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# **Social Democracy Lost**

- The Social Democratic Party in Sweden and the  
Politics of Pension Reform, 1978-1998

SOCIAL DEMOCRACY LOST – THE SOCIAL DEMOCRATIC PARTY IN SWEDEN  
AND THE POLITICS OF PENSION REFORM, 1978-1998

By

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### *Abstract*

In this paper, the latter-day Swedish pension reform of the 1990s is studied from a power-political perspective focusing on the involvement of the Social Democratic Party.

Few episodes in the history of Swedish social democracy have been as widely celebrated as the struggles of the 1950s over the development of the pension system. The debates strengthened the collective affiliations of those involved and eased the task of explaining to voters how the political parties differed from one another at a time when social welfare was beginning to be viewed as political public property.

In perspective, and as much research indicates, the institutional design of the Swedish pension system in terms of the so-called “income security principle” was to have far-reaching power-strategic consequences. By limiting the scope for insurance alternatives offered by the financial markets, and by guaranteeing the living standard of a broader stratum of wage earners, it contributed to the middle class’s integration into the emerging welfare state. In addition, it strengthened the Social Democratic Party’s standing with its electoral base, thereby helping to ensure the party’s its long-term incumbency.

Despite this heritage, a broad consensus of the social democrat submitted to the Swedish Parliament in 1994 guidelines for a pension system reformed in a different direction.

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Despite this heritage, a broad coalition of parties including the Social Democrats submitted to the Swedish Parliament in 1994 guidelines for a pension system reformed in a different direction.<sup>1</sup> The 'best year' formula of the old ATP system, which upheld the principle of income security, and under whose terms the pension had been based on the average of fifteen highest years' earnings in a working life of thirty years, were to be replaced by an equity-based principle. More precisely, the size of the individual pension was to be calculated in terms of the retiring worker's total lifetime income. Differences in benefit outcomes were, however, to be kept within proportions. In addition to some well-defined distributive elements which safeguarded the 'reasonable possibility' of getting by on one's pension, the new system was thus also complemented by a 'social minimum standard' for citizens whose lifetime incomes would be too low to entitle them to an earnings related-pension.

The fact that the new pension system no longer sought to guarantee citizens' living standards after retirement meant that social equality and solidarity within and between generations was to be made subordinate to individualised equity and personal incentives. Other

novelties of the new system included the introduction of a limited 'second pillar' whereby benefits became dependent upon an individual's assets at retirement, and that the 'ceiling' limiting benefits from the earnings-related pension would be indexed to income and wage growth, rather than to price increases as before. The latter innovation was to entail financial risks, something that would later be addressed by the introduction of a special reduction mechanism which future governments would be required to activate in times when economic growth was low, pensioner cohorts large, and unemployment high. Of course, under comparable conditions the ATP system could also suffer from an imbalance between income and expenditure. The new aspect of the 1994 reform was that risktaking under such conditions became de-collectivized. If the new system slid into deficit, it would automatically be seniors themselves who picked up the bill through lower pensions and not the government, who would under the old rules have been required to persuade Parliament to inject more money into the system.

However, it is politically meaningful to describe the difference between the old and the new Swedish pension systems as above, particularly from a social democratic perspective. Whereas the old system had aimed for just results or distributive justice (that is, security of living standards), the new system would aim for just procedures or procedural justice. The difference can seem inconsequential, given that the old ATP system was also predicated on benefit assessment procedures which individual pensioners may have found just in greatly varying degrees. But where the ATP system's procedures were constructed by policymakers precisely in order to guarantee living standards, the new pension system appears to lack a corresponding distributive goal. Justice here lies in the procedures on the basis of which pensions are distributed, not in the outcomes that the procedure leads to when applied (Lundberg 2003).

In this chapter, the latter-day Swedish pension reform of the 1990s is studied from a power-political perspective focusing on the involvement of the Social Democratic Party. There are two reasons why the pension question is a good point of departure for research on social democratic political development in Sweden during the 1980s and 1990s. The first has to do with

the sheer extent to which the pensions system was re-designed in comparison to other areas of social policy. Other departures made during this period from classic post-war expansionist economic and social policy could certainly be explained or excused by reference to macroeconomic trends, power shifts, or to developments in societal values. By contrast, the decision to abandon the income security guaranteed under the Swedish post-war public pension model would seem to presuppose a fundamental change in the Swedish Social Democratic Party's very ideological outlook and political-historical self-image.

The second reason relates to the status of pensions in more recent research on welfare retrenchment. In this body of writing, pensions are seen as being particularly exposed to what have been called 'the twin pressures of economic and demographic change' (Bonoli 2000: 1). A greater degree of economic internationalization, it is argued, reduces the capacity of the state to generate new income at the same time as an ageing demographic entails growing expenditure. These two social changes are held to constitute strong motives for governments throughout the industrialised world, regardless of their political persuasion, to try to reduce the generous provisions of the post-war pension systems (Pierson 1996). The question is how the Social Democratic Party in Sweden has conceived and reacted to such challenges in the context of the post-war ATP system's special place within Swedish political culture.

The first empirical section of the chapter deals with the issue of why the party's leadership decided to abandon the old ATP system, and with the actions of the governmental so-called Pensions Working Group which presented the proposal for a new system. This section is partly based on interviews with leading politicians and policymakers, both within and outside the Social Democratic Party. The second empirical section addresses the Social Democratic Party's own internal decision-making process. How did the Social Democratic Party's internalization of the Pensions Working Group's proposals occur? The chapter concludes with some brief remarks about the power-strategic consequences of the 1994 pension reform for the Social Democratic Party. Questions such as these resist easy answers, of course, but this should not prevent us from

starting a discussion on the matter, one that will most likely continue for many years. (We are after all, dealing with a system whose chief architect believes will last ‘until the next ice age’.)<sup>ii</sup>

### **A Modern Mirror for Princes**

Most research about welfare retrenchment and reform takes the challenges facing political parties as given. A recurrent conclusion is that politicians almost always know what to do but seldom find the courage to do it. This dissatisfaction with the current state of affairs has led social scientists to begin thinking about the *political economy of political reform* (Myles and Pierson 2001). Why is it that reforms which are desirable for economic reasons have for political reasons not been implemented? And how is it that politicians sometimes manage to overcome obstacles to reform such as strong interests groups and their fears of voter retribution?

In order to answer questions such as these, a rich array of explanatory concepts has been developed. These include path dependency, which focuses on the inherent staying power of existing welfare institutions, and constitutional order which stresses the overall lawmaking framework (Pierson 1994; Swank 2002). A common denominator of these concepts, however, is the fact that actors are not needed in order to explain political outcomes. The independent variable is always something else, something more fundamental.

Nowhere is this tendency to downgrade actors stronger than in the specialist literature on the political economy of pension reform. Populations, especially in the industrialised world, are ageing and, in consequence, existing public pension systems are seen as burdened by escalating costs that, as the World Bank put it, ‘require high tax rates and deter private sector growth – while failing to protect the old’ (World Bank 1994). It can therefore be argued that there is a deterministic and pro-reform bias (in the restricted sense of the word ‘reform’) in this new welfare literature. Indeed, it could even be argued that it constitutes a modern Mirror for Princes, giving precise instructions to politicians about how to act in order to retrench, refinance, and restructure different welfare programs without losing political power.

