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Three routes to a pension reform

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Abstract

By analysing pension reforms in three Nordic countries – Denmark, Finland and Sweden that apply different institutional solutions in their old-age security programmes – the paper argues that the political processes that shaped the country-specific pension set-ups in the 1950s and 1960s had important ramifications for the subsequent possibilities to reform these schemes. There is a high degree of inertia both in institutions and in the political reform options. Thus, the analysis shows that the ‘new politics’ were not so new in any of the countries. Furthermore, the three cases accentuate the question: What is a pension reform? The Swedish reform in the late 1990s was ‘big bang’ where everything was changed, the Finns build on piecemeal reforms that gradually changed the whole system, while on the surface, the Danish story is about stability and status quo. However, the Danish policy ‘drift’ changed the basic characteristics of the system in the end.

Sammanfattning

Med utgångspunkt i en jämförelse av pensionsreformer i tre nordiska länder – Danmark, Sverige och Finland som applicerar olika institutionella lösningar i sina respektive pensionssystem – hävdar artikeln att de politiska processer som skapade de nationsspecifika pensionslösningarna under 1950- och 1960-talen fick stor betydelse för möjligheterna att reformera dessa system. Det råder en påtaglig tröghet, både institutionellt och beträffande beslutsfattandet. Analysen visar alltså att den ”nya politiken” egentligen inte var så särskilt ny i något av länderna. Vidare aktualiserar artikeln frågan: vad är egentligen en pensionsreform? 1990-talets svenska pensionsreform var en ”big bang” där allting förändrades, den finska reformen byggde på stegvisa förändringar som gradvis omskapade hela systemet, medan det danska fallet på ytan är en historia om stabilitet och status quo. I Danmark är det snarare frånvaron av politiska beslut som i slutänden förändrad systemets grundläggande karaktär.

Introduction

Over the last decade or so, one of the most important themes in comparative welfare state research has been the retrenchment of the welfare state. There are many words and concepts attached to this phenomenon: retrenchment, recalibration, rolling-back, curtailments, adaptation, and reforming. Consequently, the plethora of name-giving has led to a plethora of new discussions and conceptual developments on the causes of change and stability in welfare institutions. Indeed, there is a rapidly growing flora of studies trying to grasp the institutional prerequisites that either facilitate or inhibit changes in social policy programs (e.g. Steinmo, Thelen & Longstreth 1992; Pierson 1994; 2000; 2001; Esping-Andersen 1996; Bonoli 2000; Ferrera & Rhodes 2000; Bonoli & Palier 2001; Korpi and Palme 2002; Palier 2002; Timonen 2003). Many studies in this so-called 'New Politics' literature share the idea that institutions have strong feedback loops which condition subsequent policy-making. Decisions at one point in time constrain the subsequent policy making by putting policy on a particular track (Weir 1992, 1992). Politics makes policies, and policies make politics, to cite Skocpol (1992).

In the theoretical discussion, the neo-institutionalist approach often is divided into two branches: rational choice and historical variants (Steinmo, Thelen & Longstreth 1992; Streeck & Thelen 2004). While the former perspective sees institutions as strategic contexts in which rational, maximizing actors try to fulfil their self-interest-based goals, the latter accentuates how institutions shape the perception of interests and goals among actors. Thus according to the historical notion, institutions do not only preserve previous power constellations; they also freeze in discursive struggles of interpretations of reality (Douglas 1987; Pfau-Effinger 2005; Beland and Hacker 2004; Beland 2005). This reasoning tends towards debates on the role of language and discourse in establishing hegemonic social orders and institutional settings (see e.g. Fairclough 1992; Bourdieu 1990; Lieberman 2002; Somers and Block 2005). In principle, it is possible to

further draw on the cultural aspect and apply Geertz's (1972) cultural interpretation perspective: Politics, in our case pension politics in particular, is used to create 'sacred' symbols that contain world-views and to fortify group identities (see also Lieberman 2002; Wedeen 2002).

While the rational choice form of institutionalism is systemic, historical institutionalism is more epistemic in its outlook, and the perspectives tell very different stories of institutional stickiness and change. In the systemic approach, the institution's inbuilt inertia, and consequential path dependency, is at the fore. The epistemic approach on the other hand pays more attention to the ways of thinking, the cultural foundations and the historical legacy of welfare systems. The question is how this ambiguity should be accounted for in studies of welfare retrenchment and restructuring. Even though the 'New Politics' literature in recent years has advanced our knowledge of social policy change, its preoccupation with *institutional* resistance is not entirely adequate in explaining substantial variations in policy outcomes within Western European welfare states. We will argue that the conceptual vocabulary that has been developed neglects those political processes that shaped the country specific social policy set-ups and that those past political processes have important ramifications for the possibilities to reform these institutional set ups. In other words, politics continues to make policies, and moreover, the 'new politics' of the welfare state is not necessarily as new as it appears within a narrow neo-institutionalist framework.

Pension systems

Emphasis in the 'New Politics' literature has been on the retrenchment of the welfare state. One of the main questions has been how it is politically possible to change welfare programs, given the strong degree of institutional inertia. Retrenchment politics, Paul Pierson (1994) argues in his book on American and British welfare reform, is not simply a mirror picture of the building-up

period. While the era of welfare state expansion and consolidation was characterized by ‘old politics’ based on class politics and ‘credit seeking’, politicians in the current period of austerity seek to avoid blame for unpopular measures. With good reason, pension schemes are often treated as the chief example of the difficulties associated with this shift in policy outlook. In this context, there are a number of points that can be discussed.

Firstly, pension schemes do have a strong inbuilt inertia: they are long-term contracts between generations. If the programs are to be reformed, a transition period of at least 40 years or so is required for people to adjust to the new system. If this time is not allocated, subsequent generations will be unequally burdened by pension fees (see e.g. Myles & Pierson 2001). Thus, pension schemes per definition have their own strong institutional path dependency. They are ‘elephants on the move’ (Hinrichs 2001) and their course is very hard to change.

On the other hand, it is said that elephants are afraid of mice. If this is true, then a mouse can coax a frightened elephant on to a new track. Whether it be true or not, this metaphor highlights a central idea in the institutional stickiness debate. Due to their inertia institutions are assumed to be robust and unchanged during long periods. However, in some instances typically called ‘switch points’, ‘breaking points’, ‘critical choice points’ or ‘punctuated points’ etc. institutions are open for more or less abrupt changes. A variety of situations or events can serve as the ‘mouse’. External shocks, such as wars or economic crises, may destroy the pre-requisites the pension system has relied on. Changes in political power relations can lead to new priorities on pension policy. The cognitive paradigm may also shift for various reasons (see e.g. Kuhn 1962; Lieberman 2002; Somers and Block 2005), which in turn opens the path for novel ways of defining solutions for old-age security. The point is described succinctly by Thelen and Steinmo (1992, 15): ‘...institutions are characterized by long periods of stability, periodically ‘punctu-

ated' by crises that bring about relatively abrupt institutional change, after which institutional stasis again sets in.'

