognises, understands and interprets social categories within the existing power-relations. Discursive power thus refers to the concepts, assumptions and perceptions of reality that are hegemonic in one or more social spaces of the society. Consequently power resources have relational, structural and discursive properties (see Papadopoulos, 2006). This conceptualisation of power is a theoretical synthesis drawing inspiration from Lukes (2005), Strange (1994), Hay (2002) and Bourdieu (2005).

institutions and the modes of instituting them. Institutions are here understood as “structurations of power and as residues of conflict” (Korpi, 2001, 8).

The second key concept in this chapter is *the European social space*. By ‘social space’ we refer to a spatially and temporally specific combination of a mode of governance, corresponding institutions, interacting agents and their power resources. The term is inspired by Bourdieu (1985) who used it to define a multidimensional field of social action created and institutionally (re)constituted by the power dynamics between social actors. A social space is regulated by a (territorially and temporally contingent) mode of governance, whose institutional architecture (as well as its logic of instituting) determines how power resources will be redistributed in the social space and, consequently, how the relational power dynamics between the social actors will be exercised.

Although social spaces are of different regulatory scales (e.g. local, national or transnational), they are also linked to each other, often hierarchically. Thus it is not only the character of social spaces of action at different scales (for example the different types of national employment models, national production regimes or the ‘European social model’ etc.) but also how they relate to each other and how and at which scale their relationship is regulated that one must address here. In this chapter, we examine how the structural power asymmetry between unions and employers is currently articulated in the shifting levels of governance and spaces of action in the EU by examining how the interaction between national social spaces is regulated at the European level. It is argued that the locus of the power dynamics between labour and capital in the EU is shifting from national social spaces into an emerging European social space. The latter is not merely a summation of national social spaces nor ‘European’ in sense of supranational, but primarily a social space *cum* mode of governance that regulates the interaction between these two levels of social action.

Finally, our chapter adopts an analytical definition of governance to refer to both the content of institutions in a social space and the mode of instituting it (see Carmel & Papadopoulos, 2003). However, governance is not only the mode of governing at one level of social action but also about governing the interplay between different modes of governance and between different levels of social action. To avoid conceptual connotations, we adopt Jessop’s concept of

meta-governance to refer to the emerging mode of governance of the European social space (as defined above). We argue that the aforementioned shift from national social spaces into an emerging European social space is accompanied by 'a re-articulation of powers and a re-territorialisation of social relations' (Brenner et al., 2003), which is meta-regulated to favour capital and the market rationale of governance. Drawing from recent events in the development of EU labour relations, we argue that the ability of trade unions to act as a collective actor in the European social space is significantly hampered by the particular form of (emerging) meta-governance, whose characteristics we will next explore in more detail empirically.

REGULATING LABOUR RELATIONS IN THE EUROPEAN SOCIAL SPACE: FROM HARMONISATION TO COMPETITION

The Services Directive has its origins in the guidelines named after the Dutch Commissioner for internal market issues in the EU, Frits Bolkestein. The directive aimed at liberalising the provision of services in the European social space and at further integrating the services market as stated in the Lisbon strategy. According to the Bolkestein guidelines, services could be bought depending on the wage levels of the country of origin of the service provider. The initial plan of the guideline was to 'harmonise' the internal labour market by withdrawing market distortions (national agreements) in the service sector in the European social space. Apart from 'harmonisation', the possible adoption of the guideline would have cancelled the national collective bargaining and simultaneously provided the necessary regulation to promote downward wage competition between EU citizens. The proposal sparked fierce protests in countries with 'coordinated market economies', a term borrowed from the Varieties of Capitalism literature (see Hall & Soskice, 2001; Menz, 2003).

Despite the political clout in several countries, the succeeding Commissioner McGreevy and the Commission President Barroso were putting through the reform agenda of the Commission, the Services Directive being at the heart of this agenda. The member countries did not welcome the Services Directive warmly. The idea of the 'Polish plumber', an example of undermining the wage and working conditions of French plumbers, managed to

mobilise a majority that rejected the adoption of the European Constitution. It was clear with the French *non* in March 2005 that the Services Directive had attracted very much negative attention – so much that it in part halted the approval of the whole European Constitution.