The strategies presented are certainly Machiavellian in the general sense of the word, with the substance of concrete recommendations ranging from ‘divide and conquer’ and issuing *quid pro quos* to turning vice into virtue, and confusing the minds of the voters and the opposition (Pierson 1994; Levy 1999; Bonoli 2001). The realm of the possible largely depends on institutional factors (or path dependence) such as the programmatic structure of the welfare state in question, and whether it is classified as social democratic, liberal or conservative, to use the typology introduced by Gøsta Esping-Andersens (1990) in his book on ‘three worlds of welfare capitalism’. The decisive factor, it is argued, is the strength of organised interest attached to different schemes. For this reason universal and corporative schemes are generally held to be less vulnerable to retrenchment than targeted ones (Pierson 1994; Bonoli et al. 2000; Swank 2002).

Consequently, another question for governments to consider is to what extent they have to pay attention to the opposition. Many welfare researchers stress the importance of institutional veto points in the decision-making process, that is to say, the elements in a country’s constitutional order such as the structure of parliament or the design of the electoral system which force governments to the negotiating table (Immergut 1992). Proportional electoral systems such as Sweden’s often lead to coalition or minority governments, something that limits the latter’s decisionmaking capacity since a coalition partner can always threaten to join the opposition if its policies are not honoured by the leading party or the other parties in the coalition (Bonoli 2001).

The Swedish constitutional order is characterized by few veto points and a relatively high concentration of power. Constitutionally, there is nothing that prevents a majority from implementing a policy of retrenchment policy since it cannot be blocked in any other arena (Holmberg and Stjernquist 2000; Steinmo 1993). Moreover, Swedish governments can rely on a high degree of party loyalty. Unlike France, for example, individual members of Swedish Parliament rarely turn against their own party, at least not when governmental power is at stake (Immergut 1992). Despite these constitutional particularities, outright majority politics is a fairly



uncommon phenomenon in Sweden since, as has already been indicated, proportional election systems seldom lead to majority governments (Duverger 1964).

Most research has instead shown that the Swedish system has contributed to the emergence of a class-based or corporative political culture in which the political parties, understood to be the representatives of legitimate interests, constitute checks and balances upon each others' expectations (Steinmo 1993). Another characteristic feature of the Swedish political tradition is that many policy conflicts are solved at the executive level in cross-party governmental committees before reaching Parliament (Immergut 1992). Only occasionally have questions of real importance been brought to Parliament for a final settlement. One of these critical junctures, of course, was the decision in 1958 to adopt the ATP pension system (Molin 1967).

It should be noted, however, that the potential effects of the variables discussed in more recent welfare research are at cross-purposes, at least if they are applied to the Swedish case. Whilst the constitutional order in Sweden seems conducive to systemic reform, the programmatic structure of the welfare state and the absence of strong governments indicate the opposite. To complicate this matter further, the politicians who are supposed to tackle the tasks regarded as crucial by the academic community are in themselves not unbound by their previous political commitments. In fact, they are encumbered by history and identity, and in many cases, as with the Swedish social democrats, by a history and identity that are closely tied to the very systems now being called into question. For Swedish social democrats, for example, the post-war ATP system was for decades understood to be both an end (liberation from market dependence) and a means (a strategy to consolidate political power), leading towards democratic socialism (Lundberg and Petersen 1999).

Rather than just tackling demographic and economic change, what created troubles for the social democratic leadership was how to address change without ceding power to the non-socialist opposition, and, more importantly: how to do so without dissolving the party's ideological borders to the left or to the right. On the one hand, the process of attempting this

alignment, to borrow a concept from the French historian Gerassimos Moschonas (2002: 3), risked resulting in a ‘radical loss of identity’. On the other hand, during the 1980s it became increasingly difficult for leading social democrats to defend their traditional ideological positions against a background of acute fiscal problems and disquieting prognoses of the future. Thus, unconditionally defending the ATP system in its original form, even from a social democratic perspective, came to seem like an extreme position. The leadership may well have seen itself as vulnerable to the charge that could be levelled at the party itself: of abandoning pragmatism for an alliance with destabilising forces such as reformed communists, populist parties, French farmers or others suspicious of a leap in the dark.

### **A Historic Prologue**

In the decades following the 1958 decision, the basic principles behind the ATP system slowly also came to be accepted by the non-socialist parties. During the 1970s representatives of the non-socialist parties repeatedly assured voters that the pension struggle belonged to a distant past, an assurance that likely helped them to secure their second consecutive election victory in 1979, albeit with a narrow margin (the balance of power in Parliament hung upon a single seat). But this also meant that their room for political manoeuvre was limited when the effects of the second oil crisis began to make themselves felt in Sweden (Lundberg 2003).

This became apparent in March 1980 when the newly elected government announced plans to change the basis of calculation for outgoing pensions. Benefits remained tied to price increases but increases in energy prices were no longer to be included in the index formula. In reality, the consequences of the proposal would have been almost impossible to anticipate and it contained no provisions in this regard. Rather, the proposal was filled with obfuscation as well as division and compensation, to use Paul Pierson’s (1994) terminology. While the actual budgetary savings which related to all retirees was obscure, with whatever effects the proposal entailed being spread out over an indefinite period of time, the compensation made to low-income pensioners was

transparent and immediate, and could be accounted for in exact figures. Importantly, the government never bothered to anchor their proposal in negotiations with either the opposition parties or seniors' organisations. Instead, they chose to explore a so-called strategy of exclusion based upon their narrow majority in Parliament (Lundberg 2003).

The social democrats reacted in the strongest possible way within the limits of the Swedish constitutional order, and given their minority position in Parliament. Only a couple of days after the government proposal was first introduced, Social Democratic Party leader Olof Palme called for a vote of censure in Parliament on the grounds that the government lacked a mandate from the electorate to undermine pension benefits (Parliament of Sweden, 1980–81: 12). In his speech to Parliament, Olof Palme stressed that he understood that it would be a long and laborious road to reconstruct the Swedish economy and that earlier commitments might be reassessed. But, he argued, the crisis was not so deep that the pensioners should be first in line among those who were forced to abandon their rights (Parliament of Sweden, 1980–81: 5–6). The promise to restore pension values was later enforced in a resolution or special statement by the Social Democratic Party Congress in Gothenburg in 1981.

Social democracy rejects the government's attacks on the social welfare system.

Last year's decision to change the basis of calculation for the pension system is a deathblow to the ATP system. It affects not only today's pensioners, but also the pensioners of tomorrow. We call for the reintroduction of stable values in basic pensions, the ATP, and other social security reforms.... We stand by our duties towards pensioners and will defend the social security which the labour movement has established in our country (SAP 1981: 244).

The struggle for stable pension values returned as the main theme in the social democrats' election campaign two years later, a straightforward strategy which, according to electoral

researchers at the time, helped them to regain power after six long years in opposition (Holmberg 1984). As early as the planning stage of the election campaign, however, it was possible to detect concerns on this score within the social democratic leadership (Lundberg 2003). The pension question was a growing problem. According to Kjell-Olof Feldt, Minister of Finance (1982-1990), the party's promise to restore the original index formula was only a minor concern in this matter: 'The ATP system was constructed for a growing economy' (SAP 1980). Olof Palme's response to Feldt's comment was to outline in two consecutive stages what can be described as a strategy of inclusion. In the short term, the party would have to stick to its promises from previous years; in the long term, a more sustainable solution to the pension problem was needed (SAP 1980).

