

Lund University
Department of Economic History
Box 7083
220 07 Lund

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Recyclable Reform:
Explaining Sweden's Pension Reform through Garbage Can Theory

C-Level Thesis

Fredrik Andersson
fandersson@aol.com

Advisors: Martin Dribe & Benny Carlsson

Abstract

Public Choice Theory is the most common theory used to explain public policy formation and change today. Sweden's pension reform of the 1990's is not easily explained by Public Choice Theory, however, and there may exist an opportunity for a different approach to more clearly explain what occurred. This essay explores the viability of Garbage Can Theory in explaining the process of pension reform in Sweden. The use of Garbage Can Theory is by no means an attempt to disprove Public Choice Theory, but is rather intended as a useful tool in explaining public policy changes that appear to be in opposition to the desires of the median voter. Pension reform in Sweden is the empirical testing ground for Garbage Can Theory. Some aspects of Sweden's partially funded pension system are discussed as well.

Key Word(s): Garbage Can Theory, Public Choice Theory, public policy, reform, policy entrepreneur, defined contribution, pay-as-you-go, privately funded, pension reform.

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Introduction

Demographic changes in the form of aging populations, brought about by lower birthrates and longer life spans, have created numerous challenges for many developed countries. Perhaps foremost among these challenges is the sustainability of existing pension schemes. Demographic change in conjunction with generally lower economic growth rates has put pressure on public, obligatory pay-as-you-go schemes throughout Europe. Sweden is among the few countries that have been able to reform their pension systems to adapt to the new demographic and economic realities that face the world today. This paper will look into why and how such reform was possible in Sweden through the lens of Garbage Can Theory. As such theory predicts, public policy reform is not the result of any single factor but is rather the result of conjoining a series of factors within a window of opportunity.

The questions that lie at the heart of this paper are: What are the forces that drive public policy reform? Under what circumstances is reform possible? Within such questions many subsets of questions exist: Does reform occur progressively, slowly and rationally? Who are the actors responsible for change? Are individual actors important for catalyzing reform? What role do institutions play in understanding reform? Why do certain reforms take place at one time and not another? What role does the public play in pressuring reform? What role do interest groups, lobbyists and academia have in determining the outcomes? Though not all these questions can be answered in full, this paper will attempt to shed some light on possible answers.

This paper will begin by looking at the “Garbage Can Model” of explaining public policy reform. The groundwork of the theory will be reviewed and with this understanding we will turn to the case of Swedish pension reform. After a brief review of the history of pensions and prior reforms, the paper will focus upon the reform of 1994. After a review of the actual events we will be able to determine the compatibility of Garbage Can Theory to the case of Swedish pension reform.

Earlier research has focused upon Public Choice Theory and its compatibility to pension reform. Kruse (2003) describes pension reforms in Sweden during the 20th century through the lens of Public Choice Theory. Kruse's essay notes that Public Choice Theory anticipates public policy change based upon the desires of the median voter. The consequence of such a theory in action is the expansion of pension benefits beyond optimal levels in most voting situations according to Browning (1975). In short, his research shows that voters who are closer to retirement age will approve of the expansion of pension benefits as the tax losses they will experience during their remaining work years are smaller than the gains which they will receive. In an aging population such actions would produce ever-expanding pension benefits that are beyond optimal levels. Research by Breyer & Craig (1997) supports the predictions of the Public Choice Model as pensions have expanded in countries of the OECD. Statistical data presented below by Wallis (2003) supports the research. Kruse notes that the Public Choice Model applies well in terms of Swedish pension reforms until the reform of 1994 which slightly reduced pension benefits. Kruse notes that the median voter age was 48 at that time. She asks how a pension reform which did not expand benefits was able to pass given the predictions of Public Choice Theory. She notes that the median voter would have retired by the time any crisis would have struck the existing system. Given the old system, taxation could then have been increased for those employed at that time. While she admits that more nuanced arguments of Public Choice Theory such as those proposed by Galasso & Profeta (2002) may help refine the theory to the most recent reform, basic Public Choice Theory does not. Even the variations of Public Choice Theory presented by Galasso & Profeta (2002) cannot fully explain the Swedish reform of the 1990's

Method & Goal

This essay's primary goal is to test the compatibility of Garbage Can Theory to Sweden's pension reform. As such, it looks to expand Garbage Can Theory's applicability and to raise its viability and importance within the realms of public policy and economic theory. A secondary goal is to look at Sweden's pension system and its evolution into a partially

funded system. Though this paper focuses upon the process of change rather than its content, the importance of the private fund feature to the process of reform cannot be ignored.

