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Equality and Pension Reform in Sweden

Lars Harrysson

Providing old people with a living is a social question that has its origins way back in history. However, a convenient point of departure is at the end of the 19th century and the then ongoing industrialisation process and the emerging discussions about social security. The breakdown of former ways of production and family networks, fewer possibilities of self-subsistence, as well as a growing exposure to poverty following decreasing physical abilities to work are reasons often cited. Urbanisation and migration enhanced this process. See them as a background.

Old age means increased risk of physical health problems and less capacity to wage labouring, which may lead to an economically vulnerable position. This was of course more probable before the rise of the welfare state. Organising economic provisions, such as pensions, for the aged, may prevent many negative effects due to age vulnerability. In this context organising refers to the shaping of preconditions for retirement solutions as well as providing these solutions.

I would argue that pension reform in Sweden during the 1990s was well needed. The design chosen however, can be seen as controversial due to its ideological base in World Bank recommendations that in some respects later have had to be reviewed as myths (Orzag and Stiglitz, 2001; Mesa-Lago, 2002). The process was part of a wider reform project that has clear connections to individualisation, privatising, and deregulating, all well founded in a neo-liberal political agenda. It is an international phenomenon (see Harrysson & O'Brien, 2003; Pierson, 1994 & 2001; Hagberg & Wohlner, 2002) where the focus of politics moved from respectfully viewing final outcomes to a favouring of certain means. Means have become ends.

My emphasis towards ends as important in political processes is based in that peoples' bonds to politics is characterised rather more by emotions than mechanical rational behaviour, rather more of social relations than individual incentives (see Spicker, 2000). The increased focus on means and sole self-interest enhances a mechanical view. Not least is this visible in arguments in favour of "equal

opportunities” presented as a ”level playing field” and other metaphors. With a toolbox of such metaphors the political process during the 1980's and 90's have shaped a society with a challenged legitimacy of the State, politicians as well as of governmental involvement in social life.

An enhanced belief in auditing and accountancy as measurements of welfare activities provides widespread fragmentation (Power, 1999), which promotes self-interest and basically blocks cooperation between agents (Persson & Westrup, 2003). Applied to a reform process, Adam Jamrozik och Luisa Nocella's (1998) theoretical framework ”the residualist conversion theory of social problems” extends our understanding. In particular it highlights how influential interests and professional groups as lobbyists in alliance with politicians and an efficient public administration introduces legislation in which social problems of a structural kind is turned into mere technical questions by the administrative sphere (see also Estes, 2001, p18). When this ”technicality” is ratified, groups or individuals are identified as carriers of the problem. Solutions then adapted in the operative sphere are therefor most often based in an idea of correction of a group or an individual characteristic, not the structural problem itself.⁶ Even though the process gives attention to the wrong phenomena, it legitimise the existing order, the power structure.

If politics stops being political and neglects approaching the citizens, but instead maintain or reinforce the administrative sphere, the ”Yes, minister” or ”Think-tank” metaphors are plausible descriptions of the situation. In the pension debate, the transition of retirement income as a question of subsistence to one of insurance, provides us with an example of ”residual conversion”. Considering the problem of social security and pension reform in this perspective, a scenario concerning the Swedish case can be outlined and discussed.

⁶ See especially Jamrozik & Nocella (1998) p50 and figure 6.1 on p108.

The formation of group characteristics

An analysis of pension reform resting on a concept of groups provides us with some essential understanding. Firstly how groups may influence the direction of a reform process, and secondly how outcomes of a reform may differ between social classes/groups. I am, as a starting point, going to use a definition gathered from Hans Heinrich Gerth and Charles Wright Mills' (1948) introduction to Max Weber's works:

We may speak of 'Class' when a/ a number of people have in common a specific component of their life chances, in so far as b/ this component is represented exclusively by economic interests in the possession of goods and opportunities for income, and c/ is represented under the conditions of the commodity or labour markets.

The definition enable us to view and discuss classes and groups rather than just classes as often the latter is burdened by political connotations narrowing the range of possible conclusions. This does, however, not alter the major arguments in the analysis, namely that;

- a/ there is an unequal distribution of influence and resources between groups.
- b/ the inequality will be durable due to that economic ties are shaped when transactions become structures (Tilly, 1998) in which power relations and group divisions later are reflected.
- c/ there are patterns of actions and behavioural characteristics given to a group when defined, which will be internalised and later even self-induced (Elias & Scotson, 1999/1965).