Almost ten months later, the Services Directive was passed in European Parliament but with significant amendments limiting the impact of ‘harmonisation’. The split of employers’ interests, along with the European Trade Union Confederation (ETUC) lobbying for the amendment of the proposal, paved the way for a distinct alliance of interests within the European parliament (Dølvin & Ødergård, 2009). In terms of voting, the social democratic parties and the Christian democratic parties voted in favour of the amended proposal. In contrast, liberal parties expressed their concern that the proposal is not meeting the needs for a ‘harmonised’ labour market. The conservative parties from Great Britain, Spain, Netherlands, Poland, Hungary and the Czech Republic rejected the revised proposal. Left wing and communist parties also voted against the proposal. The voting was very much based on “a mixture of a ‘left-right divide’ and a ‘clash of capitalisms’” (Höpner & Schäfer, 2007, 14).

In the end, the Commission presented a proposal that incorporated the amendments voted by the Parliament and the European Council of Economic Ministers accepted unanimously the ratified proposals. ETUC was satisfied with the abolishment of the ‘country of origin clause’ and regarded the end result as a ‘success’. However, ETUC remained less sceptical about the abolishment of the ‘respect for fundamental rights’ and its replacement to the respect of the Community law (European Trade Union Confederation, 2006a). The ‘country of origin’ clause was abolished but replaced by the ‘freedom to provide services’, which, as we will show, effectively introduces elements of downward wage pressures to the coordinated market economies. The replacement of the ‘country of origin clause’ with the ‘freedom to provide services principle’ was neither thoroughly examined nor thoroughly understood by relevant actors. For example ETUC celebrated the exclusion of the ‘country of origin clause’ but, at least publicly, failed to capture the implications of the new legislation for the service providers in the private sector.

The new legislation approved by the European Parliament links the Member States' labour and workers' protection to be interpreted in their compliance with the Community law by the European Court of Justice (ECJ) on a 'case by case' basis (European Union, 2006, 11). Essentially, the right to collective action was not undermined directly by the Services Directive but was subjected to the approval of the ECJ doctrine on the proportionality of restrictions on the freedom to provide services (Novitz, 2008). Some have argued that ECJ rulings are not so much about labour rights protection but the ECJ is known rather for promoting business and competition-friendly rulings, while others have highlighted that the Community law as such is not about protecting labour rights (see Davies, 1997).

As Supiot (2006) argues, the European Commission stated in its paper for 'Better Lawmaking' (Commission of the European Communities, 2005) that EU's 'regulatory environment' should further promote European competitiveness through the creation of an 'expert committee', which would assess and filter policy proposals that harm European competitiveness. According to the guidelines on impact assessment, new legislation has to be thoroughly scrutinised for its impact on economic and competition aspects at both national and European levels. The adoption of these assessment criteria prioritises competition and effectively pre-empts any significant attempts of new legislations to challenge the dominant logic of competition (Commission of the European Communities, 2002, 2005, 2006). Further regulatory attempts should be kept at minimum level, thus locking the abilities of new legislature into a framework that promotes the market rationale. The market rationale "is no longer limited to the realm of the economy; it is now the organising precept of the juridical sphere" (Supiot, 2006, 116).

In this way, 'competition' becomes the main principle of policy making, setting in motion a regulatory mechanism that rejects any policy that might harm competition and only allows policy proposals that are compatible with this logic. This 'cata-regulation' or 'meta-regulation' (Supiot, 2006) provides a new mode of governance that tends to exclude or dominate competing ways of understanding regulatory policy choices. It institutionalises a presumption in favour of market governance, which causes bureaucrats to reframe or 'translate' aspects of social welfare that previously may have been expressed

in the language of need, vulnerability or harm into the language of market failures or market distortion. (Morgan, 2003, 2.) These attempts to 'economise' social spaces using 'top-down' means are witnessed strongly in the case of the 'Bolkestein proposal' and the EC directives. However, the pressures do not stem just from the bureaucratic and political elites in the EU. European firms based on the EU legislation are effectively driving a competition between national labour laws (Supiot, 2006). As it will be shown next, many ECJ rulings did not explicitly touch upon harmonisation but instead opted for consolidating competition between state regulations as the key principle for regulating socioeconomic conditions within the European social space.