Meta-theory

As with any question pertaining to the social sciences, it is difficult to create truly scientific tests or experiments to test different hypotheses to these questions. Control conditions cannot be created in the same manner as they are in the physical sciences. The number of variables that exist in the realm of politics, economics and social conditions are quite high. Given these difficulties, an attempt will be made to create as clear a picture as possible of what happened. As noted in Alvesson & Sköldbberg (2000), it is impossible to give a truly unbiased picture of what occurred, but it will be my attempt to present history as objectively as possible. The historical and analytic portions of the study will necessarily be qualitative in nature and based on empiricist techniques. As for a lack of other options, this part of the study will be open to criticisms of interpretation.

Garbage Can Theory

The theory for this paper will be used as presented primarily through the works of Cohen, March & Olsen (1972), Robert Kingdon (1983) and March & Olsen (1989). Though the views presented by these authors are not exhaustive, I have found their presentations to be representative of the essence of the theory.

Garbage Can Theory – Cohen, March & Olsen

In their groundbreaking article from 1972, Cohen, March & Olsen first presented the Garbage Can Model. The article attempts to explain the decision making process of organized anarchies. Their main area of focus is the structure of universities, but the model is applicable to any organized anarchy. “Organized anarchy” is a phrase used to describe larger decision making bodies earmarked by three main characteristics. Firstly, the preferences of an organized anarchy are problematic in that they are constantly changing. Describing an organized anarchy’s decision making using a Rational Choice Model (the theoretical base upon which Public Choice Theory was built) does not capture the essential reality of its structure. Rational Choice assumes fixed preferences while those are not the case. Secondly, organized anarchies are characterized by unclear technology. By this the authors mean that all actors within the organization are not fully aware of all the processes or mechanisms within the organization. For example, a university professor may be completely oblivious to the functioning of the student acceptance process or the budgeting aspects of the University. Despite the specialized and departmentalized knowledge of all of the actors, the university can continuously function in a stable manner. Thirdly, organized anarchies are made up of varying participants. Members of the organization will come and go, each with their own experiences, knowledge of the system, and personal opinions.

Cohen, March and Olsen describe the decision-making processes within organized anarchies as garbage cans collecting different streams of input. They divide the streams into four components: streams of choices, streams of problems, streams of solutions and streams of energy from the participants. The writers state that decisions are made upon three assumptions for every choice, the amount of energy added, the amount of energy allocated (time), and the amount of problems presented. Decisions are made on the combination of streams, energy and problems at a given moment. Given all of these factors, the authors present some implications of the model. The first, mentioned above, is that the Rational Choice Model is not the normal method of decision making; solutions are more likely to be coupled to problems than being created after problems present

themselves. Secondly, the load of problems affects the decision making process; the more problems that exist, the slower the decision making process becomes. Thirdly, problems often stick to the participants most directly responsible. Fourthly, the streams entering the garbage can are interactive; problems meet solutions, decision makers hear solutions, etc. all at the same time. Fifthly, given the time constraints on participants, they can only focus so much energy into problems. Perhaps obviously, important decisions receive much of the energy and time allocated. Sixthly, many “choices” are not actively made. Some important decisions come about because of a vacuum of choice. No active solution may be deemed possible so a sort of default solution comes into effect. The writers term such solutions as “solutions of flight” or “solutions of oversight”. Finally, the authors write that choices of mid-level importance are the ones most often made by decision makers; the most important choices are often too complex, loaded or time-consuming for the decision makers to act upon while the least important choices often do not hit their radar screens.

The Cohen, March and Olsen Garbage Can Model as it was first presented in 1972 was quite quantitative in its nature, perhaps as a reflection of research at the time, and did not delve into the consequences of the model or its implications in politics. It was, however, the first important step in creating the Garbage Can Model. The description of organized anarchy fits very well with the workings of government and this is where our next theorist, Robert Kingdon, expands upon the model.