These argument leads to two important questions. Amartya Sen argued in his seminal work on inequality that all discussions concerning inequality need to be triggered by the question: "Equality of what?" By referring to the question "equality of what" different ethical theories of social arrangement will be highlighted (1992, p. x). Referrals to equality, and consequently inequality, are judgements of situations wherein a scheme of normative classifications rule if the existing distribution "of what" is to be considered a problem or not. The right to rule states the second question: "On whose terms are changes made?" I suggest that the latter question form, at least partly, a possible answer to the question "Why equality?"

What to follow

In the next section some examples from the Swedish pension reforms during the 20th century are presented. Some of them more than others exhibit class and group behaviour wherein power relations clearly influenced the outcome of reform. Some special attention will be given the latest reform.

Then, in the following section, I set out to reflect on the question "equality of what?" A necessary task in the sense of the political basis of the problem discussed. Guided by the perspective presented above I aim at showing examples of what are equally/unequally distributed, how and on whose terms this distribution is upheld, and how the affected groups are included in the process.

Pension reform in Sweden

There are three major pension issues, which are connected to the class/group perspective referred to here. First the question of entitlement. Who is entitled, what is he/she entitled to, and what is required to attract full coverage? Second the issue of administration. In what ways are existing systems controlled and run, and by whom? Third the aspect of financing. How is the financing organised and divided between different groups?

Chart 1. Pensions in Sweden in the 20th century

| | System | Entitlement | Administration | Financing |
|-------------|---|---|--|--|
| 1914 | 1 Universal group insurance 2 Supplementary pension 3 Company based and/or agreement 4 Friendly societies 5 Private insurance | 1 Contributions 2 Means-test 3 Employer discretion or stated terms 4 Membership 5 Contract | 1 + 2 Government via post offices, local community boards 3 Companies 4 Friendly societies boards voluntarily regulated by law 5 Insurance companies | 1 Mandatory fixed level contributions 2 General revenue 3 Companies and in cases also employees 4 Contributions from members 5 Contributions |
| 1948 | 1 Basic pension 2 Company based and/or collective agreement 3 Private insurance | 1 Citizenship 2 Employer discretion or stated terms 3 Contract | 1 Government via social insurance offices (some housing subsidies on local level) 2 Companies for the majority, while salaried employees to a growing extent had theirs as insurance 3 Insurance companies | 1 General revenue from payroll taxes 2 Companies and in cases also employees 3 Contributions |
| 1960 | 1 Basic pension 2 Earnings related pension 3 Labour market insurance 4 Private insurance | 1 Citizenship 2 Best 15 income years out of 30. 3 Collective agreement (salaried employees) Employer discretion or stated terms (workers) 4 Contract | 1 + 2 Government via social insurance offices (some housing subsidies on local level) 3 Central labour market organisations (salaried employees from 1960, workers from 1972) 4 Insurance companies | 1 General revenue from payroll taxes 2 Payroll taxes as individual fees and dividends from collective funds 3 Contributions as deferred wages 4 Contributions |
| 1999 | 1 Earnings related pension 2 Guarantee pension 3 Labour market insurance 4 Private insurance | 1 Lifetime earnings 2 Based on the level of income pension 3 Collective agreement 4 Contract | 1 Government via social insurance offices, as well as PPM and insurance companies in the premium module. 2 Government via social insurance offices 3 Labour market organisations 4 Insurance companies | 1 Contributions 50-50 between payroll taxes and employee fees 2 General revenue 3 Contributions as deferred wages 4 Contributions |

Public pensions

The reform of the Swedish public pension system in the 20th century has been a process that has captured several examples of identifiable group bias. However, if such a bias shall be considered class' politics or not is another question. In a critical perspective an assumption of such a connection is common and often well founded. In Sweden the corporative structure has not solely been dominated by an industrial worker - capital divide, rather it has been a mixture of different hierarchical power relations where for example employers - employees (industry) and masters - subjects (agriculture) at times have had different agendas, on occasions similar interests.

The systemic principles

The reform in 1913 was primarily based in an insurance principle. Pensions were meant to reflect contributions paid and the predicted capital growth of the premium reserve funds. The question of subsistence, which focused on the need of a reform, was the basis of the political rhetoric, whilst the solution chosen, despite being universal, is a good example of an expertise driven process. Actuarial techniques were of prime interest, and the system aimed at being actuarially fair.

Connected to the universal group insurance was a means-tested supplementary part. The addition was necessary to achieve a momentum in lifting the elderly out of poverty since the insurance part was a long-term construction with a formation period of 50 years, ie. an individual's working-life span (Elmér, 1960).