The metaphor of 'mice and elephants' captures important aspects of the politics of pension reform in Western Europe, yet it is not entirely sufficient. It concentrates too much on critical points and major reforms. Often changes introduced by a series of 'not-that-abrupt decisions' are more important than obvious breaks from the previous path (see Hinrichs & Kangas 2004). Thus the discussion on 'new politics of welfare' tends to downplay gradual changes. This tendency has important consequences for explaining change. At abrupt turning points, it is possible to pinpoint the structural and political forces that changed the system, whereas it is much harder to establish causal chains in cases of gradual shifts based on non-decisions.

The passage above leads us to the tricky question of how a pension reform should be defined. Many studies of retrenchment/reform suffer from a too vague definition of the dependent variable, i.e. what is a change? Some solutions to this dilemma have been suggested. Perhaps the most well known is Peter Hall's (1993) hierarchical ordering of the nature of changes. First order change refers to a mere adjustment of (benefit) *levels*, e.g. the wage replacement ratio of a social insurance scheme may be lowered or increased. Second order changes take place when the structure and functioning of the scheme is altered, e.g. when the benefit formula or the method of indexing benefits is essentially changed. Beyond such a shift of *instruments*; third order changes are classified as *goal* shifts and thus the most fundamental ones. They pertain to situations where the basic philosophy upon which a welfare state program is founded is substantially altered. However, persuasive as Hall's classification is, it suffers from the same fallacy as the approach focusing on big reforms: it downgrades the importance of small-step reforms that gradually lead to new configurations. A series of first order changes may result in a change in the third order (see e.g. Hinrichs & Kangas 2004).

In order to comprehend hidden forms of retrenchment, Jacob Hacker (2004) has developed a conceptual framework that distinguishes between drift, conversion and layering. Drift refers to cases where policies remain the same, but the form of social risks changes and therefore, consequences will change. In pension policy, an example could be a flat-rate basic pension scheme not being supplemented by an earnings-related pension. Instead, labour market partners try to encompass the earnings-related element via occupational schemes. Without deliberate political decisions, the model will 'drift' in a new direction. Layering is related to drift in the sense that old schemes are not abolished when new elements are introduced, e.g. tax subsidies for private retirement schemes. These two cases are relevant in understanding the Danish case as displayed later on. Conversion pertains to a policy process where old instruments are preserved yet adapted to changed circumstances. In Hall's terminology this relates to a change of the second degree - a process that is visible in Finland. Finally, Hacker has a category for drastic or third order changes where old settings are eliminated and replaced by new ones. In the study at hand, this alternative will be exemplified by the Swedish case.

Pension reforms in the three Nordic countries

Pension reforms in Sweden, Finland and Denmark offer an excellent opportunity to highlight the implications and limitations of the neo-institutional approach introduced above. These countries are similar in many respects, but they differ when it comes to their pension design and the political making of the pensions (Kangas & Palme 2005). Therefore, they offer a fruitful basis for a 'most similar cases' comparison.

All of the frameworks discussed are without a doubt relevant to the Nordic development, however their usefulness varies between countries and within country between different pension

schemes. In Sweden, the pension reform of the 1990s was an abrupt overhaul of the system. It was a path-breaking reform of the third order including elements of both systemic and epistemic change. The reform emanated from Parliament, and interest organisations were excluded from the planning. The most difficult stage in the reform process was when the Social Democratic leadership had to sell the reform to the party's membership. Once that issue was finally overcome at the Social Democratic Party Congress in 1997, the reform was more or less home dry.

In Finland, the reformation of the pension system took a decade. The process started at the beginning of 1990s when deep economic crisis cast doubts on the sustainability of the existing pension system. This contributed to a change in the cognitive paradigm. By way of gradual and piecemeal reforms, which pension experts and leaders of trade unions and employer federations participated in, the system took a new direction. However, none of these individual reforms were grand enough to qualify as a change of the third order. Consequently, the Finnish case displays a much stronger degree of continuity than the Swedish pension reform. However, in the long run, the implications may be as great as in Sweden.

The Danish case is closer to Hackers notion of policy drift and changes without reforms, and without any great master plan (Albrecht-Larsen & Goul Andersen 2004, 103). In other words: while Sweden experienced a pension revolution, a silent revolution took place in Denmark (Goul-Andersen 2001, 133). At the political level in Denmark, no formal decisions on major pension reforms were taken; however, the whole gestalt of the pension design shifted. Due to a lack of income-related legislated pensions, the demand for earnings-relatedness bifurcated into private occupational and individual pension programs. As the generous national pension scheme became increasingly income-tested, the occupational schemes eventually became the most important part of the overall pension design.

A crucial aspect that disappears if we limit ourselves to the neo-institutionalist vocabulary of Hall, Hacker and others is that the role of politics varied between the three countries. These variations, we argue, display the continuity of ‘old politics’ of the welfare state in an interesting way. In Sweden, the pension reform of the 1990s was a highly political process, parallel to that of the making of the earnings-related scheme in 1959. In Finland, the process replicated the pragmatic procedure that was applied in the early 1960s, when earnings-related pensions were finally legislated. The Danish non-decision based development also reminds us of earlier failed attempts to introduce an earnings-related pension scheme. Thus, there seems to be a degree of *political* path dependency in the way pensions have been reformed in these three countries.

These variations in the pattern of decision-making indicate that a wider political-historical perspective is required in order to give an accurate description of the changes that have taken place. The possibility to change a social policy program, it seems, is not only determined by institutional settings, law making frameworks or other variables singled out in the ‘New Politics’ – literature; when analysing the Nordic development, the historical legacy of the old policy process is equally important. The way that decisions were made in the past constrained the legislation of future solutions. In all three countries, it is possible to discern country-specific circumstances, which made the actor’s more inclined to stay on the policy-making path they embarked upon when the old system was enacted. However, in assessing the significance of this historical dimension in contemporary politics, we need a detailed understanding of the institutional set ups that were established during the expansive post-war era.