Collective action vs. 'freedom to provide services': the Laval case

All of the four ECJ cases discussed below illustrate significant turning points in the competition between state regulations and in the shifting role of national collective bargaining between labour and capital. The first case discussed here is the so-called Laval case, in which the City of Vaxholm in Sweden was interested to renovate a school and the city council selected the offer of the Latvia-based company Laval. In the agreement signed between the two contractors, it was stated that in order for the collective agreement between the firm and its employers to be effective in Sweden, collective bargaining should happen under the Swedish Labour law and the Swedish trade unions should thus participate in the collective agreements. Laval initiated negotiations with the Swedish construction union (*Byggnads*) but did not accept the terms and wage rates set by Swedish collective bargaining regulations and instead employed Latvian workers that would be posted to Sweden. Laval stated that it had the right to negotiate wages according to the Latvian collective agreements. *Byggnads* exercised their right – in accordance with Swedish labour law – and reacted with industrial action and a blockade.

The first collective agreement in Latvia came in 2004 and covered only the members of the trade unions. Since Laval workers were not unionised, the company could not have legally stated in the Vaxholm case that it followed the Latvian collective agreement. However, soon after the first agreement, a second national collective agreement became effective in Latvia. It provided

coverage to all employees and issued that workers in Latvian companies can be legally represented only by the Latvian trade unions and therefore any collective agreement should be in accordance with the Latvian laws (Byggnads, 2005). The response of the Latvian government, the alteration of the coverage of the collective agreement, was both reflexive and strategic. It outright manifests how important the role of the state is in facilitating competitive advantages for national capital interests.

The Latvian company was able to exploit the confusion between the Swedish labour law and the EU laws. According to the latter and the freedom of establishment, every employer should pay workers at least the national minimum wage. The crucial point here is that the Swedish collective bargaining is not binding for all workers and employers, and the state will not enforce such agreements.²⁷ Due to well-organised trade unions and employers' associations, the Swedish collective bargaining achieves a great coverage and problems of collective action are thus dealt by the central and industry-level organisations. Despite their extensive legislative framework and application, the Swedish industrial relations do not declare a minimum wage. Part of the unions' strength stems from their negotiating power in determining wages with employers. Therefore the existence of a minimum wage would undermine their power as actors and as social partners.

Laval pointed out that since there is no minimum wage and the application of agreements is not binding, the company is not obliged to pay the wage that is determined by the Swedish social partners. While the Swedish centre-right government backed up the unions, the Confederation of Swedish Employers (*Svenskt Näringsliv*, SN) supported and funded Laval's case before the court. (Woolfson & Sommers, 2006, 59–61.) Laval took the case to the Swedish Labour Court and SN took it to the European Court of Justice (ECJ) with the question whether the Swedish trade unions' right to collective action is at odds with the 'freedom to provide services principle'.

In December 2007, the rulings of the ECJ were received with conflicting emotions from various actors involved in the case. SN was delighted with the rulings and stated that "this is good for the free movement of services. You can't raise obstacles for foreign companies to come to Sweden" (Financial

²⁷ *The same applies for Danish and German collective agreements.*

Times, 2007). The ETUC received the ECJ ruling with ‘disappointment’ and regarded the decision as a challenge for the successful ‘models of flexicurity’ (European Trade Union Confederation, 2007a). It is clear from the rulings that the ECJ prioritised competition and the freedom to provide services over the right to collective action:

“It must be pointed out that the right of the trade unions of a member state to take collective action by which undertakings established in other Member states may be forced to sign the collective agreement for the building sector – certain terms of which depart from the legislative provisions and establish more favourable terms and conditions of employment – is liable to make it less attractive or more difficult, for such undertakings to carry out construction work in Sweden, and therefore constitutes a restriction on the freedom to provide services within the meaning of Article 49 EC (i.e. provision of services).” (European Court of Justice, 2007a, Point 99, parentheses added.)