The reform was an answer to several problems whereas some of them had clear bearing on the question of equality and class. The choice of a universal solution reflected the socioeconomic situation in Sweden at the time. A major part of the population was still living and working in the countryside and the share of free-holders among peasants was large. Even though the political discussion of public provisions had been started earlier and with focus on a solution towards industrial workers, the situation called for a reform answering to the demographic reality.

Given the formula of reform the existing income inequality in the labour market was upheld in retirement following an actuarial fairness argument. Even though the system was universal its fairness beyond obvious unequal outcomes can be questioned. The position of certain well off groups with personal or governmental retirement promises was strengthened by an opting out possibility (Berge, 1995). Women

were worse off than men (Werner, 2001), and by definition low income segments were paying a higher alternative cost than high income earners in respect of paid contributions effects on possible subsistence consumption. In such a setting rhetoric of actuarial fairness become class politics. The belief in and promotion of a technical solution producing the durability of unequal settings, such as the market outcome, is evidently an aspect of norm-ridden politics.

As Per Gunnar Edebalk has pointed out did the established group of promoters of poor-relief play a role in the process of pension reform, but their achievements were limited (1996). The means-tested supplement held some of the moral codes forwarded by them, eg. soberly behaviour, which of course hit only the low-income segments. But, the major change was that those in favour of social insurance gained influence. It was a great leap forward in social welfare organisation. One norm was thereby exchanged for another.

The pension system was revised already in the 1930's. No major alterations were made, but a clear reference to the existing system as a poor reliever of poverty among old people was made. The political norm was fully altered again by the introduction of a basic flat-rate pension in 1948. The investigation leading up to the new system did not, however, officially work with the flat-rate idea until very late in the process (Elmér, 1960).

A problem unsolved by the parliamentary decision in 1946 was the question of indexed pensions. A consumer price indexing (CPI) module was soon introduced. Without a system for balancing the value of pension amounts to either consumer prices or to wages (or both), redistributive effects may occur that are not anticipated. In a subsistence view, with pension levels just above what is needed to keep out of poverty, inflationary pressure would challenge the social policy intentions of the reform quickly. However, equally important is to find a solution that, on the one hand, does not spiral inflation and on the other, balances consumption abilities between retirees and the working population over time.

Indexation that produced questionable income distributions between the working and the retired population over time was one of the major criticisms in the 1970s and 80s against the supplementary pension reform of 1960. Over a business cycle it was obvious that the retirees had good times when others did not. The indexing system compensated for price increases, while the working population was dependent on wage negotiations, ie. the indexation was related to

consumer prices and did not reflect real wage growth. The idea reflected an ambition of a fixed consumption capacity. However, political decisions could lift or hold back the full collective. This was possible due to the so-called "standard income unit" which worked as a filter between the CPI and the actual index ruling the levels of the pension system. The system therefore was not fully automatic. Rather it has been promoted as such. This became very clear in the 1990's when the parliament decided to not fully compensate for price increases as a part of the budgetary cut policies. It also showed what type of conditions was necessary for politicians to be able to use "blame-avoidance" tactics in retrenchment (Ney, 2001; Pierson, 1994).

The reform of 1960 was passed through parliament with the least possible margin, one vote. It was a reform aiming at supplementing the basic pension, and to move the compensation level towards 60 % of former earnings. At the same time as the reform followed the pay-as-you-go principle (PAYG) it also revitalised the idea of more individual entitlements and a work performance related model. The choice of a PAYG principle made it possible to deliver already from the start without any pre-funding. However, the system was designed with reserve funds of a considerable size to maintain payments during demographical swings.

In the process of designing the reform a clear demarcation line was visible between those who preferred a fully publicly run PAYG system and those promoting a mandatory but privately organised premium reserve system. Some also forwarded a third possibility of an extended basic pension (Salminen, 1994; Molin, 1965). Historical explanations about this development, not least forces behind a compulsory supplementary scheme at all, emphasise class factors as important. Why should workers not get what the salaried employees received through collective agreements? It was obvious that existing solutions in the labour market were far from satisfying, especially regarding manual workers (Harrysson, 2000). The question of design and timing also exhibit a class divide where the growing share of salaried employees had their work conditions more standardised and resembling manual workers' conditions leading their political sympathies towards Social Democracy. See for example Evelyne Huber and John D. Stephens (2001) for an well-elaborated analysis of the labour movement influences in the Nordic welfare states.