Institutions and pension changes

In the discussions of institutional inertia, path dependencies and possibilities for changes in the characteristics of the scheme discussed are often uncared for. However, the possibilities and

ways to reform the welfare state, or pensions, greatly depend on the characteristics of the scheme (for closer discussions see e.g. Bonoli 2000; Palier 2001; Hinrichs 2004). We want to avoid using black-box-like ideal types of welfare state regime (all three countries belong to the renowned social democratic regime). Instead, we try to unravel the institutional aspects and political constellations behind the various dimensions that are of relevance to our understanding of developmental patterns in pension design. In this respect, a more nuanced classification of welfare programs offers a more fruitful starting point (see Purola 1974; Salminen 1994; Niemelä & Salminen 1997; Korpi & Palme 1998; Korpi 2001). It is possible to classify pension programs into constitutive parts according to eligibility (i.e. who is entitled to benefits), the principles used to define benefits (how much is paid), and the type of governance (who controls the scheme). In addition to these benefit-related criteria, we suggest that two additional aspects, financing and the arena in which actions take place, are crucial to the possibilities for reforming social security programs (cf. Salminen 1994). By applying these criteria, we will end up with five types of social insurance programmes (as summarized in Table 1):

- 1) Targeted programs governed and financed by public authorities, with benefits based on means testing, providing the needy with minimum benefits.
- 2) Voluntary state-subsidized programs usually giving earnings-related yet relatively low benefits to the members of the programs. The administration of the funds is in the hands of the members.
- 3) State corporatist programs, in which entitlements are based on contributions and the claimant's membership of a specific occupational group. Benefits are clearly earnings related. In bi- or tripartite systems of administration, representatives of employers and employees, and sometimes also representatives of the state participate in the running of the scheme.

- 4) In contrast to the three aforementioned models where eligibility for benefits is more or less limited; the basic security system, at least in principle, covers all people on the basis of their citizenship and guarantees a basic livelihood for everybody.
- 5) In terms of benefits levels, the encompassing model combines elements from both the basic security and the corporatist models: i.e. it guarantees basic security and homogenous earnings-related benefits on similar terms for the majority of the economically active population. However, in contrast to the differences in the amount received between the various occupational schemes in a state corporatist system, in this model, benefits are the same formula for all (e.g. 80 per percent of income to all income earners) and the administration is organized through public authorities.

[Insert table 1 about here]

As welfare states are political artefacts, they are more or less subject to political decision-making. However, the degree of dependency on politics varies. Publicly administered programs, where the arena for actions is open to politics and where benefits are financed through the public purse, are easier to alter than programs which include various institutional hindrances or veto points to counterbalance direct political influence (Immergut 1992). Corporatist, segmented schemes, in which ear-marked social security contributions give the illusion of a contractual situation whereby benefits are bought using contributions, and the labour market partners can rule out politicians, are more resistant to change; systems that distribute tax revenues according to political decisions are easier to 'reform'. Thus we can conclude that the institutionalized arrangements for targeted, basic security and encompassing models of benefit provision are easier to change than the purely corporatist schemes.

Some historical analyses of the development of social policy programs give qualified support to this hypothesis. In his analysis of pension programs Korpi (2001) found that the institutional paths chosen in the initial phase were of great importance for the subsequent development of welfare programs. This idea also corresponds to Pierson's (1994) argument concerning the possibilities for welfare retrenchment in different types of social policy programs. Table 1 indicates that even within one single policy area, in our case pension policy, certain parts that are more open to political decision-making than others. For example, national pensions in all the three countries have been 'public' in the sense that they are publicly financed and administered, and consequently they have been more open to politics than corporatist schemes, as exemplified by the Finnish employment related pensions and the Danish occupational/contractual pensions. Therefore, we can suppose that reforming national pensions in all the three countries was predominantly a political process. The same goes for the Swedish supplementary pension scheme (ATP). Meanwhile, reforming the employment related pensions in Finland or the Danish occupational schemes was a more complicated mixture involving both the social partners and the political parties.

Historical legacies: politics and institutions

By the mid 1950s a comprehensive and universal national pension systems guaranteeing basic security to every citizen had been established in all the three nations examined in this article: in Sweden it was enacted in 1948, in Denmark and Finland in 1956. The rapid post-war industrialization meant that there was a growing need to compensate loss of income for the expanding sectors of wage-earners and salaried employees whose livelihood was totally dependent on their monetary income. The history and the success of endeavours to establish earnings-related pen-

sion schemes vary to a large extent between the Nordic countries (for a general summary, see Salminen 1993; Petersen & Åmark 2006).

In pioneering Sweden, the debate on and the making of the supplementary pension scheme was a highly politicised affair. The non-socialist parties, backed by the Swedish Employer's Federation, advocated either a universal flat-rate scheme proposed by the Centre Party or voluntary occupational pensions based on collective agreements proposed by the Conservatives, whereas the Social Democrats, encouraged by the blue collar trade unions, insisted on a compulsory, legislated and state-run scheme that guaranteed similar benefits to all categories of employees (Petersen & Åmark 2006; Olsson 1990; Salminen 1993). The underlying idea was that social policy does not only guarantee against loss of income, but also unifies and divides groups of people (Svensson 1994). This strategic idea was a central element in Bismarck's social insurance programs which had separate schemes with different benefits for different groups of employees. Where Bismarck tried to prevent the development of a common employee interest, the Swedish Social Democrats used the reverse strategy: by putting the wage earners and the salaried employees in the same risk pool, a common class-identity – that was hoped to be social democratic – was to be created (Esping-Andersen 1985). In 1959, the Swedish parliament, with a margin of only one vote in Parliament, passed the pension law according to social democratic principles and Sweden got its earnings-related pension program – one of the most generous in the world (Molin 1967). The scheme consisted of a rather generous universal national pension supplemented by earnings-related pensions. Due to the so-called ATP system having a ceiling for benefit purposes, those with higher incomes, salaried staff and public sector employees obtained collective occupational pensions to compensate the relative loss of income. However, the lion's share of the Swedish pensions was kept in the public and political domain, that is, in the univer-

sal national pension scheme and in the ATP. The pension design belonged to the ‘encompassing’ model (cf. Table 1).

Regarding the Swedish development, two aspects are worth emphasising. Firstly, the creation of the earnings-related scheme was a highly politicised process, where the political left and the blue collar trade unions, battled against the non-socialist parties and the business organizations (Molin 1967; Stråth 1998; Åmark 2005). Secondly, as a consequence of the political campaign, the ATP system soon came to be regarded as the flag-ship of the Swedish welfare state, or the jewel in the crown, among the Social Democrats (Lundberg 2003). One can argue that for the Swedish Social Democrats the ATP system, because of the political struggle, became an epistemic source for self-identity, and a line of demarcation against the political right (Lundberg 2005). To apply Geertz’s (1972) terminology, it attained the status of a sacred symbol of victory over the right-wing forces threatening core social democratic values. The ATP system also became a symbol for the non-socialist parties, however it symbolized everything that was wrong with the Swedish Social Democratic welfare state model.