Only a few weeks after the election, the new Minister of Social Affairs, Sten Andersson, announced the government's intention of carrying out a thorough overhaul of the public pension system. The appointment of the relevant inquiry commission, however, was severely delayed (Lundberg 2003). Instead, the social democrats soon found themselves facing persistent accusations of betrayal, very similar to those they had themselves thrown at the previous non-socialist government (Lundberg 2003). Even though they restored the index formula as promised, they failed to reach agreement with representatives for the pensioners or to secure a permanent exception for the particular price increases which would most likely follow upon a devaluation of the Swedish currency (a necessary element in their overall strategy to boost the economy). Reprisals from the non-socialist parties came almost immediately, with accusations flying both in Parliament and in the press that the social democrats had deliberately lied about their true intentions and thus hijacked the election (See e.g. Svenska Dagbladet 17 November 1982; Dagens Nyheter, 26 November 1982).

### **The 1984 Pension Committee and the Reification of the Future**

The debate about pension benefit indexation which continued for the remaining part of the 1980s became extremely bitter (Lundberg 2003). When the so-called Pension Committee finally began its work in November 1984, it had been preceded by a long and agonizing political process. The committee gathered representatives from all parts of Swedish society: the political parties, government agencies, trade unions, seniors' and business organisations. It worked for six years and presented a large number of reports (Lundberg 2003). Despite this effort to establish a new consensus, the Pension Committee never managed to reach an agreement on the direction for future reform (SOU 1990:76). Its mandate was very limited. It was not commissioned to propose any changes in the formula for benefit determination, and the principle of income security was not to be touched. The purpose of the committee was, rather, to examine the system's internal liabilities, its consequences for the economy as a whole, and to give advice on how future benefits could be financed in a responsible and sustainable way (Government of Sweden 1984).

However, the Pension Committee did not succeed in presenting any tangible proposals. From the many reservations which were added to its final report in December 1990, one can conclude that it was riven by internal conflicts (SOU 1990:76). The non-socialist parties actually returned to their policy positions during the struggles of the 1950s. Representatives for the Centre Party argued for a transformation to a basic security model, and representatives for the Conservative Party and the Peoples Liberal Party wanted the new system to be more firmly rooted in actuarial principles (Lindbom 2001). The trade unions had differing views on many decisive issues, and the seniors' organisations opposed every suggestion which would entail a reduction of future benefits. For their part, representatives for the social democrats were more or less biding their time. Despite this gridlock, the committee's overall importance should not be underestimated. Knowledge of the ATP system's volatility raised the pension debate to a new level and created a disquieting scenario for the future, which further limited politicians' perceived room for manoeuvre (Lundberg 2003).

Paradoxically, the Pension Committee also helped to liberate the pension question from its controversial history. At the beginning of the 1980s, both the social democrats and the non-socialist parties based their rhetoric on some kind of welfare-political peripetia. For the social democrats, the development of the ATP had been an historical success—Sweden’s journey from ‘a poor house’ to ‘a people’s home’ – that had been reversed during the non-socialist parties’ terms in office. For the non-socialist parties, meanwhile, the dramatic shift was from ignorance to certainty about the problems facing the ATP system, problems which the social democrats were stubbornly denying despite the facts. Whereas the future envisioned by the social democrats was tied to the preservation of the ATP system, the non-socialist parties called for immediate action. The welfare state could only be saved for future generations, they argued, by intervening in the current benefits system.

In contrast, the vision of the future presented by the Pension Committee was independent of policy disagreements in the past. While the conflicts triggered by the non-socialist parties’ austerity plan at the beginning of the 1980s mainly concerned the kind of future that ought to be created, the discussions which followed in the middle of the Pension Committee’s reports at the beginning of the 1990s revolved around how a future widely seen as alarming could be avoided. With this shift in perspective, the future lost its open-ended character. Instead, it was fixed by statistical prognoses that in themselves encouraged cross-party co-operation on a long-term basis (Lundberg 2003).

An important question is how the social democrats situated themselves in these debates. By acknowledging the committee’s prognoses, they could choose between three alternative strategies. Perhaps most convenient was to preserve the principles of the ATP-system. Politically, however, this was a well-trodden path. During the 1980s, both social democratic and non-socialist governments had found out what it meant to try to administer the existing system. Moreover, such attempts had resulted in tiresome frictions within the Social Democratic Party leadership. The Pension Committee’s experiences also indicated that it would be difficult to

establish a long-term compromise through proposals based upon a revision of the existing system.

Another possibility, of course, was to bury one's head in the sand and hope that incipient problems would disappear by themselves. This was in many regards a problematic solution which in the long run would likely have undermined the principle of income security. In one of its reports, the Pension Committee showed that this process already was under way: partly from the top as more and more wage earners had incomes above the income ceiling, and partly from the bottom as a result of the system of targeted pensions, available only to seniors who were also entitled to basic pensions (SOU 1990:76). Another problem was that the Conservative Party had already opened the way for a gradual transformation from a comprehensive model to a basic security model complemented with private insurance alternatives (SOU 1990:76, 580).

The third alternative was a fundamental restructuring of pension distribution. At the beginning of 1991, Anna Hedborg, Social Democratic senior advisor at the Ministry of Social Affairs, began to formulate a more radical solution to the pension problem. Her work was authorized by the Minister of Social Affairs, Ingela Thalén, but otherwise available only to a small group of experts. The Social Democrat's national Party Board, for example, was not informed at this stage. Nevertheless, it was in this context that transformation to a system of defined contributions was discussed for the first time by leading social democrats. Symptomatic of the prevailing climate of uncertainty was the fact that the pension question was hardly mentioned during the 1991 election campaign.

How should we understand this ambivalence? The social democrats' political ownership rights to the pension system meant that a thorough reform could easily have resulted in confusion among its membership and falling approval rates. Over the decades, the party leadership itself had contributed to giving the ATP system an exclusive position within the party's own historical writings, and many older party members had memories of their own from the struggles of the past. It was therefore important for the leadership to proceed carefully and to

think strategically, not only about the political initiative as such (what to do, how to do it) but also the timing (when to do it).<sup>iii</sup> The dilemma faced by the party was how to explain to its members and supporters the need for a reform that easily could be described as a departure from its traditional approach. A precondition for any progress was the creation of a dynamic that differed both from the epic debates over principle of the 1950s and the low-intensity warfare over nickels-and-dime issues of the 1980s. This could be problematic task indeed.

*Firstly*, at the time no body of support for systemic reform existed within the labour movement. The ATP system had been the social democrats' own initiative, something they had achieved only after a fierce struggle against a unified front of non-socialist parties and organised business. Moreover, the fundamental social security problems for both pensioners and wage earners had already been solved by the time the process of reforming the pension system began.