An important part in the Social Democratic strategy was to involve the middle-class segments into the collective arrangements supporting the welfare state idea (Svensson, 1994). To be able to achieve this the pension system, among other things, had to be designed to meet the "needs" of the middle-class. One need was to withhold the standard of living from before retirement (income compensation principle); another to reflect the different earning patterns between manual workers and salaried employees (15 best paid out of 30 years work rule).

The ATP-reform was the "crowning" of the social insurance system. By 1962 all major social insurance fields covering sickness, occupational injury and retirement, but not unemployment, were organised under a common administrative and legislative umbrella, "allmän försäkring" (social insurance).

The 1970s were characterised by slackened economic growth, on-coming retirees eligible of full supplementary pensions, and expected higher dependency ratios (number of retired as share of the number in the labour force). The combined system of reforms from 1948 and 1960 was under these circumstances observed as unstable and in need of change by the 1980s.

Administrative features, some remarks

The administration of the system from 1914 was organised using the post office network for contribution payments, and local community boards for the testing of people's entitlements. The contribution payments were divided into four amounts. This was of course a question of ability to handle the number of payments flowing in. With current technology the new Swedish system uses wage relative contributions leading to an unlimited amount of income layers limited only by the floor and ceiling in the pay-as-you-go system.

With a flat-rate pension as in the reform of 1948 the administration became quite straightforward. Mainly it was a question of making sure that a system for payroll tax collection was developed, and that the pension payments reached their destinations. It became more complicated with the introduction of the earnings-related supplementary scheme in 1960. Now there was a need for control of peoples' earnings. It was fulfilled through a financing system based in payroll taxes covering most of the population. Self-employed persons had the responsibility of their own payments, and for farmers there was an

opting out possibility in the 1960s. In connection to the implementation of the reform the former administrative body, Kungliga Pensionstyrelsen (Royal Pension Board), introduced in 1914, was substituted for Riksförsäkringsverket (RFV) (National Insurance Board) with responsibility for all social insurance except the union administered unemployment benefits. RFV conducted the necessary calculations to clarify individual entitlements following a technique based in a point system awarding a particular level of pension counted as a relative to a number of "standard income units". The system was connected to the same indexing principle as described earlier. Due to that all public pensions still were organised by the one and same administrative body, the organisation of pension payments, in the view of the recipient, was not affected by the introduction of the supplementary scheme. The pension funds (AP-funds) formed their own administrative bodies.

The pension system from 1960 underwent several more or less extensive changes up to the major reform in 1999. Then a model with numerous administrative bodies due to the system's premium reserve module was introduced.

Changing patterns of financing

Over the years the Swedish public pension system has been secured using different techniques for the financing of emerging pension rights. The model introduced with each major reform reflects what was practically possible, but also, and perhaps more important, what influential groups saw as preferable.

The reform introduced 1914 was in its universal part based on contributions paid individually at the post office. During the political reform process there were ideas of introducing a payroll tax, but due to the large share of small employers this option was left unused. However, people connected to the employers' organisations also disregarded the question of payroll taxes. The means-tested part was financed from general revenue. As a way of raising that revenue a tobacco tax was introduced. It was implemented along with the socialisation of the tobacco industry.

In 1936 the system was partly altered when a limited guaranteed pension was introduced parallel with the contributions based scheme and the means-tested supplement. This was a first step towards the basic pension system established in 1948, but the idea of keeping entitlements connected to contributions was strongly supported. Not

until the reform in 1948 were payroll taxes introduced to finance public pensions. Basically all interests favoured the solution, even the employers did since it was going to defuse the growing pressure from the trade unions for a labour market wide solution based on negotiations. The employers were not yet ready for such a step (Harrysson, 2000). However, the following ten years of activities were intense concerning the future development of the pension system. At least it was a question of financing responsibilities.

The introduced earnings-related system had a ceiling restricting the pension level but there were no restrictions on payment obligations. The payments were payroll based and administered by the employers. However, the status of ownership of the payments was not fully established apart from that they provided employee entitlements to a public supplementary pension. The question appeared vital in the mid-1990s when the new contribution based pension system, with a 50/50 split of contributions between employer and employee, was introduced. Who could claim the right to the funds behind the fees that paid for the former system? Were they to be seen as deferred wages, and therefor employee wages, or were they a straight payroll tax to be considered a cost for the employers? For a long while the question was not resolved, but with government involvement the question was settled to a 50/50 split.