Finland was the next Nordic country to legislate on earnings-related pensions (1961). The political history of the Finnish scheme is completely different from those in Sweden and Denmark. In Finland, the political left was divided into two competing parties: the Social Democrats (SDP) and the Communists. As a result of the later industrialization, the proportion of the agrarian population, and consequently the importance of the Agrarian Party (since 1966, the Center Party) in Finnish politics was strong, and the SDP never achieved the same hegemonic position as its sister-party in Sweden. The pension policy strategies were highly divergent between the Agrarians and the SDP. The former supported flat-rate universalism (basic security model according to the little-but-equally-to-every-body slogan), whereas the social democrats tried to introduce earnings-related pensions. In the late 1950s and early 1960s when the employment

pension discussion was high on the agenda, the Agrarian governments refused to pass a bill on the subject and the SDP sought support for its social policy proposals from the Conservatives who backed the Social Democratic parliamentary motion. The basic structure of the employment legislation was baked in the negotiations between the employer federation and the trade union (SAK) (Niemelä 1988; Ahtokari 1988; Salminen 1993). For the social democrats and the SAK it was rather easy to accept the deal, promising fully earnings-related (no ceiling), totally employer-financed and completely legislated pensions, particularly as they were decentralised and run by private insurance companies whose administration social partners participated in. In this way, the role of the political arena, which was in the hands of the Agrarians, was played down. In comparison to the Swedish ATP, the Finnish TEL scheme was a result of a much more consensual policy-making process and much broader class-compromise where the social partners agreed upon the content of the system. The Finnish scheme was more stringent: the target level was 60% of final income after 40 years in employment, whereas the Swedish benefit level was a bit higher. Moreover, in Sweden full pensions were earned as early as after 30 years on the labour market. Another important difference was that the Finnish design included a degree of corporatism: when the private sector scheme was implemented, the existing public sector schemes were left intact and they were not merged into the new system. The public sector programmes (one for the state and one for the municipalities) offered more generous benefits: 66% of the final salary after 30 years in service. The administration of TEL displays a high degree of corporatism. In the administration of the program, the labour market partners were centrally involved. This bi-partite system offered the employees and employers an institutional possibility to resist attempts by the parliament to radically change the scheme. In a way, 'markets were used against politics' (cf. Esping-Andersen 1985). By pooling their interests in social policy issues, the social

partners initiated a tradition of mutual negotiations that often meant that politicians had to accept what the partners had agreed upon.

In Denmark the first initiatives for earnings-related supplementary schemes were taken in the early 1960s. The Social Democratic Jens Otto Krag cabinet made a bill in 1964 on a supplementary pension scheme (ATP). In contrast to the other Nordic countries, the Danish ATP scheme was not to be earnings-related but a flat-rate system where benefits were related to the number of years in employment, not to the worker's wage (Nelson 1984; Ploug 2003; Ølgaard 2005). In 1966-67, the Krag cabinet tried to introduce a Swedish-style earnings-related pension scheme, 'ITP', but failed. All the other political parties were against this initiative, but more importantly, the trade union was ambivalent and even hostile towards a program that would preserve existing income inequalities on the labour market (Albrecht Larsen and Goul-Andersen 2003, 65-70); the majority of the trade unions were rather in favour of developing national pensions. The concentration on improvements in the national pension system in Denmark gradually led to a fairly generous model of basic security where national pensions comprise up to 50% of the average net wage (Kvist 1997, 25-29; Albrecht Larsen and Goul-Andersen 2003; Petersen and Petersen 2005). However, several serious initiatives have been taken to institute an earnings-related pension scheme but all attempts have failed (see Petersen and Petersen 2005). One reason for this is that level of the basic pensions more or less satisfied the pension needs of the employees in the low to middle income groups. Thus these groups were only tentative supporters of further pension reforms. The higher-income groups on the other hand satisfied their needs for income compensations by negotiating occupational benefits (this issue will be discussed later on). Thus, the Danish pension policy bifurcated: it now aimed at improving national pensions and expanding occupational pensions.

In contrast to Sweden and Finland, where earnings-graduated pension schemes were regarded as a tool for equality, the cognitive frame in the Danish debate circled around the role earnings-graduated pension schemes played in sustaining differences produced on the labour market. In sum both the historical making of pension policies and the actual institutional set-ups varied between the three countries. In Sweden pensions were discussed on the political arena; the highly politicised history contributed to the demarcation between the political camps. For the Social Democrats, the ATP system became a 'sacred symbol', whereas for the Conservatives it became something to be gotten rid off. In Denmark and Finland only national pensions were open to political manipulation. In Finland, earnings-related pensions were in the hands of social partners, and the Danish act of non-decision (or policy drift) led to the gradual expansion of occupational benefits administrated on the labour market. For example in the mid 1980s about one third of all Danish employees were covered by occupational pensions and the expansion of this sector gradually closed the path for statutory earnings-related pensions (Albrekt Larsen & Goul Andersen 2004, 78-79). These differences in institutional set ups and policy legacies were crucial when discussions on reforming existing pensions began in the 1990s.

Pension reforms of the 1990s

Towards the end of the 1980s the political discourse in the three countries came to include more and more references to the sustainability of the welfare state, and the financial problems of existing pension schemes created by the greying population. Pension committees were trying to solve the problem in all of the countries, but only in Finland and Sweden did the recommendations of the committees begin to take shape. Initially in both countries, the recommendations from the committees were a great source of conflict. However, the deep economic crises that hit Finland and Sweden in the early 1990s modified the attitudes of the opponents of the reforms, and gave

more footing for demands to cut pensions. Thus the pension committees were beacons that changed the cognitive paradigm and the way that pensions were politically perceived. Denmark had muddled through a similar debacle a decade earlier and, in contrast to Sweden and Finland, there were no immediate economic/structural concerns. There, the political challenge was of a completely different nature as will be revealed below.

Sweden

In Sweden the construction of the ATP system was gradually destroying the scheme. Firstly, the scheme was economically unsustainable. The so-called 15/30-year formula simply guaranteed benefits that were too high in relation to contributions and, given the population prognosis, the scheme was expected to end up in bankruptcy. Secondly, the ATP system was provided with an income ceiling for benefit purposes and, as a result of the growing economy, more and more employees had an income that went above the ceiling. If the system were not reformed in one way or the other, it would rapidly transform from an earnings-related scheme to a flat-rate program. Consequently, due to policy drift, the occupational schemes had increased in importance – in precisely the same way as they had in Denmark.

In the late 1970s, it was painfully evident even for the leading Social Democrats that something needed to be done (Feldt 1991; Anderson 2001; Lundberg 2003). The main challenge was how they were going to sell the need for reform to their own people. For the Social Democrats, the ATP system symbolized the party's superiority to the 'bourgeoisie' in the amount that they had achieved. How were they going to address change without ceding power to the non-socialist opposition, and, more importantly, how were they going to do this without dissolving the party's ideological borders? This "alignment", to employ a concept from the French historian Gerassimos Moschonas (2002), ran the risk of resulting in a 'radical loss of identity' – getting rid of

sacred symbols is always difficult. On the other hand, during the 1980s, it became increasingly difficult for Social Democratic (also referred to as SAP – *Sveriges socialdemokratiska arbetareparti*) leaders to defend their ideological standpoints against a background of fiscal turbulence and disquieting prognoses for the future (Feldt 1991; Lundberg 2003). Thus, to defend the ATP system unconditionally in its original form, even from a social democratic perspective, seemed extreme. As the social democrats had the ownership rights to the ATP they would be hit especially hard by a financial collapse in the system.