Coordinated action vs. ‘freedom to establish’: the Viking case

The case of the Finnish ship *Rosella*, or its owner firm Viking Line to be more exact, is another court case that illustrates how EU is mediating a competition between different state regulations. The Finnish firm that operates the ship route from Helsinki to Tallinn discovered that if the ship was under the Estonian and not the Finnish flag it could benefit from lower wages and thus enhance its competitive advantage over other firms. The Finnish Seamen’s Union (*Suomen Merimies-Unioni*, FSU) contacted the International Transport Workers’ Federation (ITF) about the intentions of the Finnish shipping firm. The ITF advised FSU that according to the Flags of Convenience policy, wages and conditions of employment are to be decided upon the Finnish national agreements irrespective of the company will to employ Estonian workers because the ship is owned by a Finnish firm. At the same time as the negotiations for collective agreement between the Viking Line and the FSU occurred, the company applied to the Court that no agreement would have

an immediate effect (European Court of Justice, 2006). As a response, FSU declared a warning for industrial action in November 2003.

Viking Line appealed to the Finnish Courts in order to cancel the industrial action of the trade unions and also to ask for compensations. In December 2003, both actors re-entered negotiations and a new revised agreement was reached. However, in 2004, Viking Line addressed the UK Commercial Court since the ITF had its base in London. The judge's decision was against the coordination of action on behalf of the trade unions. The decision stated that trade unions could result in industrial action for the re-flagging of the ship. The judge forced ITF to withdraw all letters to affiliated trade unions. The rationale of the decision was that the actions of the FSU and ITF was against the EU law and hampered competition. The Finnish unions appealed and the case was referred back to the ECJ.

In the Viking case, the ECJ recognised a fundamental the right to collective action if all other means of protest are exhausted and if the action does not harm the freedom to provide services (European Court of Justice, 2007b, point 44–5). The vagueness of this ruling is rather obvious. (Can a right be both fundamental and restricted by conditions, especially if the latter are not clear?) The judgement of the ECJ is not denying the unions' right to collective action in the national spaces of action but subjects it to certain conditions: 1) the action has to be a last resort and exhaust other means that do not harm operation of the firms and 2) that actions to block 'the freedom of establishment' are justified if they result in worse working conditions.

While the rulings on the Viking case were received with more enthusiasm by ETUC, they missed a significant point in our opinion. The ECJ is safeguarding employees' right to collective action as much as it is willing to prevent a coordinated action on behalf of national unions within the European social space. The ECJ pre-empts abilities of unions to show solidarity through blockades in Europe since such action is deemed to exercise discriminatory effects on the freedom of movement for persons and to provide services (European Court of Justice, 2007b, points 57–66; see also Achtsioglou, 2010). The ruling of the Viking case manifests how the ECJ prevents coordination of union action across European social space and instead prioritises competition over the right to collective action.

Counting losses: ECJ rulings on the Ruffert and Luxemburg cases

Apart from the two cases that were discussed in detail above, two more cases ended up in the ECJ, whose decisions significantly challenged national collective bargaining and labour law across Europe. The Ruffert case refers to the ability of a Polish subcontractor to provide constructing services at 46.5 % of the wage rate that the German workers were entitled to. Similar to the Laval case, the ECJ declared that due to the lack of a minimum wage in Lower Saxony and to the lack of a universally (nationally) applicable collective agreement, any obligation for improving wages and working conditions under the German public law is not applicable but restrictive to the fundamental freedom to provide services (Schalchter & Fischinger, 2009).

In a recent judgment by the European Court of Justice (dated 15 July 2010) the German state was condemned over the practice of local authority employers to award contracts for pension services on the basis of a selection laid down in collective agreements. The Court ruled that although the right to collective bargaining is a fundamental right, the European public procurement rules should prevail (European Trade Union Confederation, 2010). The ECJ ruling refers to the precedent of Laval and Viking cases in arguing that the right to collective bargaining is withheld in order to secure the freedom to provide services and of establishment with the European social space. In the ruling of the Ruffert case, it takes a step further to question Member States authority on determining public procurement law:

“While it is true that the right to bargain collectively enjoys in Germany the constitutional protection conferred, generally, by Article 9(3) of the German Basic Law upon the right to form associations to safeguard and promote working and economic conditions, the fact remains that, as provided in Article 28 of the Charter, that right must be exercised in accordance with European Union law.” (European Court of Justice, 2010.)