The current system introduced in 1999

The pension reform implemented from 1999 introduced changes in many areas. Seen as technical changes the introduction of lifetime earnings as the benefit formula is a major change. It involves at least theoretically an altered redistribution pattern compared with the 15/30 rule in the old system. The redistribution, however, is probably more affected by the increased maximum benefits in the system, and as a consequence of shifting dividends from the premium reserve pension. Added to this of course a possibility of a wage pattern that will push wages downwards, as business wants, and a larger share of people dependent on the guarantee pension might follow.

The guarantee pension is not a basic pension given to everyone, as in the former system, but a "topping up" model for those not earning enough to match the lowest acceptable level of income pension. For those eligible to the guarantee pension receive an amount comparable to the former system's basic pension inclusive housing benefits. This

is financed from general revenue, not from payroll taxes as in the former system.

At the same time as it is hard to forecast any redistributive effects of the changes, it is clear that it has produced a more individualistic system. This is evident in the premium reserve part where choice and luck has substituted social solidarity. Although it is most obvious in the transfer of the risk burden from the public to the individual, as could be expected when moving from a defined benefit to a defined contribution model. For those with lower income or no income at all, but who still fulfil the criteria for eligibility, the change does not make much difference in this perspective.

Another major redistributive factor new to the system is the real wage growth and inflation indexing principle. Compared to the former consumer price indexing system, which did not allow for other changes than in prices, the new one focus on three important aspects of long-term stability. First, it aims at balancing the pension levels to the real wage rate, ie. the relative purchasing power of the retired and the working population is kept stable. This means that the pension level is subject to changes during the time of retirement, from which follows that your accrued pension rights are based in a combination of contributions made during your working life, as well as the coming generations efforts while you are retired. Second, the system is designed to meet swings in growth in the economy (in GDP). Prolonged periods of slow growth, together with other pressures, may hit the "brake" of the system. In short the brake affects a relative factor to which all pensions rights are multiplied. The factor may be changed to ease the financial burden on the system. As a consequence of such a possibility of change there is no fully guaranteed replacement rate in the income pension system. Third, it is constructed to meet demographic pressures. Due to that the population's age structure has changed following a long-term decrease in fertility combined with an increase in longevity and swings in the birth-rates, an increase in the dependency ratio (retired as share of working population) is produced. This will of course vary over time when large cohorts, eg. those born in the 1940s or 1960s, are phased out, but as a system it aims at producing a legitimate outcome at every moment. In other words, it is focusing on adequate justice on a "day to day" basis.

Administration has become a new arena with the reformed system. Mainly this is an effect of the introduction of a premium reserve part where accredited fund managers, some 200 of them, compete for the capital. The market is strictly regulated by Premiepensionsmynd-

digheten (PPM), a public body with the responsibility of the premium reserve system. This means that the new system is administratively complicated due to all different agents involved. The public, however, refers to PPM in matters concerning their premium pension and choice of funds. In cases that refer to their income pension they need to contact the local social insurance offices (Försäkringskassan). Compared to the former system it is clearly a more complicated matter to see through and understand the new system.

The way of financing has changed too. The former system was fully financed from payroll taxes while the new system is a split formula where employees and employers pay half the contributions each, 9,25 percent each of gross wages. That is nearly two percentages less in total than earlier, 18,5 to 20,45, and is explained by that the guarantee pension is fully funded through general revenue, and early retirement payments taken out of the pension system. Out of the 18,5 percent 2,5 percentages are directed to the premium reserve module, 16 percent to the income pension system.

The private-public mix

The history of occupational as well as private pensions must be shortly discussed in the context of pension reform. In many comparative studies Sweden has stood out as a very well developed pensions regime (see Palme, 1990; Salminen, 1994). I would agree with that, but if occupational systems in the studied countries were included in the analysis it may have changed the comparative result. Both the German and the US systems are hard to discuss without these systems included, also the Nordic countries differ a great deal on this point. This leads us to a conclusion that Sweden has a well-developed public pension system, but not that pension entitlement necessarily are worse in countries using a less publicly organised system (see eg. Mesa-Lago, 2001 for an account on Latin America).

More significant and well-organised occupational systems were developed in Sweden in the first half of the 20th century. Several of them had trajectories way back, especially concerning sailors, military personnel and civil servants. Among railroad workers and in some parts of the industry, friendly societies were introduced, and in the more patriarchal parts of industry employer organised welfare systems were used (Harrysson, 1997; 2000). With the rise of a public pension system the two existed side by side, but they were evolving along different rationales. While the public system was universal and with

an ambition to lift people out of poverty, the occupational systems looked at clearly establishing who was eligible. Especially following the development of more generous and/or insurance like systems with portability and financially secured pensions rights these limitations were seen as important.