Garbage Can Theory – Robert Kingdon

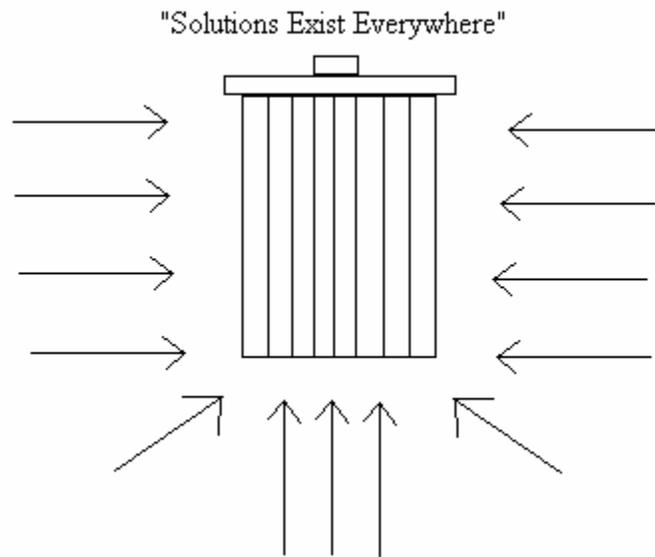
Robert Kingdon’s book, *Agendas, Alternatives and Public Policy*, from 1984, expands upon the Cohen, March and Olsen model and melds its application to the formation and implementation of public policy. Kingdon begins his book by specifying two very different aspects of policy formation: agendas and alternatives. A “government agenda” is described by Kingdon as a list of subjects getting attention within government. Within this government agenda lays a “decision agenda” composed of a list of subjects upon

which decisions are imminent and current. “Alternatives” are the various choices or solutions that can be made for every item upon the agenda. Kingdon highlights the distinction between these two aspects and we should take heed to his point.

Kingdon describes decision-making as being made up of two parts: the participants and structural processes. For the moment we will focus on the latter part and return to the former later. Kingdon, in lieu of Cohen, March and Olsen, sees structural processes being composed of problems (which can be highlighted by a crisis or event), policies (such as deregulation, cost-cutting, or technical advancement) and political processes (public opinion, elections). Each of the three processes can serve as either an impetus or a constraint in moving a subject higher or lower on the government agenda.

Kingdon notes that government agendas cannot be predicted. In his study, he asked different members of government, lobbyists, academics and others to predict “hot” agenda items. His results show that no group had any “inside” knowledge as to what would become important. Given this situation, he notes that “solutions” to problems exist everywhere; academics, politicians, and lobbyists, among others, are constantly pushing for their own ideas to be accepted. He makes the rather apt analogy that the seeds of ideas exist absolutely everywhere; what is important is to find fertile soil where these ideas can take root.

Figure 1, The Garbage Can Model.



As Cohen, March and Olsen wrote, Kingdon found the Rational Choice Model to be a poor characterization of the decision making process. Problems are not brought up and studied with possible solutions weighed and then decisions made. Neither does he find "Incrementalism" as apt in describing agenda priority. Incrementalism is the idea that decisions slowly develop until they are finally ready to be made. Rather, issues seemingly pop up in the agenda only to disappear again. Agenda items do not slowly creep up to the decision agenda; they rather shoot up or fall down quickly. Kingdon does write that Incrementalism does apply to alternatives, however. Alternatives for public policy are slowly refined, adjusted and changed as time passes.

Figure 2, Agenda-Setting.

Government Agenda*

- 1) Subject (Ex. Pension Reform)
 - 2) Subject (Ex. EC membership)
 - 3) Subject (Ex. Tax Reform)
 - 4) Subject (Ex. Lowering Alcohol Taxes)
 - 5) Subject (Ex. Paternity Leave)
 - 6) Subject (Ex. Improved Healthcare)
 - 7) Subject (Ex. Road Maintenance)
- } Decision Agenda

*Problem and Political (and Policy to a lesser degree) streams push subjects up or down on the agenda. When Problem and Political streams couple, they push a subject up to the decision agenda and open a “policy window”.

Kingdon rehashes the Cohen, March and Olsen Garbage Can Model (p. 89-91). He notes that preferences are indeed not set in stone. They are instead rather fuzzy, and perhaps intentionally so, as to not create unnecessary friction between participants. More often than not, Kingdon writes that preferences are proclaimed *after* a decision has been made so as to align the participants as part of the solution made. As Cohen, March and Olsen wrote, Kingdon also sees streams in organizations composed of problems, solutions, participants and choice opportunities. A choice opportunity *is* the garbage can. The structure of the can determines the flows of separate streams through it and the outcome of the garbage can depends on what composes the streams.