To be sure, some critical voices could be heard even within the rank and file.<sup>iv</sup> Representatives for the Social Democratic Women's Organisation, for example, repeatedly criticized the ATP system from a feminist perspective, and several opinion polls at the beginning of the 1990s revealed that a growing fraction of the population doubted that the ATP system could deliver on its promises. Another sign was that savings in private pension funds were increasing. But it is also important to acknowledge that these tendencies pointed in different directions. While the Women's Organisation basically wanted greater expenditure on the existing system, the distrust manifesting itself in opinion polls and private pension savings trends served to underscore the appeal of different, non-socialist alternatives (Lundberg 2003).

*Secondly*, the old-age crisis was not visible in the everyday life of the electorate (Palme 1992). To believe that something had to be done, it was not enough to simply take a look around. For this one needed statistical training and a professional understanding or theoretical expertise of economics far beyond what can be expected even from those educated citizens who constitute the basis for a political democracy (Marier 2001).



This is not to suggest that the social democratic leadership was indifferent to the labour movement's traditional ideology and interests, or its identity and history. Rather, as soon as it began to receive information about the problems facing the ATP system, it began in some sense to treat aspects like these as political mediating variables. When the social democrats went to the polls in September 1991, information about the looming old-age crisis had reached leading politicians, and within the Ministry of Social Affairs, Hedborg and her group of experts were working with a more radical solution. Yet the situation called for a specifically social democratic plan of action. As far as voters could tell, the social democrats were continuing to defend their historical victories and the principle of income security against the delegitimizing efforts of the political right.

### **The Parliamentary Working Group on Pensions, 1991–1994**

When the social democrats lost the election in 1991, responsibility for transforming into policy the body of information about the future created by the Pension Committee devolved upon the victorious coalition of non-socialist parties.<sup>v</sup> The truth of the matter, however, was that it was a weakened political constellation that entered government in 1991. Externally, it lacked its own majority and had to rely on the newly founded populist party, New Democracy, or the socialist opposition. Internally, it was composed of four different parties. As regards the pension question, the policy differences within the government were almost as great as those between the government and the social democratic opposition (Lindbom 2001).

Yet it soon became obvious that a thorough pension reform was a top priority for the newly elected government. As early as his inaugural speech to Parliament, on 4 October 1991, Prime Minister Carl Bildt invited the opposition parties to negotiations over the future of the public pension system (Parliament of Sweden, 1991–92: 2–15). In this way the strategy of exclusion of the early 1980s was replaced by a strategy of inclusion premised upon the possibility of establishing a multiparty agreement. Bo Könberg, Minister of Health and a member of the

Liberal Party, was appointed to chair the new committee on pensions. He had also served as a member of the earlier Pensions Committee in the 1980s. In a break with the national tradition of broad interest group representation, Könberg chose to give the new committee a distinctly parliamentary composition; it later indeed took the name the Parliamentary Working Group on Pensions. Every political party represented in Parliament was invited to participate but the inner circle was to be as small as possible.<sup>vi</sup>

Nevertheless, the decision was very controversial at the time. Anna Hedborg confirms that it would probably have been impossible for a social democratic government to exclude trade unions and even business and seniors' organisations from such a decisive reform process.<sup>vii</sup> Consequently, the government repeatedly assured the interest groups that the new working body was not a governmental committee in the traditional sense of the word. The grounds for reform had already been prepared by the Pension Committee and now it was the responsibility of politicians to formulate concrete proposals.<sup>viii</sup>

The fate of the Parliamentary Working Group on Pensions was determined by the participation of the social democrats. Könberg confirms that he wrote the directives for the working group with a specifically social democratic audience in mind. Controversial issues such as pre-funding and the degree of redistribution were not included among the questions under express consideration, and the committee's overall ambitions were expressed in general terms.<sup>ix</sup> Thus it was not a vindictive right-wing government committed to installing a new and liberal pension system which presented itself in September 1991, but a panel of humble parliamentarians eager to take the baton being handed on by the policy experts.

The question is not only why the Bildt Government invited the opposition parties to participate in the reform process but why the social democrats accepted. It was, after all, far from obvious that the Social Democratic Party's leadership would feel compelled to participate in the working group since participation in a non-socialist led committee formed to establish a new pensions system could easily have resulted in internal conflicts and, in a longer perspective, a

painful loss of legitimacy. Moreover, by joining the committee, the Social Democrats assumed some of the responsibility for preventing the emergence of a critical pro-welfare coalition (Bonoli 2001). But social democrats also had good reasons for worrying about future developments. Since the Social Democratic Party possessed political ownership rights' to the ATP system, they would be hit especially hard by the dreaded financial collapse of the system in later years. And the party leadership still remembered the experience of its earlier retrenchment efforts during the 1980s, with the endless accusations of betrayal, the angry resignations, and the fatiguing internal conflicts between ministers and civil service departments.

That a non-socialist government took principal responsibility for the reform process was therefore almost a favour to the social democratic leadership. Any concessions could be justified by reference to the party's weakened electoral position. Externally, it could claim to be doing what it believed was necessary in a troublesome situation, and, internally, that it was only safeguarding the historical interests of the Social Democratic Party. This is not to say that individual members of the leadership espoused this line with enthusiasm. When asked in interviews about the party's decision to join the working group, it is their pragmatic dispositions rather than their ideological convictions which stand out.<sup>x</sup>

Anna Hedborg and Ingela Thalén were later appointed to represent the Social Democratic Party in the working group. Since the party lacked an explicit policy, as former chairperson Ingvar Carlsson explains, it seemed natural to authorize two persons who believed that they had some kind of solution. Together, Hedborg and Thalén represented both technical expertise and political skills, Hedborg as a trade union economist and advisor to various administrations, and Thalén as a former Minister of Social Affairs and long-time member of the national Party Board. This mixture was important, adds Carlsson, since any reforms would entail tough negotiations with the non-socialist parties as well as trying deliberations among the party's leadership and membership.<sup>xi</sup>

Formally, all political parties in Parliament were represented in the working group. In practice, however, substantial elements of the reform were thrashed out by an inner circle limited to the five parties which later supported the reform in public: the Conservative Party, the Liberal Party, the Center Party, the Christian Democratic Party, and the Social Democratic Party (SOU 1994:20). The Left Party and the right-populist New Democratic Party were not invited to join this inner circle, and both later registered formal protests in Parliament upon presentation of the final commission report albeit for different reasons.<sup>xii</sup> Yet the degree of consensus that characterized the working group's negotiations was remarkable, especially against the background of both the great struggles over principle during the 1950s and the accusations of betrayal during the 1980s.

How was it possible to establish such consensus on such a controversial subject? In addition to the political factors already discussed, it should be stressed that the pension system differs in many regards from other policy areas. For its credibility the pension system requires a stability which almost in itself produces long-term co-operation across party lines. After a decade of conflict, representatives of both the non-socialist parties and the social democrats apparently intuited the necessity of de-politicizing the pension question. Closing one's eyes to the spectre of looming financial danger was no longer considered a viable alternative.

Another explanation is that Sweden has a long tradition of successful conflict-resolution through cross-party governmental committees. The working group certainly built on this tradition. It was the political parties' most knowledgeable representatives who sat down together in order to come up with the 'best' solution to a common problem. But there were also exceptions from this tradition. As mentioned above, special interest groups were not invited, but instead directed to a separate reference group that met on only four occasions. Within the working group most resistance came from policy experts with close ties to the Ministry of Finance, which took a more budgetary approach to the pension question (Marier 2001).