The history of occupational pensions shows a clear divide between salaried employees and manual workers. While large segments of the former, especially those within large companies, were provided with pension plans covering up to 60 percent of former wages, the latter had to a lot lesser extent any sort of pension promises. However, even among the workers it was clear that those industrial workers employed in large companies were favoured.

The development was slow, rather static among manual workers, all the way up to the introduction of the supplementary public pension scheme, ATP, in 1960. As a consequence of the introduced public system the occupational systems were changed and became supplementary in character. An important plan, ITP for industrial salaried employees, was changed into a guarantee of 70 percent compensation, or 10 percent on top of the public pension. For those with high wages the occupational part took on a relatively larger share due to the benefit ceiling in the public system. Manual workers did not achieve any negotiated extension until 12 years later, the so-called STP, which was a straight payment of 10 percent of final salary. From then on the labour market has been fully covered by pension plans, although administered differently across branches.

In the 1990s most occupational pension plans were renegotiated from a defined benefit to a defined contribution base. The only major plan still outside that frame is the private salaried employees ITP, whose unions are struggling to maintain a defined benefit system in a hostile employer environment.

For everyone who retires from the labour market the mix of the public and occupational systems play a vital role. For most the occupational part stop at a 10 percent sweetener, but for those with higher salaries it provides a standard security not possible only through the public system. However, by the transforming of the occupational plans into defined contribution based plans the risks have been transferred from the employer to the employee. Therefor it is not a standard security any longer, but a capital investment project.

For those with resources it is possible to invest in individual private pension plans. Using tax deductions up to a certain level the

government has for a long period of time favoured such plans. This way of subsidising retirement savings has a clear regressive redistribution profile.

Equality, subsistence and class mobilisation

Let us start with the question of pensions and equality of what?

My answer would, in a normative manner, be that it is the right of all citizens in a democratic welfare community to a retirement income above subsistence level. None should find a need of begging for their living, neither be burdened by a stigma due to a dependency on welfare transfers. However, this is my understanding of the basic values behind the Swedish public pension systems up to now.

The answer to the initial question has over time become blurred or been moved to the background, notwithstanding that the answer is still the same. Paul Pierson (2001) would in a provocative manner call the blurring process one of obfuscation, deliberate confusion, wherein powerful groups maintain and mobilise resources to limit their losses or to gain influence. This is specifically the case in times of retrenchment, but visible also in welfare build-up processes. What would such a process look like? Well, let us conclude that nothing of what has been proclaimed as technically new in pension reform is really that new, apart, perhaps, from the universal strategy in 1914.

Views held by different political or professional interests have had a quite stable structure and support. Conservative and liberal political groups together with business promote pre-funded insurance systems that are individually based and privately run. Environmentalists as well as agricultural economic and political interests prefer a basic pension paid from general revenue. Social Democrats and the trade unions hold a view of a collective earnings-related system based on a pay-as-you-go principle. In this sense it is not a question of where from reform pressure has come, but in what circumstances certain groups gain influence to promote their particular ideas.

Power resources explain the development of certain relational particularities, not the details themselves. Further, it is not what is said, but what is actually listened to, that reflects the relative distribution of influence in such a development. How did we get convinced of a certain direction of pension reform in the 1990s? Or who listened to what?

Some critical moments in pension reform

The growth of the welfare state in Sweden was accompanied by a full employment society and governments devoted to active labour market policies to keep people involved in wage labouring. The welfare organisation was in most respects concerned with fostering new working generations and respectfully taking care of those who had serviced. Reciprocity worked on an ideological level of solidarity between those who were fit and those who were not.

By the late 1960s and early 1970s economic growth was sluggish. The world market was hit severely by inflation and stagnation when the US let their currency afloat. Increased oil prices triggered an upcoming structural crisis in the international economy. Most western nations declared budget deficits and rising unemployment. It was an economic environment open to criticisms and challenges of the welfare state.

The welfare state setting was criticised from both the political left and right. Left wing criticism was clinching the welfare arrangements from a Marxist view stressing governmental support of business values, or just as a device of ensuring workers in the capitalist system. From the right the criticism stressed the welfare state as obstructing private life and choice. Not least the growing need of tax increases to finance the system rendered in reactions.

It takes time to make welfare organisations change. Path dependent structures, bureaucratic routines, political struggles in conflicting interests, among other things make the process slow and unpredictable. To promoters of change it is important to move beyond the point where a withdrawal is possible or at least likely. Obfuscation comes in play. Simply make people believe one thing and do another. Make people believe some small changes are necessary, but do not present the full picture of long-term consequences, such as further "necessary" changes. Make the process complicated and hard to see through. Keep the agenda hidden.