As the Conservative leader Carl Bildt had formed a bourgeois cabinet after the election in 1991, “blame-avoidance” (Pierson 1994) became an option. On the one hand, by including the Social Democrats in the reform process, the non-socialist government could pool the risk of blame. On the other hand, by participating in the reform process the Social Democrats could portray themselves as protagonists of the basic values that the ATP system had symbolized for the party. Thus, the multiparty solution seemed to be a win-win situation. The government could hide behind a strong Social Democratic opposition, and the opposition could rest behind a weak non-socialist minority government. A relatively autonomous political constellation evolved; a constellation that answered neither to special interest organizations nor to the electorate, but rather to political parties alone. While power was concentrated within a majority in Parliament that did not have to fear vetoes or criticism from its opposition, responsibility was spread across a coalition that had no need to be in fear of repercussions from the electorate.

In October 1991, Bildt invited the opposition parties into negotiations on the future of the public pension system. The Minister of Social Affairs, Bo Könberg from the Liberal Party, was appointed to chair the new committee on pensions. Each and every political party represented in Parliament was invited to participate but the inner circle of decision makers was to be as small as possible. Trade unions and other interest organisations were entirely excluded. In the end, the

fate of the Parliamentary Working Group on Pensions was determined by the participation of the Social Democrats and hence, the directives for the working group were written with a social democratic audience in mind. Controversial issues such as pre-funding and the degree of redistribution were not among the questions under consideration, and the committee's overall ambitions were expressed in general terms. The central demand from the SAP was that the Group framed the process as a *reformation* rather than an *abolition* or *replacement* of the ATP

The compromise that was reached within the working group emanated from three principal 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 rule and the best-paid-years formula, were abandoned in favour of an equity principle; that is to say, benefits were linked to past contributions rather than to a specific distributive goal such as income security. *Thirdly*, a shift was made toward flexible and delayed retirement. In addition to these principal 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 using individual accounts (Palme 2003).

Taken together, these changes were intended to serve several purposes: to maintain the sustainability of public finances; to strengthen the incentive to work; to establish a flexible relation to demographic development; and so forth (Palmer 1998). A less obvious rationale behind the reform, was to de-politicize the pension question once and for all (Lundberg 2005). In its final report, the working group explicitly acknowledged its intention of creating an autonomous system with "in principle, complete compliance to economic development, and an adjustment to demographic changes concerning life expectancy and variations in the 'provision quota'". In this way, "the costs for the system [would] therefore be completely independent of these factors and

[would], as a result, survive without continuous political intervention' (SOU 1994:20, 230). The previously highly political and conflictual pension policy was depoliticized for the foreseeable future.

In their speeches and assertions, the bourgeois parties, and to an even greater extent the mass media, had demanded more radical measures and the introduction of a much stronger element of individual funding. However, the problem of double funding stood in the way of these proposals. As Myles and Pierson (2001, 306) point out, most pension systems rely on a contract between different generations. Those in employment make regular contributions, which are paid out to those entitled to a pension. Such intergenerational agreements cannot be dissolved; if they were at least one generation would have to double its contributions. In this case, the path dependence seems to have worked to the Social Democrats' advantage: the fact that the pension rights and promises accumulated in the past put a stop to the more radical proposals pressed for by many non-socialist policy makers and representatives of the financial sector (Lindbom 2001; Lundberg 2003).

In short, the political parties in Sweden adopted a two-folded approach. On the one hand, they adopted a strategy of inclusion, which meant that the legitimacy of the new system was secured within a cross-party alliance, or 'grand coalition', that involved all the major parties in the Swedish parliament. On the other hand, there was also a strategy of exclusion, which meant that voters, including trade unions, business organisations and organisations for the elderly were reduced to a more or less passive audience. The principles underlying the reform were negotiated upon between two elections within a small group of parliamentarians who were given a relatively open mandate by the party leaderships to develop a viable solution to the ATP system's problems.

The only remaining obstacle was the question of intra-party democracy. This issue was particularly a problem for the Social Democratic leadership. Firstly, the hasty decision-making process meant that the Social Democratic Party Congress had no realistic opportunity to prevent the Bildt government's bill from becoming Social Democratic policy. Secondly, it is reasonable to assume that it was easier for the leadership to settle for a compromise with the non-socialist parties, in the working group, on a solution to the pension system's financial problems, than to consolidate the support of its own party. As indicated, the ATP system was at that time an important part of the SAP's epistemic identity.

Schematically, one could say that while the Social Democratic leadership acted carefully - negotiating from the opposition benches with the non-socialist governmental parties in the working group - it only used the full power of its government resources when it subsequently had to convince members and membership organisations to accept the final settlement. In practice the leadership had to take the reform through three rounds of internal consultations (1992, 1994, 1996) and three party congresses (1992, 1996, 1997) before it got the approval it needed from its members in order to enact the agreement-in-principle from 1994 as concrete legislation.¹ Upon closer examination of the members' statements of referral during the third internal consultation in the fall of 1996, it becomes clear that both the new pension system, and the party leadership's internal decision to adhere to the working group's proposal were subjected to powerful criticism.² A source of severe tension was that the working group's proposal was accepted by par-

¹ For a detailed account of the intra-party decision making process in the Swedish Social Democratic Party, see Lundberg 2003, Chapter 7.

² At the regional level, only 2 of the 19 participating regions (partidistrikt) unequivocally supported the new system and its principal design. As many as 7 were against the proposition that was hammered out by the working group; they argued instead for a reform along the lines of the old ATP system. 9 regional units declined to give an opinion, but admitted in their statements that their membership was overwhelmingly sceptical. Further down in the party hierarchy, at the municipal level, as many as 59 of the 142 participating workers' communes opposed the introduction of the new system. 68 questioned fundamental parts of the overall design, and only 15 communes explicitly endorsed the line of argument adopted by the leadership. The same pattern appears among among local town councils at the very bottom of the party organisation. Of 145 town councils that took advantage of the opportunity to voice their opinion on the reform, only 9 backed the leadership

liament before it was finally approved by the SAP's party congress. This allowed the party leadership to play the parliamentary trump card: Dare they nullify this multi-party agreement? The delegates did not dare.

It should be stressed that the statements from the internal consultations should be referred to with some caution. For example, it is reasonable to believe that the activities initiated by the party leadership mainly engaged those members who were critical to begin with. Nevertheless, the results illustrate that although the leadership could lean against an existing formal decision by Parliament, it had a hard time convincing its own membership that the ATP system was past its sell-by date. The final sanction of the working group's proposal in the form of 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. In the end, the opposition had to be satisfied with symbolic concessions from the party leadership regarding the administrative organisation of the fully funded part, as well as the planned transition from employers' to employees' social insurance contributions as the basis for financing the system (SAP 1997). In sum, the parliamentary processes lead to the elimination and replacement of the old pension system in Sweden.