This is not to say that the interest groups did not affect the final proposal. The Swedish Confederation of Professional Associations (SACO), for example, was supportive throughout the reform process. Könberg, as well as Thalén, explicitly mention Jan Bröms, an economist connected to SACO, as a source of inspiration. The Swedish Confederation of White Collar Workers (TCO) assumed a more sceptical attitude since the ATP system and its ‘best year’ formula benefited their members. The Swedish Trade Union Confederation (LO), on the other hand, quietly lined up behind the social democratic leadership. This moderation was important. Without LO’s silent support, it would likely have been very difficult for the Social Democratic Party to endorse a thorough or systemic reform.<sup>xiii</sup>

The economic crisis which hit Sweden at the beginning of the 1990s gave the working group the legitimacy it needed to get past some of the obstacles to reform that were integral to Swedish political culture and structure. Liberal and left-wing news papers alike viewed multiparty pension consensus as part of a national struggle for economic recovery (Lundberg 2003). The puzzling fact that the LO kept a low profile can to some extent be explained by the internal divisions within the organisation. While the leadership for the Metal Workers’ Union was quieted by a critical opinion among the rank and file, the leadership of the Public Sector Union more actively supported the final proposal.<sup>xiv</sup> Another explanation, however, is that the LO’s upper echelons shared the anxieties about the future of the ATP system. One is tempted to suspect some early behind-the-scenes agreement between the leaderships of LO and the party to support each other during a process that might have degenerated into a conflict within the labour movement between adherents and critics of the ATP system.

The concentration of ongoing policy negotiations in Parliament and the attempt to create a multipartisan majority were very deliberate. After decades of conflict, political parties actively sought out each other’s support. The government could hide behind a strong Social Democratic opposition and the opposition could take shelter behind a weak non-socialist government. A new and relatively autonomous political constellation saw the light of day, a constellation which

answered to neither special interest organisations nor to the electorate but to political parties alone. Through this mutual constellation politicians could also remove the obstacles to reform that have been highlighted by more recent welfare research. While power was concentrated among a majority in Parliament that did not have to fear vetoes or criticism by its opposition, responsibility was spread out over a constellation that did not have to fear repercussions from an angry electorate.

But even in a situation where most factors seem conducive to reform, it can still be difficult to change a mature pension system. More recent welfare research often refers to path dependence as a decisive factor, that 'choices made in the past systemically constrain the choices open in the future' (Myles and Pierson 2001: 306). Most pension systems rely on a contract between generations. Current employees make regular contributions which are paid out to those entitled to a pension. Such intergenerational agreements cannot be dissolved outright since it requires at least one generation to double its contributions.

Far from being an obstacle to reform, such path dependence seems to have worked to the Social Democrats' advantage: the fact that the political system was obligated to honour entitlements to pensions earned in the past prevented an offensive in line with the more radical proposals then flourishing in the liberal press. Yet this advantage should not be exaggerated. The non-socialist parties held winning hands. As discussed earlier, benefits from the ATP system were limited by an income ceiling tied to prices rather than to wages. Over time, this construction led to more and more wage earners being forced to pay contributions into the system that would not result in corresponding future benefits. Without concrete measures, the ATP system would eventually lose its status as foremost supplementary pension system to private alternatives (Lindbom 2001).

The institutional inertia of the ATP system, combined with the effects of the income ceiling, made it easier for the parties to reach agreement, at least on the importance of establishing some kind of consensus. With that they could put the lid on past disagreements and

prevent a new pensions battle. More importantly, the prospect of truly multiparty reform opened the way for a comparatively radical solution to the ATP system's financial problems. The willingness to find a compromise was evident in the parliamentary working group's working methods, which the interviewees described as characterized by trust. One self-imposed rule which benefited the outcome was that the members of the working group were supposed to reach an agreement with each other before they were allowed to consult with their respective party leaderships. New inflammatory debates about principles would in this way be prevented. Moreover, it was of the utmost importance that the contents of ongoing negotiations were kept out of the public sphere.<sup>xv</sup>

Not even the party leaderships could be trusted. Just as the ATP system was admired by most social democratic activists, so it was hated by many non-socialist politicians. The interviewees suggest that the members of the working group gradually developed a strong feeling of 'us and them', in which working group members' primary loyalty was to the multi partisan compromise which gradually began to take shape. Another important aspect was the fact that the individual members which constituted the working group liked and respected each other. Anna Hedborg explains:

I think it was important that Margit Gennser represented the Conservative Party. She is a tremendously independent and systematic person. She loves logic. If you challenge her with logical reasoning, she can't resist it. I'm like that, too, and so is Könberg. We are all issue-oriented types who find some kind of inspiration and legitimacy in the fact that things hold together, that things actually work in a certain way. This is a valid argument for all of us. We also had two very good politicians in the group, people who, you know, have their 'noses to the ground'. They were Ingela Thalén and Åke Pettersson from the Centre Party. Both of them have the ability to weigh up whether it is possible to make a certain proposal sound

reasonable to the outside world. And in some way I think that this was a fortunate combination, both that we were those kinds of people and that it was such a small group.<sup>xvi</sup>

The working group succeeded in carrying out its directives in only two and a half years. A preliminary memo was released in August 1992 and the final report was made public in January 1994. It should be stressed that, formally, it was not the new system as such that was thereby considered as settled but the principles that were supposed to guide the subsequent legislative process in Parliament. In reality, negotiations between the five parties supporting the reform continued within the so-called implementation group that was established in the summer of 1994. The special reduction mechanism, for example, intended to guarantee the financial stability of the new system, was not part of the original compromise between the Social Democratic representatives and those of the government coalition (Scherman 2004).

The overall compromise that was outlined within the working group emanated from three principle changes to the old system. Firstly, the system was to be transformed from one of defined benefits to one of defined contributions – that is to say, financial risk was transferred from the state to the individual worker. Secondly, the 15- and 30-year rules, or the ‘best-paid years’ formula, were abandoned in favour of an equity principle, that is to say, benefits were tied to past contributions rather than to a specific distributive goal such as the principle of income security. Thirdly, a shift was made toward flexible and delayed retirement. In addition to these principle changes in the public pay-as-you-go system, the working group proposed that a small part of the individual worker’s lifetime earnings should be set aside and transferred into a separate fully funded pension scheme with individual accounts (SOU 1994: 20).

Taken together, these changes were intended to serve the following purposes among others: to maintain the sustainability of public finances; to strengthen the incentive to work; to establish a flexible relation to demographic development (Lundberg 2003). A less obvious



rationale behind the reform, however, was to de-politicize the pension question once and for all. In its final report the working group explicitly acknowledged its intention of creating an autonomous system with ‘in principle complete compliance to economic development, and an adjustment to demographic changes concerning life expectancy and variations in the “provision quota”’. In this way, ‘the costs for the system will therefore be completely independent of these factors and will, as a result, survive without continuous political intervention’ (SOU 1994:20, 230).