Some structures are stronger than others are. Pension systems is one of those. Pension systems are long-term arrangements based in solidarity between generations. There are two basic ways of interpreting the logic of solidarity. First: "I pay your way now (old to young) and you pay my way later (young to old)". This is the logic of a "pay-as-you-go" system. It can be said to be an impersonalised, or socialised, version of intra-family redistribution in pre-industrialised societies. Second: "I pay my own way through savings and inheri-

tance, you pay yours.” This is the logic of a funded system. It is based in property rights, and resembles in large arguments for a free market economy.

There are few pension systems fully applicable to any of the two. However, as existent structures of thought, not least ideologically, they provide understanding of what way a system is heading. It is also clear that both ways are strongly dependent on the next generation's acceptance of the logic and ability to produce resources to redistribute. Basically, both are extremely dependent on that people work and share the results of their efforts. However, the re-distributive logic is clearly different.

If a system entitle to pensions based in individual property rights, disputable as civil rights in court, it is obvious that a change that would challenge these rights is hard to achieve whatsoever necessary. Even with a system as the former Swedish one, which produced pension rights as social rights rather than property rights, it proved hard to make any dramatic changes that diminished individual returns from the system. Not least since the mature system has been quite successful in keeping most of the retired population well above poverty. Among influential political groups it also held a strong position as a milestone of welfare state creation, and whatever problems the system had, and many were known and well documented, it would take unpopular political decisions to change.

In the theoretical view gathered from Jamrozik and Nocella (1998) the way the problem was met can be referred to as a move to an administrative sphere. In the move the question left the conceptual level of ideas and turned into technique. The political criticism, from right and left, had to turn into applicable proposals for politicians to act upon, and the propositions had to be in line with the normative structure held by influential groups at the time.

When it comes to pensions the technical methods can be divided into two: actuarial and accounting/auditing methods. None of these can produce any explanations to questions of why, how, when, who or where a reform process takes place. However, that is not the idea. They are often technically advanced and serve well as tools of obfuscation (Pierson, 1994). These methods produce answers dependent on what information is available for calculation. Actuarial methods are as a mathematical exercise objective, but the choice of what material is to be used is of course not (Hacking, 1990). Actuaries do not predict preferable futures, but countable turnouts. Their professional status relies on their ability of counting correctly. Auditing is some-

what different. An auditor's professional position is secured by his membership of an association, which have a system of rules of conduct, ie. ethical principles (Power, 1999). The ethic is used to provide confidence, as far as to be legitimise the right to the design of guidelines for the auditing process inside the association itself. The principle of that the auditor does not choose sides is important to withhold. Auditors, as actuaries, do not predict preferable futures they make short-term historical reviews based on principles they have created themselves. The result of an auditing process is of course not an objective outline of the position of a firm, a soccer club, a part of the welfare state, but a result fully dependent on the principles chosen to direct the auditing process. Their professional status relies on their ability of monopolising the right to set these principles.

If pension reform is referred to these professions, only those with skills to interpret their results are able to participate in the process. This would mean an efficient way to keep others, such as the common citizens, out. While some influential groups feed these professions with information, other groups, with other agendas use the information interpreted in their preferred way.

During the 1980s Social Democratic governments deregulated important parts of the economy in a similar vein as in many other nations, eg. New Zealand (Kelsey, 1996; O'Brien, 1998). The agenda for these changes was unclear at the time, but clearly driven by the Treasury. Focus moved to monetary stability with an independent central bank, supply-side economics etc. At the same time other parts of the Government worked in directions of a continued welfare state development. But with major changes in the taxation system and a reinforced focus on individual choice and eagerness of privatising public utilities, welfare state retrenchment was first target. The succeeding Conservative government opened for the "upper class" to become visible on the political front stage.

The complete neo-liberal agenda was presented. It appeared as if many of the earlier steps taken "opened" the field. With the privatising of public services people should be free to choose, receive a better coverage, lessen the distortions in the labour market, and promote competition. In a class or "a less fortunate segment" perspective these arguments would be translated to choice and better coverage for those with resources, less security in the workplace and relatively lower wages for those without. Furthermore, in a pension coverage perspective this would mean higher individual risks and less chance to

be part of an occupational system due to the latter's entitlement criteria.