Finland

The Finnish story is a story of incremental conversion drafted by social partners and pension policy experts, rather than politicians as in Sweden. Around the same time as the Finnish pension committee delivered its report on reforming the pension scheme (1989), the country dived into the deepest recession in her history. Without a doubt, this experience created a crisis consciousness that ultimately affected opinions on pension policy among the general public and the political and labour market actors (Timonen 2003). At the beginning of 1991, an extensive crisis in-

come-policy package including a partial transfer of employment-related pension contributions from employers (who had previously paid the total contribution) to employees was negotiated. In this quite exceptional crisis situation (Kiander 2005), the labour market actors accepted the emergency measures, called the 'internal devaluation' package, and Esko Aho's center-right cabinet presented a bill on employee contributions to the parliament. According to the bill, the employees were to temporarily participate in the financing of their pensions with a contribution corresponding 3% of their wage. The bill was accepted but, a year later, the law was made permanent and the contribution was supposed to rise gradually. Aho also took another step to incrementally change the pension system. In 1992, his cabinet put forward bills on the harmonization of the public sector and private sector pensions. First, the state employees' scheme was homogenized by referring to equality principles: there is no reason for paying better pensions to state employees than to those employed in the private sector. The homogenisation (cuts to make the private and state sector pensions correspond) was carried through a little later. As a result of these reforms, the three biggest pension schemes, although occupationally segregated, came to offer precisely the same benefits.

Although the reforms discussed above were negotiated by the social partners, the Aho cabinet ran on a collision course with the trade unions and the cabinet's popularity waned. The savings measures undermined the support for the Center Party in the 1995 elections, while the opposition party, the SDP, achieved their best results (38% of seats) since the 1930s. In the two consecutive 'rainbow' cabinets (1995-2003) with the SDP leader Paavo Lipponen, the political axis was between the SDP and the Conservatives, supplemented by ministers from the Left Wing Alliance (the former Communists) and the Greens. Compared to the previous cabinet, Lipponen had a couple of advantages. Firstly, his cabinet was clearly oversized occupying 145 of the 200 seats in the parliament, which gave him more room to manoeuvre. Secondly, the cabinet had

better relationships with the trade unions and could plan reforms that were out of the question for the bourgeois government; they had spoiled their possibilities through politically clumsy tactics against trade unions.

One such reform was the change in the calculation basis for pension benefits. Previously pensions were calculated on the basis of the income earned during the two median years of the last four years in employment. The Lipponen government lengthened the calculation period to the last ten years in employment. The bill was an attempt to establish a stronger actuarial link between the payments and benefits. The change was carefully prepared through negotiations between central trade unions. On the basis of the agreement made, the government presented the bill to the parliament in 1995; they accepted it by referring to the fact that trade unions had agreed upon the issue, and that it would not smart politics to stick one's nose into issues that do not fall under the powers of the Parliament.

Simultaneously to this proposal, a bill on the reformation of the national pension was sketched; the consequent debate was a fully-fledged political issue, and trade unions did not participate at all in the process – supporting our hypothesis presented in Table 1. The previous Center-led cabinet had argued quite actively in favour of basic security and was reluctant to touch the national pensions. In contrast, already in its inaugural program, the Lipponen government declared that national pensions must be reformed. In that sense, the old political lines of demarcation are clearly visible in the Finnish political debates displaying more of the 'old' than 'new' politics. The reform abolished the basic national pension that, since the 1956 reform, had been paid universally to all pensioners. From the beginning of 1996, national pensions were tested against other legislated pensions (but not against occupational or individual pensions or against income from work or investments). In that sense the Finnish reform was similar to the Swedish

reform: the old principle of universalism included in previous national pensions was abolished in both countries.

Initial steps were taken to meet the future demographic challenges. However, many pension experts regarded this as inadequate, and behind the curtains plans for further reforms were ongoing. In this situation, the labour market partners formed their own working group with the purpose of negotiating a plan to reform the private sector pensions. All major trade unions and employer federations were represented in the group, while there was no political representation; thus the Finnish procedure has been opposite to that pursued in Sweden. The social partners asked Kari Puro, the highest-ranking bureaucrat in the Ministry of Social Affairs and currently the Managing Director one of the biggest Finnish pension insurance companies, to head the group and to contribute with his expertise. After in-depth negotiations, the Puro group delivered its report to the central labour market organisations for approval, and the final agreement was made in 2002.

The basic form of the pension structure was left intact, yet within the ‘unchanged’ scheme more or less everything had changed: the pensionable income is now calculated on the basis of the entire working career between the ages of 18 and 69 years; the pension accumulation rate increases according to age; target levels have been abolished; and flexible retirement between 63 and 68 has been introduced as has a special formula adjusting pensions to increased life expectancy.³ The labour market organisations were not in total agreement on the proposal. The idea of a benefit formula based on lifetime income was heavily criticized by the central organisation for academic occupations (AKAVA), whereas the blue-collar union welcomed it, and middle-class

³ Previously, each year in employment between 23 and 64 years of age was counted at an accrual rate of 1.5% so that a maximum pension of 60% was attained after 40 years in employment. According to the new law, workers could earn pension credits for each year of their employment career between 18 and 69 years of age. The accrual rate was to be progressive to discourage early retirement: from 17 years up to the age of 52 the rate is 1.5%; in the age range 53 to 62 years the accrual rate is 1.9%; and after the age of 63 it is 4.5%. The target level of 60% was abolished. A pension could be 90% for example, and retirement age was planned to be flexible between 63 and 68 years.

central organisations were ambivalent. Interestingly enough, this was the first occasion where there were apparent conflicts of interest between the trade unions' central organizations. Finally, the AKAVA also accepted the agreement. The 'super' accrual of pension rights (4.5% per year) for older employees was seen to benefit the AKAVA members and compensated for the abolition of the previous final-salary principle. Precisely as in the preceding reforms, the private sector pensions paved the way for changing the public sector schemes later on. In fact, the 2002 labour market agreement included a decision to change the public sector schemes, and consequently the new pension scheme for the municipal and state employees was accepted by the parliament in 2004.

In comparison to the Swedish reform the Finnish policy-making process was completely different. Firstly, the parliament really only voiced an opinion in the case of national pension. The main difference is that in all instances, notably in the big reforms of 2002 and 2004, political parties were out of the picture, as were pensioners' organisations. On one hand, this reflects the central role trade unions play in the Finnish politics, not least because of the administrative structure of the earnings-related pensions. Interestingly enough, this also nicely reflects how pension institutions served as a means of political power. The only purely political decision in which trade unions were not involved was the abolition of the national pension basic amount. The 1992 reforms of the public sector pensions are a mixture of parliamentary decision-making and corporatist policy. In those reforms, the role of the government was more visible than in the reforming of the private sector pension a decade later. The reason is that in the private sector pensions the administration is corporatist and social partners have the 'ownership' of pensions, whereas in the public sector schemes the funds have been more directly in the hands of political decision-makers (cf. Table 1).