According to more recent welfare research, what has been termed automatic politics is a tried-and-tested method for politicians seeking to avoid opposition to unpopular measures (Hinrich 2001). The special reduction mechanism is only one example of these de-politicized vehicles for benefit reductions. Another is the demographic component that ties the final replacement rate for Swedish workers to the life expectancy of the then retiring cohort (Fox and Palmer 2001).

It was a necessary condition of the compromise that the transformation from the old to the new system should take place at the level of general principles and that it should be carried out gradually over a longer period of time without being dependent on either increased contributions or reduced benefits. A central aspect in most of the alternative models presented at the time, defined by Könberg and Hedborg as a problem, was that every wage earner could easily calculate how he or she would be affected. The new system might imply a change for the worse, of course, but only for future generations of retirees.<sup>xvii</sup> Moreover, the effect of the new system on future benefits was difficult to assess since the effects depended in part upon variables beyond the individual’s control (demography and economy) as well as upon his or her own behaviour in the labour market (lifetime earnings and retirement age).

The working group’s proposal was adopted by Parliament on 8 June 1994 after a purely symbolic debate. Only thirteen Members of Parliament took the floor and none of the party leaders were present in the chamber when the compromise was signed (Parliament of Sweden,

1993–94: 25). Within just a few months the proposal had been debated by the relevant parliamentary committees and, as is customary under Swedish constitutional procedure, reviewed by all the parties concerned in connection with proposals submitted by governmental committees (Lundberg 2003).

And yet it was an extraordinary event. After all, the programme in question was the ATP system itself, a program that had defined the political landscape in Sweden for almost half a century and shaped the political climate for more than ten years. The picture that emerges from interviews is that the purposefulness of reform grew by degrees. When negotiations began, their end point was at least nominally open to question. But when the actors involved realized that a settlement was within reach, presenting a proposal before the election in September 1994 became an overall goal. The reason for this haste was a fear that some of the parties would make the reform an election question.<sup>xviii</sup>

This was no sacrifice for the social democrats. The Bildt Government's inability to handle the consequences of the economic crisis had already paved the way for a social democratic victory in the coming election.<sup>xix</sup> But, ultimately, even the Social Democratic representatives felt themselves to be in some kind of solidarity with the reform as such. 'A contributing factor', claims Anna Hedborg, 'was that the settlement was surrounded by "a gentlemen's agreement"'. This meant that the one who dropped out would be the one who had ruined an agreement on a major aspect of social benefit system'.<sup>xx</sup> It was not until the final phase of the negotiations, at the turn of 1993-1994, that conflicts started to emerge. At this stage, the discussions had become more focussed upon issues of scale: in part, the size and organisation of the fully-funded pension sub-system, in part the design of the income ceiling limiting benefits paid out from the public pay-as-you-go system.

### **From History-Writing to Prophecy-Making**

It is difficult to judge whether the new Swedish pension system is best described as a non-socialist attempt at downsizing the public sector or as a social democratic attempt to rescue the defining features of the ATP system. A purely social democratic reform would certainly have been structured differently: no premium reserve scheme, no employees' contributions, and possibly a greater degree of economic redistribution. Yet the basic structure of the reform would most likely have been the same, emphasizing equity instead of distribution, defined contributions instead of defined benefits, and flexible retirement age instead of a standard retirement age.

The character of the reform is hard to define because neither the parties nor the party coalitions involved bothered to frame the new system in ideological terms or to make it into an historical event of political significance. Instead, the focus was on complicated details and administrative aspects. One could argue that merely the fact that the new system was adopted between two elections shows that the actors involved were afraid of what would happen if the reform was put before the electorate. When five parties, constituting a cross-party majority in Parliament, not only reach an agreement but set out to do so, some essential elements of our traditional conception of the political have without doubt been attenuated. Both non-socialist and social democratic politicians were clearly tired of conflict. During the 1980s, the Social Democratic leadership had been forced, somewhat painfully, to admit to itself that the ATP system had lost its power as a historical reference point. The leadership neither wanted to nor was capable of energizing its membership in defence of the old order.

To borrow a phrase from Karl Marx, the 1994 Swedish pension reform could not 'take its poetry from the past, only from the future' (Marx [1852] 1971:37). Even so, it is essential to acknowledge that the consensus which emerged among the parliamentary working group, and which was subsequently sanctioned by the Social Democratic leadership, may have been a façade, hiding underlying change of principles and bitter internal conflicts. The hasty decision-making process meant that the Social Democratic Party Congress had no opportunity to prevent the Bildt Government's government bill from becoming social democratic policy. Even in terms of

the party's statutes, the reform existed in a kind of ideological void. It can also be reasonably assumed that it was easier for the leadership to settle for a compromise with non-socialist parties in the working group on a solution to the pension system's financial problems than to convince its own membership that the ATP system had outlived its usefulness.

Even if the average member of the Social Democratic Party did not know all the details of the ATP system, she was at least clear about why she called herself a social democrat or democratic socialist. She knew this, as Olof Palme once put it (invoking the historical achievements of earlier party leaders), in exactly the same way, 'as Branting did when he achieved universal suffrage; as Erlander did when he extended social security and ATP' (Palme 1982). As indicated by this quotation, the ATP system was by the time an important part of the Social Democratic Party's historical identity as a progressive social movement.

### **From a Non-Socialist Proposal to Social Democratic Policy**

The character of the decision-making process that preceded the historic compromise in the Swedish Parliament in 1994, to replace the old ATP system with a wholly different pension system, raises serious questions about where decisions in a political party are actually taken (Panebianco 1988, Koelble 1991). This aspect is rarely discussed in recent welfare research. And yet one can assume that the inner life of political parties is almost as important for an understanding of international variations as are institutional factors and constitutional procedure. As has been indicated, it was probably more difficult for the social democratic leadership to consolidate internal support for the reform than it was to reach a compromise with the non-socialist parties within the Working Group on Pensions.

Schematically, one could say that while the Social Democratic leadership acted carefully as long as it negotiated from the opposition benches with the non-socialist governmental parties in the working group – it only used the full power of the resources of the government when it subsequently had to convince members and membership organisations to accept the final

settlement (Lundberg 2003). For example, there were many opaque formulations in the discussion material which sub-national party organisations were provided with by the leadership during the first internal consultations in the autumn of 1992. This was problematic not least in that these materials constituted the party organisations' basic data for decisionmaking on the relative merits or demerits of the old and envisioned new systems. The material's basic argumentative thrust can be seen as an attempt to impose the new system while invoking the discursive framework and terminology of the old system (SAP 1992). In this way party members were presented with the perspective of the involved governmental inquiry commissions and working groups (SAP 1993c). However, the goals of the new reform process were portrayed exclusively as an attempt to preserve for the future the distributive logic of the old ATP system (SAP 1992).

It was not until the party congress of 1993 that it started to become clear for party members that the leadership was preparing for an agreement with the non-socialist parties on a new pension system. Whereas many motions presented by members and member organisations advocated improvements in the old ATP system, the leadership's official statements on those motions were instead grounded on the basic characteristics of what was now called a 'reformed' or 'modernised' ATP (SAP 1993a: 46–52). Under threat of losing a vote on the adoption of these official statements, the leadership was forced to back down, promising instead that a parliamentary decision would be preceded by a new round of consultations within the party organisation (SAP 1993b: 64–74).