In the Luxemburg case, the European Commission suggested that the Luxembourgian application of the Posted Workers Directive (PWD) was too

extensive. Luxemburg, in accordance with the PWD, set mandatory conditions under which posted workers can provide their services and effectively incorporated these changes under public policy provisions. The conditions were:

- the requirement of a written employment contract or a written document established in accordance with Directive 91/533
- the automatic indexation of remuneration to the cost of living
- the regulation of part-time work and fixed-term work
- the respect of collective agreements

The ECJ issued that the Members States' demands over posted workers' wages and working conditions, as posed by the country of destination, are restrictive to Article AC 49 and the 'freedom to provide services' principle. The ruling of the ECJ goes to suggest that "national mandatory agreements are applicable only when they do not violate the freedom to provide services" (European Court of Justice, 2008). In other words, the ECJ ruling in the Luxemburg case touches upon Member States' jurisdiction on what consists of a public policy provision since the ECJ ruled that national mandatory agreements are applicable only when they do not violate the freedom to provide services (ibid.).

The responses of the European Trade Union Confederation

Before the ECJ rulings the ETUC, which represents the vast majority of unions across EU member states, called Commission President Jose Manuel Barroso for a

"carefully balanced approach [...] ETUC is not opposed to the development of the internal market or the free movement of goods, capital, services and workers. Nor does it promote protectionism. On the contrary, it seeks a level playing field between Member states, based on fair treatment and upward harmonisation of workers' rights and conditions." (European Trade Union Confederation, 2006b, our italics.)

The ETUC responses to the rulings of the ECJ differed in the two cases. While it welcomed the decision of the Viking-case ruling since it recognised the right to collective action as fundamental (European Trade Union Confederation, 2007b), the decision for the Swedish unions was received with ‘disappointment’ (European Trade Union Confederation, 2007a). Almost two months after the rulings, the ETUC publicised its position stressing the importance of the cases and the need for Europe to ‘repair this damage’ (European Trade Union Confederation, 2008a). For the first time, ETUC stated in public that the right of collective action comes second after EU’s free movement provisions. It is clear that the plea for a balanced approach was not enough to prioritise social protection over competition rules, a hierarchy that should not come as a surprise since ETUC is not holding any significant structural power over EU decision making and clearly remains under the hegemonic vision of EU-elites.

It was only after the outcome of all four cases that the European ETUC (2008b) changed its discourse and its secretary John Monks admitted: “the score at the moment is ECJ 4, European trade unions 0; and I do not exaggerate when I say that we are reeling at the score”. ETUC recognised that these cases were fundamental not only to the ability of unions to defend labour standards (e.g. wages and working conditions) but also in the sense that collective bargaining and national labour law came second to the freedom to provide services and to firms’ right to establishment. As the ETUC recognised,

“the ECJ seems to confirm a **hierarchy of norms** (in the *Viking* and *Laval* cases), with market freedoms highest in the hierarchy, and collective bargaining and action in second place. This means that organised labour is limited in its response to the unlimited exercise of free movement provisions by business which apparently does not have to justify itself. Any company in a transnational dispute will have the opportunity to use this judgement against trade union actions, alleging that actions are not justified and ‘disproportionate’. [...] The ECJ interprets the Posting Directive in a very **restrictive** way. On the one hand, it **limits the scope for trade unions** (in the *Laval* case) to take action against unfair competition on wages and working conditions [...]. On

the other hand, it **limits Member States** (in the *Rüffert* case and *Commission vs. Luxemburg* case) in applying their public procurement law or public policy provisions on situations of posting to prevent disruption of their labour markets and unfair competition between local and foreign service companies.” (European Trade Union Confederation, 2008b, bold and italics in original).

The response of the ETUC as well as its analysis of the ECJ cases admitted not only that the main European trade union originally underestimated the challenges that the Service Directive and the application of the Community Law posed but mainly that the ECJ decisions on these four cases clearly sets a hierarchy of norms and priorities regarding the instituting logic of the emergent European social space.