The Finnish history is one history of old politics where the traditional interest organizations in tri-partite negotiations – usually led by senior impartial pension experts – agree on reforms that are then accepted by the parliament with minor modifications. Compared to Pierson's analysis on new politics, one additional peculiarity of the Finnish retrenchment policy has been that pensioners' organizations were virtually non-existent in the reformation process: They were neither seen nor heard. In that sense, the Finnish experience does not lend much support for the thesis on the importance of client organizations in the making of the 'new politics' of welfare.

Denmark

Until the early 1990s, the Danish old-age pension system was generally seen as a universal system based on the State old-age pension with minor supplements from the employment-related ATP pension scheme (Vesterø-Jensen 1985; Ploug 2001). This is only partly true. Actually the development of a multi-tier pension system in Denmark has taken place ever since the end of the Second World War, and the Danish pension debate in the 1980s and 1990s was to a great extent a discussion of two kinds of inequality: 1) inequality between those who had some kind of supplementary pension arrangement and those who didn't; and 2) inequality between future pensioners if there were an introduction of a funded, defined contribution old-age pension system. The deficit on the balance of payments, of which Denmark celebrated its 25th anniversary in 1989, also played an important role in the quest to increase pension saving through reform.

In the early 1980s the debate was on the inequality between those covered by a supplementary pension arrangement based on savings and those not. One reason for this was that interest rates, due to the severe economic situation in the country in the early 1980s, were extremely high, and while contributions to the different kinds of supplementary pensions schemes were tax deductible interests on these savings were not taxed. One could therefore foresee a devel-

opment whereby the pension payments from these arrangements would result in compensation rates that, for some groups, would be higher than 100 per cent.

Social Democrats and the Labour Movement saw this as a problem, but they were not alone. Danish economists also agreed that the increase in interest on pension savings was a problem. Anker Jørgensen's Social Democratic minority government made a proposal for taxation of interest on pension savings. During the summer of 1982, it became clear that it was not possible to get a majority in Parliament for this proposal and the government resigned without calling for a general election. The subsequent centre-right coalition government, lead by the Conservative Poul Schlüter, consisted of parties who had rejected the Social Democratic proposal of taxing interest on pension savings. Now in government, they made a u-turn and introduced a two per cent tax on pension savings for the year 1983, and as of 1984 introduced a permanent tax - called the real interest tax - where returns on pension savings were taxed if the real interest exceeded 3½ per cent. At the time of introduction, the real interest rate was close to 10 per cent and this new tax not only solved the problem of otherwise massive future pension accrual for those who saved for their pension, but it also became a much needed extra source of revenue for the state.

After this, a new round of debates on the issue of inequality between those who had some kind of supplementary pension and those who did not started. There were several reasons for this debate. One was that there was broad agreement that the state old-age pension at that time did not solve the pension problem. During the 1970s, Danish households became dual income households with the consequence that the existing pension system would not result in sufficient monetary compensation in old age. Some saw this as a problem, and it was particularly difficult for families with low incomes. They were later proved to be wrong.

A second reason for the debate on an old-age pension reform was to do with the situation in the labour market. On the one hand, the government tried to pursue a very strict income policy,

among other things due to the deficits on the balance of payments. This meant on the other hand that the trade unions had to look for other kinds of remuneration for their members than immediate wage increases. The Government had successfully intervened in the labour market negotiations in 1985, by passing a law in Parliament, which meant very small wage increases for the coming two years. This was done despite massive resistance from the trade unions, and afterwards they had to change their strategy. The 1985 negotiations in the labour market had been centralised i.e. negotiations between the Danish Confederation of Trade Unions (LO) and the Confederation of Danish Employers (DA). After pressure from a number of strong trade unions particularly the Union of Danish Metalworkers (Dansk Metal), the 1987 negotiations became decentralised. This made it possible for trade unions to get a separate agreement on pensions covering only their members and creating selective incentives to join to trade unions.

As a consequence of the deficit on the balance of payments, the Government was very interested in a further development of the savings based old-age pension system. A tripartite committee was set up. In 1988, it published a major report (close to 1000 pages), on the causes and consequences of a pension reform (Arbejdsministeriet, 1988). Of the many interesting points and results in this report, four shall be highlighted here.

Firstly, the analysis showed that it was not individuals with low incomes who had a problem when they reached old age. They were actually covered very well by the existing state old-age pension scheme. It was a problem for individuals with middle or high incomes. Secondly, the report showed that many persons with low incomes covered by supplementary labour market pensions due to the development of funded defined contribution schemes for a large number of public employees during the 1970s. Thirdly, the report stated that it would be practically impossible to increase the replacement rates in the tax financed old-age pension system because of the existing high tax rate and huge public debt. Fourthly, the report put great emphasis on the conse-

quences of the expansion of the funded pension system for the balance of payments. Even though the analysis on this matter is somewhat inconclusive, the report concludes by stating that one could expect a positive effect on the balance of payments with the introduction of a funded pension system for person employed in the private sector.

For several reasons the analysis of the tri-partie committee did not lead to an immediate reform of the pension system. One reason was that the trade unions in the LO had committed themselves to a solution based on a central fund, which a majority in Parliament opposed. Surveys also showed that a reform of the pension system did not have high priority among the members of the trade unions – they wanted higher wages and shorter working hours in the here and now (Albrekt Larsen & Goul Andersen 2004, 79). Yet the report played an important role in answering many of the questions that had been raised in the pension debate during the 1980s.

The break through for a pension reform for the private labour market therefore had to wait until the labour market negotiations in 1991. It came as no surprise that it was Dansk Metal who paved the way for reform. In the 1980s they had already threatened to go it alone if it was not possible to find a common solution to the pension problem. And for their members, who were typically people with middle incomes, there was a severe pension problem as the tri-partite report showed.

The tradition in the labour market negotiations is that Dansk Metal ends their negotiations first, and the other trade unions consequently to a great extent copy their actions. In the 1991 negotiations, Dansk Metal made an agreement with their employers on a decentralised pension system only covering workers who signed up to this specific agreement. This was a break with the idea of a central fund put forward in a 1985 pension proposal from the LO. The trade unions gradually replaced this with a decentralised system of pension funds. Not only was it a break with the central fund idea, the pension scheme was also to be managed by a board with equal

representation in its representatives from employees and employers. This compromise made it possible for the employers to support the new pension arrangement because they would now be able to influence the investments made by the fund. Extremely strict rules for investments in industrial companies were also imposed. In that sense, the development of occupational pensions in Denmark has much in common with the making of earnings-related legislated pensions in Finland.