Although the second round of consultations in the spring of 1994 aroused greater interest in the membership than that of 1992, it hardly delivered the results for which the leadership had hoped. Suspicion of the envisioned new system remained widespread, and many members and member organisations further questioned the very premises on which the new round of consultations had been based. The time-span required for organisational responses was seen as far too short for the organisations involved to be able to familiarize themselves with the lengthy

proposal. The question was widely seen as not having been thoroughly discussed. For many members, the reasons adduced by the leadership for a quick decision, including the risk of a struggle over pensions in the elections that September and the danger of renegeing on a multiparty pension agreement were incomprehensible (SAP 1994). After all, the matter under discussion was regarded as the fruit of one of the party's finest hours and the party's victory in the upcoming election was already a given. It was one thing to be represented on a multiparty committee convened to watch over the activities of non-socialist parties and quite another to help in the replacement of the ATP system with an entirely new procedure of benefit determination, whatever the appeal of putting off the pensions question until after the election (Lundberg 2003).

Despite the risk of generating internal opposition, the party leadership chose to line up behind the government's policy-proposal guidelines. This indicates the presence of an oligarchic tendency from the party leadership's side – defined here as distancing itself from its membership base in order to achieve a parliamentary decision (Teorell 1998). *Ipsa facto*, the gap further widened between the party's leadership and organisational base, something that was to affect the continued mobilization of support for pension reform within the party. Following the parliamentary decision, it became impossible in principle for the leadership to sustain continuity with the party's illustrious history of pension reform. Instead, the leadership was confronted with all the expectations regarding the ATP system that it had itself helped to create over the years. Whereas the leadership of the early 1980s had attempted to rediscover the spirit of the 1950s pension conflict, the mid-1990s leadership saw instead the return of the old conflict's ghost. This much became amply clear at the extraordinary party congress of 1996 at which both the new system and the party leadership's 'arrogant' actions were subjected to powerful criticism from delegates (SAP 1996a: 268, 310–314).

The party leadership was once again forced to retreat in order to avoid another defeat over its policy proposal in open delegate voting, a result that would have jeopardized the settlement it had concluded with the non-socialist parties in the parliamentary Working Group on Pensions.

Instead, the party membership was invited to its third consultation in a row. This time, a special committee was set up to produce as neutral discussion material as possible on which the members and member organizations could base their decision (SAP 1996b). However, the party leadership still nurtured the hope that members would conclude of their own accord that the working group's general proposals for a new pension system were the best possible and the most natural, even from a more narrowly social democratic perspective. The criticism of members was not seen as articulating an opinion which needed to be addressed but as expressing a vague disquiet which needed to be silenced (SAP 1996c: 132–136).

When the critical statements of referral by members during the third internal consultation in the fall of 1996 are examined more closely, it quickly becomes clear that these followed precisely the lines described above in the debate over the justice of the principles of the new system (SAP 1996d). While the party leadership argued for the procedural justice and actuarial principles outlined by the Working Group on Pensions, the members and membership organizations basically wanted to maintain the distributional justice of the old ATP system (Lundberg forthcoming).

In practice, this conflict of opinion could not be solved by democratic means, not least since the leadership had already committed itself to reform through the parliamentary decision of the summer of 1994. The final sanction of the working group's proposal as social democratic policy should therefore be seen in the context of the distribution of power between leaders and members in the party organisation rather than as a genuine expression of the party's will. A pension system is a complicated policy mechanism, and party members, lacking in both resources and expertise, found it difficult to offer credible alternatives to the proposals presented by the leadership. The leadership also had extensive opportunities to set the agenda for discussion: premium funding could be portrayed as a necessary concession to the right-wing parties in order to preserve a public pension system for all, and discussions could be steered away from the system's basic structure towards the smaller details (Lundberg 2003).

The party's internal opposition to pension reform, by contrast, was internally divided, and had its base in a far lower stratum of the party hierarchy. In the end, the opposition had to satisfy itself with largely symbolic concessions from the party leadership regarding the administrative organisation of the premium reserve scheme as well as the planned transition from employers' to employees' social insurance contributions as the basis for financing the system (SAP 1997a: 52–54). At 11:20 p.m. on 12 September 1997, the Social Democratic Party Congress at Sundsvall gave the final go-ahead to the parliamentary working group's proposal (SAP 1997: 157). Ten months later, on 8 June 1998, Members of Parliament enacted the agreement-in-principle from the years of the non-socialist government as concrete legislation. Sweden had a new pension system (Parliament of Sweden, 1997–1998: 120).

### **Concluding Remarks – A Pragmatic Decision to End All Pragmatism**

It is one thing to examine what the Swedish social democrats did to the post-war ATP system and quite another to speculate about what the 1994 pension reform will do to the Social Democratic Party in Sweden. As remarked in the introduction to this essay, it is widely believed that the principle of income security is central to understanding the Swedish Social Democratic Party's remarkable success in the post-war era. The ATP system, to borrow a formulation from Gøsta Esping-Andersen (1985), became a 'social democratic road to power'.

In practice, of course, it is impossible to predict whether the social democrats' decision to abandon the ATP system will mean that they have actively contributed to substantially changing the grounds for their own continued success. Only time will tell. Electorally, at least, they have partly recovered from the difficult 1990s (Holmberg and Oscarsson 2004). And yet I believe that this issue can be addressed, but from less obvious angles. For example, does the new pension system really indicate that the social democrats have distanced themselves from their ideals of income security and redistributive justice?



From a leftist crisis-centred perspective it can be argued that the 1994 pension reform demonstrates that the Social Democratic Party has sold out its integrity to become simply one liberal party among others. By this view, social democracy as we used to know it is either lost to the forces of structural change or has been sacrificed by the party's leadership to satisfy the wishes of financial markets and the presumed average voter. From a power-resources perspective, the new pension system and its institutional design might be seen as an indicative sign of a severely weakened social democracy no longer capable of holding the line against strong capitalist and employer interests. On this view, the Social Democratic Party is still struggling for income maintenance and distributive justice but from a disadvantaged position within a new and highly problematic policy terrain.

Recent welfare research focusing on strategies for retrenchment, refinancing or welfare restructuring, on the other hand, seems to be more flexible in its approach to social democratic parties' new choices in these areas. Throughout the industrialised world, governments of every stripe are understood to be assessing how the generous pension systems of the post-war period can be adjusted to new demographic and economic conditions. New modernisation theory, especially in its 'third way' variants, is characterized by a more positive attitude towards continued reform. In this framework, the reform of pension systems in general and the Swedish ATP system in particular are seen as expressions of eagerly awaited renewal. The emerging new systems are indeed 'better' than their predecessors.

However, common to all these explanatory perspectives is a downplaying of the role of the Social Democratic Party as an agent whose representatives are responsible for their own actions. It is seen as either having lost its way or as having become simply a part of the new environment. Newer modernisation theory undoubtedly invests latter-day social security system reform with a certain ideological content. The collectivist programmes of yesteryear, argues Anthony Giddens (1998) in his book on the Third Way, no longer correspond to the individualized risks of today. Ultimately, however, the labour parties of newer modernisation theory are no more of a subject

that actively affects political opinions than those of any other perspective. The signatures of leading social democrats may be found upon the documents authorizing change, but this is more historical coincidence than historical event.