Responding to ECJ ruling in the *Rüffert* case, John Monks, the General Secretary of the European Trade Union Confederation (ETUC) made the following statement:

“This is another damaging judgement for social Europe. [...] This judgment ignores the public authorities’ independence when they are acting as employers. More worryingly, it also confirms the supremacy of economic freedoms over fundamental social rights. The dark series initiated by the *Viking* and *Laval* cases is far from being over.” (European Trade Union Confederation, 2010.)

The response of the ETUC leaves no doubt that power imbalances are widening but at the same time demonstrate the weak position in which the ETUC is placed in terms of ‘balancing’ policy making within the European social space. Furthermore, the interpretation of the PWD subscribes to a minimum core of labour rights and allows foreign service providers to circumvent collective bargaining as set by the host country’s labour institutions (Cremers, 2008).

THE IMPACT OF META-REGULATION ON NATIONAL LABOUR INSTITUTIONS AND TRADE UNIONS: THE END TO NORDIC LABOUR MARKET PARITY?

We have highlighted at least two tensions that arise from the ECJ rulings. First, the power asymmetries between labour and capital are widening. It is clear in the ECJ cases that unions and employers strategically aimed at exercising their power not at their national or EU levels but, more importantly, within the emerging European social space of action. Firms such as Laval and Viking Line were willing to exploit the confusion among EU and national labour laws while the SN strategically aimed at undermining the institutional context that is meant to be facilitating its competitive advantage. Therefore employers mobilised their power resources at both the national and European spaces of action.

The ability of the unions to respond to these pressures through collective action in the national social space was condemned for harming competition and for violating the ‘freedom to provide services’ principle in the case of Laval in particular. In the Viking case, unions were able to act in coordination and effectively form a pan-European blockade that did not allow the Finnish firm to operate with Estonian wages and working conditions. The ability of unions to act in a coordinated manner across the European social space was, however, interpreted as a ‘discriminatory action’ against firms ‘freedom of establishment’. Therefore the ability of unions to protect wages and working conditions from the logic of market competition is hampered by what Wood (2004) calls the ‘extra-economic’, or an effort mostly concerned with the regulation of the economic, political and juridical coercion on social relations.

Secondly, the emerging European social space is indeed challenging national labour and political institutions. The first two ECJ cases discussed above illustrate the role of EU as framing different institutional orders for domestic actors. The literature on European integration so far stresses either the importance of nation states as the key actors (Moravcsik, 1993; Martin, 2004) while others (e.g. Fligstein & Sweet, 2002) prioritise the importance of European institutions in driving European integration. We argue that focusing on the national or/and the European level (the EU) is not adequately

capturing the process of European integration. The process is equally much about the criteria and the hierarchy of norms underlying the process of institutionally constructing the European social space that could effectively undermine the perpetuation of national market economies and their labour market institutions.

The ECJ cases demonstrate that the challenge for the governance of the European labour markets is not solely related to the competition of wages but also to how EU institutions might favour the inclusion of other collective agreements than the existing national ones – especially so in countries where no minimum wages are set as universal and mandatory, which effectively introduces an attempt for regulation of competition between (national) state regulations. This *meta-regulation* is mediating the decisions of the power imbalances between regimes to the national space of action. These ‘attempts aim not only to ‘economise’ social spaces (Morgan, 2003) but also, crucially, to make competition the dominant mode of instituting that space.

In essence, the ECJ recognises both social rights and market freedoms as fundamental for the regulation of the European social space. However, when these two principles collide, as they did in the cases discussed above, the ECJ decided to set a hierarchy of norms that puts competition as the superior principle for socio-economic instituting of the European social space (see Achtsioglou, 2010). In conclusion, the ECJ has exercised its juridical power to

- prioritise the freedom to provide services over unions’ ability for collective action both in private (Laval case) and public undertakings (Rüffert case)
- hamper the ability of unions to act in solidarity within the European social space (Viking case)
- challenge the EU Member States’ right to define public policy provision (Luxemburg case) and procurement law (Rüffert case) within their own social space

These rulings may produce significant challenges for national collective bargaining and public policy to address social risks that are generated and present in the European and national social spaces. This, as such, can be con-

sidered a major social risk – the risk of failing to respond to changing social risks. This risk is essentially structural and at the heart of the European integration project. It concerns the role of European juridical institutions and their ability not only to set a ‘hierarchy of norms’ but also to question national collective bargaining agreements and the ability of nation states to determine public policy provision. Inferring from the rulings discussed in this chapter, it is clear that the ECJ prioritises market principles over the right for collective action to tackle social risks.