In a meeting in the co-ordination committee of the LO, that is, a meeting with representatives from the other trade unions, Dansk Metal was able to defend the result of their negotiations. And afterwards, many of the other trade unions and employers copied the resulting pension agreement in their negotiations. This was the start of the pension reform, and most schemes were implemented so that payments to the schemes started with a contribution of 0.9 per cent in 1993. Within ten years, the pension schemes matured and the contribution rate is at present between 10 and 16 per cent depending on the area of employment. 1/3 is paid by the employer and 2/3 by the employee. At present, almost all employees are covered by some kind of labor market pension scheme (Kvist 1997, 30).

The reformation of the Danish pension design fortified the position of labor market-based occupational pensions that came to satisfy the needs of income-loss compensations for the middle and upper income groups. For low-income groups, the national pension continues to guarantee, internationally speaking, high compensation. However, within the pension design a shift in the division of labor between occupational and national pensions has gradually taken place and occupational pensions have crowded out national pensions (Kvist 1997). According to policy priority, as described above, the level of national pensions has increased, but simultaneously a lion's share of national pensions is now income-tested. This has led to a hollowing out of the universality principle of basic pensions. As in Finland and Sweden, earnings-relatedness is eat-

ing up national pensions not, however, via legislated pensions as in the two other countries, but through a plethora of occupational pensions contracted through the labour market.

The story of Danish pension reforms does not encompass the dramatic changes that were witnessed in Sweden. In fact, the Danish case is a history of no reforms at the national political level but rather national agreements between governments, political parties and trade unions with the aim of developing the pension system to respond to various labor market and economic crises. In a way pension policy in Denmark never achieved the independent position in national policy-making as it did in Finland and Sweden. In Denmark, pension issues were more subordinated to acute fiscal crises and ad-hoc solutions. Some analysts (Due and Madsen 2005, 193) speak of political impotence in Danish pension policy. A Conservative politician, Palle Simonsen, who was initially the Minister of Social Affairs (1982-84) and then Minister of Finance (1984-89) in Poul Schlüter's consecutive cabinets, summarises that the Ministry of Social Affairs was not interested in pension policy and played no role in discussions on earnings-related pensions (Albrekt Larsen & Gould Andersen 2004, 110). The main role was played by the Ministry of Labour and the Ministry of Finance. In contrast to Sweden but parallel to Finland, pension reforms were never openly discussed in the political forum.

If one were to apply Peter Hall's classification, one can argue that in Sweden the reforms satisfy many of the characteristics of the third degree changes; Finland at best reaches the second level; and in Denmark it seems to be hard to find even the first degree changes. However, this picture is far too simplistic: it conceals the impact of small gradual changes, and also excludes the fact that sometimes policy drift through non-decision may entail system changes. This gives more weight to the interesting question: what is a pension reform?

Discussion

As a result of demographic and economic development, politicians and policy makers all over the world are encouraged to develop new solutions to the problem of old age. Existing systems have to be reformed and made more viable for the future. This is a problematic task in itself indeed since the freedom to manoeuvre is constrained by old policies: the traditional institutional path-dependency-argument. The central argument of this article is that political history also came to play an important role in the subsequent development of pension schemes and political constellations in the three countries. To fully understand the politics of pension reform in Sweden, Finland and Denmark, we have to consider that the prevailing policies provided frames for interpreting the severity of structural challenges and the options for possible solutions. As is evident in our historical analysis, the institutional stickiness varies between countries and within a country between pension programs. Therefore, the arena for actions, and also the role of various actors, varies from country to country and from program to program.

In Sweden ATP was a political artefact, loaded with meanings and symbols, therefore, it had to be changed politically. In the Finnish case, pensions were a more pragmatic issue, and the administration was in the hands of corporatist pension institutions. Therefore, the reformation of Finnish pensions was channelled through the labour markets partners. Politicians were virtually left out of this process; or in other words, they could safely watch the process from the sideline. The division of labour between different pension elements created institutional veto points against various political initiatives. Only after securing the consent of the labour market partners, have the decision-makers been able to change the existing legislation, and even then they have been forced to follow the guidelines agreed upon by the employers and the trade unions. The political arena was only decisive when reforming national pensions.

Again the Danish history is somewhat different. The inability of the political parties to produce viable solutions to the question of earnings-related pensions triggered the expansion of occupational welfare. In that sense, the Danish development followed the logic or path dependency evolving from the public-private mix in pension policy, or policy drift. The only option that was open to the politicians was to manipulate national pensions; occupational pensions were more or less in the hands of the labour market partners. And as in the Finnish case, the politicians had great difficulty in steering the activities in that arena. The greater the importance of the occupational sector, the more independent it is of political parties.

The policy chronicles of the three Nordic countries have a bearing on the explanatory frameworks on institutional change developed within the 'New Politics' literature. The main issue in this literature has been how institutional change is possible given institutional inertia. The problem in the discussion has been the definition of the dependent variable: what is a reform? Emphasis has been on 'big' changes, or changes of the third order, to employ Peter Hall's trichotomy. Consequently, an abundance of studies concentrate on 'punctuated' points where an institution, after a period of stasis and continuity, sets off in a totally new direction. However, most institutional changes take place through gradual processes that do not necessarily demand deliberate political action at all. Our three countries cover a large spectrum of possible scenarios. In Sweden, the reform was a path breaking, punctuated turning point where the old program was eliminated and replaced (Hacker 2004). In Denmark, the process was at first glance characterized by stability, but due to policy drift, new layers of occupational schemes mushroomed, which changed the logic of the old design. Finally, in Finland, the old schemes were converted with almost the same result. The logic of the system altered. These differences are hard to explain without considering the policy history of present systems.

The architects of the Swedish reform declared that they have created a scheme that will last to the next ice age (Lundberg 2003). The aspiration behind the Danish and Finnish reforms was more mundane: to create schemes that would last until the next reform. Only time will tell which of the reforms are the most robust. Historical evidence suggests that the life cycle of a pension scheme in the Nordic countries is about 30-40 years. Maybe we will see reforms before the next ice age in Sweden as well. Furthermore, as geologists are reminding us, due to global environmental changes, the next ice age may come sooner than anticipated.

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Table 1 Classification of social insurance models.

Model	Basis of entitlement	Benefit principle	Administration	Main form of financing	Arena of actions
Targeted	Needs / Means-testing	Inversely earnings related	Public	Taxes	Politics
Voluntary	Membership	Flat rate or low earnings-relatedness	Members / Public	Membership fees, taxes	Funds, politics
Corporatist	Occupational category	Earnings-related	Bi- / tripartite	Contributions	Labour-market / politics
Basic security	Citizenship	Flat-rate	Public	Taxes / contributions	Politics
Encompassing	Citizenship + labour force participation	Flat rate + earnings related	Public	Taxes and contributions	Politics

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