Any attempt to give a fuller description of the new institutions is of course bound to be incomplete. Even so, I want to argue that the concept of procedural justice constitutes an appropriate point of departure for such attempts by making it possible to integrate the various institutional aspects of the reforms outlined above. Focusing on procedural justice also captures the change in principle as to what a pension system is supposed to achieve that is often missing from standard accounts of benefit levels, coverage, and financing arrangements in current welfare research. More precisely, this change implies that the criteria determining the pension system's fairness have been transferred from the concrete life circumstances of seniors to the abstract procedure through which pensions are determined (Lundberg 2003).

It follows that the internal debate within the Social Democratic Party between the leadership and the membership did not necessarily take place between groups with different views on the actual object of justice – that is to say, the benefits that are supposed to be distributed justly and that the scope of that distribution should be broad. According to the interpretation adopted by the Working Group on Pensions, pension systems do not constitute a large pot of money to be divided up according to a more or less complicated calculation, and the distributional outcomes do not correspond to some independent goal of varying practicability. The exponents of this view, the Working Group argued, create an erroneous image about what a pension system is and what it should and can do, and arouse expectations which are impossible to satisfy without serious consequences for the economy.

And so the pension reform in Sweden short-circuited the old pension battle in Sweden concerning the status of the principle of income security. If it is impossible to reach agreement on the independent criteria for benefit determination, better to have no specific distributive criteria for benefit determination at all. One consequence of this transformation, however, is that

the issue of old age security loses its status as a legitimate object for social conflict. The new pension system in Sweden does not recognize any social standpoint – gender, class, or ethnicity – from which its distributional outcomes can be criticized. Indeed, to question the distributional outcome of the system is the same thing as trying to shift focus from distributional procedures. Implicitly, a concern with results becomes as illegitimate as envying your neighbour's winnings at the end of a long night of poker.

Another advantage of the concept of procedural justice is that it deepens our understanding of how the compromise with the non-socialist parties was possible. The pension system in Sweden is still universal, but only in the limited sense that everyone is included. The purpose of universalism is no longer to equalize differences in the living conditions of senior citizens. Since differences no longer are viewed as threatening, they are not seen as challenging the consensus behind the new system. To use the concept coined by Michael Hardt and Antonio Negri (2000), one could say that the new institution functions in accordance with the 'law of inclusionary indifference'. No one is excluded from the system, but nor is there any reason to resist inclusion in order to escape any re-distributing mechanism. Instead, hierarchies and differences are regarded as creative elements in a competitive capitalist economy:

Setting aside differences requires us to regard differences as inessential or relative and imagine a situation not in which they do not exist but rather in which we are ignorant of them. A veil of ignorance prepares a universal acceptance (Hardt and Negri 2000: 198).

This is not to say that the problem of justice was unimportant to the party leadership – quite the reverse. But rather than providing a justification for a pension system based on procedural justice, it grounded the moral economy of the reform in the putative failure of the distributional

justice of the old ATP system: that it treated people differently, fostered intergenerational disparity, and created an unfavourable environment for economic growth.

The terms of the debate suggest many explanations for this transformation. However, an important piece of the puzzle which cannot be overlooked is that the very principle of income security which for decades was seen as an expression of social democratic power has become a subversive drawing-board construction. Attempts to defend the traditional pension model are increasingly regarded as highly dangerous. This is due not only to the flight of capital and voters that is seen as a consequence of what many researchers describe as a policy of destabilization. Equally important is the fact that continuation of the ATP system under present circumstances would conflict with the pragmatism of social democracy. Social democratic parties seldom go to excess, it is said. They can undertake many things, even including betrayal of their traditional ideals, but are never entirely impractical about the propositions that follow upon their own description of reality.

This characterisation of what constitutes a social democratic party is to some extent confirmed by the events that preceded the 1994 reform. But there was also a deviation from this historical trajectory in the institutional design of the new system, namely, that it was structured as an autonomous system whose aim was individual equity. If the social democrats' self-proclaimed historic struggle in defence of the ATP system during the 1980s was supposed to demonstrate to the surrounding world that they still represented a different vision to that proclaimed by the non-socialist parties, the new system embodies the belief that it is possible to reach consensus upon issues in which party political considerations are superfluous.

So maybe some kind of defining characteristic has been lost after all – if not the social democrats' ability to mobilize the electorate, then at least their habit of paying more attention to the consequences of their actions than to high principle. It is this contradiction between a decision determined by circumstance and a formalist system – so to speak, a pragmatic decision to end all pragmatism – which makes it difficult to forecast the power-strategic consequences of

the 1994 reform. In the short run, the social democrats can claim that they once again have managed to face reality with their eyes open. In the long run, there is something about the new system which unmistakably seems to transcend this legacy, making the social democrats into their own electoral and policy gravediggers.

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<sup>i</sup> This section of the chapter builds on Lundberg 2003, ch. 6. See also Palme 2003; Palmer 1998.

<sup>ii</sup> Bo Könberg, liberal member of the Parliamentary Working Group on Pensions, seminar, Rosenbad, 10 June 2002.

<sup>iii</sup> Interview with Ingela Thalén, social democratic member of the Parliamentary Working Group on Pensions, 20 April 2001.

<sup>iv</sup> Interview with Karin Wegestål, social democratic opponent to the 1994 pension reform, 6 April 2001.

<sup>v</sup> The social democrats dropped 5.5 percent, from 43.2 percent 1988 to 37.7 percent 1991. This was their worst election result since the early 1930s (Holmberg and Gilljam 1993).

<sup>vi</sup> Interview with Bo Könberg, 24 September 2001.

<sup>vii</sup> Interview with Anna Hedborg, social democratic member of the Parliamentary Working Group on Pensions, 26 March 2002.

<sup>viii</sup> Swedish Government. Directives to governmental committees 1991, no. 102.

<sup>ix</sup> Interview with Bo Könberg, 24 September 2001.

<sup>x</sup> Interview with Ingvar Carlsson, chairman of the Social Democratic Party 1986–1996, 22 March 2001.

<sup>xi</sup> Interview with Ingvar Carlsson, 22 March 2001.

<sup>xii</sup> Interview with Ulla Hoffmann, the Left Party's representative in the Parliamentary Working Group on Pensions, 25 April 2001.

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<sup>xiii</sup> Interview with Tore Lidbom, pension expert at the Swedish Trade Union Confederation, 11 April 2001.

<sup>xiv</sup> Interview with Tore Lidbom, 11 April 2001; interview with Bo Könberg, 24 September 2001.

<sup>xv</sup> Interview with Bo Könberg, 24 September 2001; interview with Anna Hedborg, 26 March 2002.

<sup>xvi</sup> Interview with Anna Hedborg, 26 March 2002.

<sup>xvii</sup> Interview with Bo Könberg, 24 September 2001; interview with Anna Hedborg, 26 March 2002.

<sup>xviii</sup> Interview with Anna Hedborg, 26 March 2002.

<sup>xix</sup> Interview with Ingvar Carlsson, 22 March 2001.

<sup>xx</sup> Interview with Anna Hedborg, 26 March 2002.



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