With a crisis in public finances at hand things that earlier were blocked out were suddenly possible. A parliamentarian group consisting of representatives from most political parties was formed to find a solution to the public pension problem. This group differed to earlier ones with similar political importance by being very closed to outside influences. Its agenda was to fulfil the task of moving a reformed pension system through the parliament before next election. The process was one of finding a compromise that all involved could meet without losing face, so-called blame avoidance (Pierson, 1994). The Left party had to step out of the group since they did not agree with the agenda (Sandh, 2001).

The idea that structural or radical pension reform is in some fundamental sense incompatible with 'normal' democratic politics also seems to play out empirically. A cursory glance at pension reform efforts in Europe over the past two decades shows that radical reforms tend to coincide with incisive changes in political structures. (Ney, 2001, p2)

The political process of pension reform in Sweden was one that blocked transparency. It aimed at as soon as possible get reform on the way. It is also obvious that members of the group worked hard to promote their idea of individualisation, but also that they met severe resistance from others (Sandh, 2001; Palme, 2001). The system proposed was one stressing means rather than ends, and rather complex means. The group presented a solution to the major problem of indexation and in some respect demographical swings, but why the increased individualisation, and why public involvement in speculation through the premium reserve part?

Legitimacy, equality and class - a normative final reflection

An interesting aspect of this reform is how it was legitimised. In a Rawlsian perspective, highly simplified, a justified distribution is one that as a minimum criterion makes the weakest better off. Notwithstanding that the reform does that. For those with only the guarantee level it is probably a better outcome than from the former system. It is also clear that those with plenty of resources are better off due to a risen ceiling and lowered fees, but mainly receiving their retirement

income from other sources. Is that enough to motivate that some 80 percent of the working population are worse off? The question is even more accentuated when referred to the transition rules that have been instated covering citizens born 1937 - 1954. Viewing the older system as more generous than the new, these rules favour a generation that:

- Historically has been favoured by subsidised private capital formation through housing policies and tax deductions.
- Clearly has been the best off in tax reform, with lowered capital and income taxation.

However, these regressive distributive effects do not spread even among a generation. There are of course large segments that have not had the financial ability to create this capital build up despite favourable conditions. Transition rules in pension reform aims at reassuring people that have built up pension rights in the existing system that they shall not lose. This concerns most often only them near retirement, but as in the Swedish case a quite extensive share of the working population. The rules also have the ambition of maintaining trust in the Government.

My description of a favoured generation can most probably be contradicted, but let us say that it is not. It is obvious this far that those covered by the old system are better off than those under the new regime are. How does my argument affect the legitimacy of the political process? There are few signs of that people are convinced that the new system is the right way to go. Mainly it seems as if people have to coop with it since it has been instated using the power of representative democracy. This has negatively affected the trust in politicians. Since politicians are representing the State, the legitimacy of the State is under threat to be severely damaged. This far though, it seems as if the faith in democracy and a state organised provision of welfare services and social protection still is strong, but fading (Svallfors, 2003; Kumlin & Rothstein, 2003).

This process has been affected by other changes than in the pension system. Due to the structure of the political system with highly independent local communities, changes appear at different pace around the country. Sweden is not one welfare state, but 289. In each and very local council actions have been fragmented by decentralisation as well as auditing processes implementing business ideas into public administration. Eg. a school may be closed down because it cannot pay the rent that the councils own housing company

set based on market valuation of their buildings. Rather ridiculous I must add.

However, in an environment where a lot of more or less simultaneous changes alter the way people relate to the welfare state, it is not possible for anyone to have a clear view of the effects of made changes. The speed of change, the aim at basic values, and a consistent lack of interest in active labour market policies to provide work opportunities, can only be met and perhaps appreciated by those with resources to fund alternative solutions. In a subsistence view it can only be considered as a major neglect of needs to make ends meet. I, without more proof than any other foreseeing the future, would believe that inequality in financial resources on an individual level as well as between social classes is going to increase and prevail through market related dependency structures. The possibility of that these structures will reach all the way into the basics of democratic control is apparent seen in a historical perspective of economically unequal societies.

Finally, the design of the current Swedish pension system enhances this process in at least two ways. First, by the intensified individualisation promoted in the system it threatens the basic glue of solidarity in the Swedish society, which it is set to provide for. Second, the introduction of a premium reserve part creates a dual tension that clashes with other important values. The obvious speculation ingredient in the premium reserve module contradicts the idea of providing a secure retirement. It is also questionable if the public system at all should promote such actions. But of course, sarcastically, who cares when someone loses as long as it is not I? This is the moral of neo-liberal style individualism in a nutshell. Beware of that!

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