The key question in the national contexts is how far market principles will continue to undermine and restrict rights that are considered fundamental in the national political economies. Some European national governments have already responded to the ECJ rulings. New German labour law withdrew the obligation for remuneration from collective agreements that are not generally applicable, Luxemburg exempted foreign service providers from the requirements of public policy provision (see Malmberg, 2010) and some states that have not set minimum wages, including Sweden and Denmark in the Nordics, are reforming their national labour laws.

It is clear that so far the ECJ has played a pivotal role in determining the priorities between social rights and market freedoms and demonstrated how European institutions challenge national governments’ authority to determine public policy procurement. That said, we do not expect nation states’ modes of instituting and models of political economy to wither away (Menz, 2003). However, what currently emerges from these rulings is a process of Europeanisation that emphasises regulatory competition among member states – a market for state regulations. The future of European national political economies and, in this respect, the future of all kinds of national institutional configurations in Europe is directly related to the institutional configuration of the emerging European social space. This space is not external to the development of the variety of welfare capitalisms and market economies.

The Nordic model is not an exception in facing these pressures. For example, the ECJ poses a direct challenge for the Nordic model of social risk management via collective bargaining in one thematic area: the minimum wage. The ECJ allows member states to declare minimum wages that are generally applicable in order to allow variation (and therefore competition). At

the same time, through the interpretation of the Posted Workers Directive (PWD), it suggests that posted workers' wages and working conditions cannot be determined through collective bargaining institutions of the host member state but is subject to the minimum core of wages and working standards declared nationally in the member state. As a result, the ECJ undermines the institutional role and the rationale of social risk management, since it encourages employers to bypass national collective agreements and prescribes competition as the main principle for instituting labour relations.

The ECJ rulings touch upon the cornerstone of labour market parity: the determination of wages based on the recognition of reciprocal interests by both the workers' and the employers' representatives. At the normative level, it could be suggested that the ECJ rulings place the interests of employers' first and regard unions as representing only a particular group within the society. At the institutional level, the declaration of a minimum wage in the Nordic countries 'distorts' the mechanisms of labour market regulation, since it essentially provides disincentives for employers to enter into negotiation and for unions to represent workers' interests in the first place.

Towards European labour market parity?

As it was noted in the beginning of this chapter, the Nordic labour market parity principle can be regarded as an alternative to the current European mode of organising industrial relations. The alternative resembles the early position of ETUC, which requested for a *carefully balanced approach* to ensure level playing field between Member States and aimed at the fair treatment and upward harmonisation of workers' rights and conditions. The plea of the ETUC can be seen as an extension of the labour market parity principle at the European level through the recognition of reciprocal interests between member states as well as between European-based labour market actors. The ETUC plea did all but lead to this kind of outcome. The outcome of the process was one of a great power struggle, which ETUC tended to somewhat neglect. We have not yet witnessed a similar struggle to institute the parity principle at the European level.

As we have showed, the shifting of governance and scale of action should be a strong signal for trade unions to react by re-orienting their actions to the emergent European social space. Unions' responses at the national level alone are deemed ineffective and any attempt to promote protectionist measures will promote welfare nationalism at best. It is clear that it is this new social space in which trade unions – among other social groups – should coordinate their actions and seek alliances. For example, the attachment of a 'progressive social protocol' that will safeguard social rights over economic freedoms in European treaties, as suggested by the ETUC, could be extended to address not only trade unions interests but also other social groups (e.g. agrarians). The ETUC proposal aims at prioritising social rights over market freedoms but the call for such a protocol has, at least so far, fallen on deaf ears.

For us, it is certain that the potential counter-movement cannot be exhausted in the role of organised labour or at the national level of action. It is in the thin new European social space that European trade unions among other social groups should coordinate their actions and expose socio-political character of the 'economic' and provide proposals for an alternative institutional order in Europe. For trade unions, it is also necessary to retain the effective capacity to operate as agents of social change in the emerging European social space in the first place.

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