After presenting the Cohen, March & Olsen Garbage Can Model, Kingdon presents his own revised model. His first revision is to explicitly present the government as an organized anarchy. He sees the three streams of government as problems, policies and politics. Problems could concern costs, access to health care, etc. Policies are the

solutions proposed to the problems and Kingdon sees this as the area of expertise for academics, researchers and lobbyists, among others. Politics are things such as public opinion, election results, and administration change. Kingdon sees the problem and political streams as the main movers of the government agenda; they can act as either an impetus or a constraint for an agenda item. Kingdon sees the streams as being largely, though not absolutely, independent of each other in terms of their individual make up. The *coupling* of streams is the key to understanding agenda and policy change.

As we enter the next phase of the model, we encounter the key to understanding how streams are able to couple and consequently how policy change is actually enacted. For Kingdon, “policy windows” are instrumental to understanding the timing of change. Policy windows refer to the space in time when the problem and political streams are in alignment for change. He makes the analogy of feasibility of policy reform to space launches; only at certain time are the planets, weather and stars aligned so as to allow the launch to proceed. Kingdon notes that policy windows open infrequently and not for long. To paraphrase his text, issues often move to the front of the decision agenda not because they are conceptually the best but because they have the *best chance of passing* (p. 175). An administration change brings new participants who are looking to make changes. A crisis, such as an economic recession, calls for a remedy from government and loosens some constraints within the system. Governments and decision makers want to be active and will do what they can to pass legislation even if the legislation does not concern “the biggest” question of the time.

Now we can take a look at how policy windows actually open. As noted, changes in the problem and political streams are most likely to affect the policy window and the government agenda. Conversely, alternatives are most affected by the policy stream. Thus, policy windows are most often opened by political and problem events. Kingdon writes that administration change or a change in political actors provides the most obvious policy windows. He writes that such political events are often marked by statements of grand yet vague changes. Such generality provides the advocates of detailed proposals an avenue to push their own ideas, thus providing an opportunity to

couple streams. Events, such as disaster or crisis, which draw attention to problems, can also open policy windows. Kingdon notes that while such problem events can create policy windows suddenly, they also close other windows just as quickly. A disaster may focus attention on that problem but it also diverts attention away from whatever other problem was driving the government agenda prior to the event. Kingdon gives a list of five reasons why windows may close: Firstly, some action may have been taken on an issue and people feel it has been “solved”. Secondly, no action was taken in a failed attempt at change and people give up and move to another issue. Thirdly, the crisis may pass and people no longer feel it is a problem. Fourthly, the participants (ex. the administration) may change and the new participants are no longer interested in change. Or fifthly, no practical solution exists.

As policy windows close quickly, action must occur promptly while the moment allows it. Kingdon notes that smaller decision-making groups are often more able to act quickly in this way and that near-secrecy helps in pushing solutions through (p. 178). Kingdon notes that people (especially lobbyists) *are more likely to act in objection than in support* of policies. Given the fact that the impression of failure in terms of solving a problem can often cause policy windows to close, opponents of solutions often use delaying tactics. If they are successful in delaying passage they may be successful in closing the policy window. One method of delay is overloading a problem with possible solutions. Having to go sort through many possible alternatives may create the delay needed to close the policy window. *As such, secrecy and small decision-making groups may be key in not arousing opposition, delay, and, ultimately, the closing of policy windows.*

The existence of policy windows is not always clear cut, either. Promoters of various solutions can try to use any event, problem or political change as the general theme that they need to strengthen the coupling of streams. As Kingdon writes, lobbyists may package the same solution in a myriad of different colors depending upon the current events of the day (p. 182). Promoters of solutions do often not care why their proposal is accepted only that *it does get accepted*. Promoters may jump on any political or problem event that they feel provide a window for their solution. Kingdon notes, however, that

without the coupling of both political and problems streams there is, in fact, no policy window open and the likelihood of legislating policy decreases.

Due to the number of streams and participants involved, Kingdon notes that the Garbage Can coupling process is unpredictable and that choices made may be quite different than expected. Such being the case, Kingdon notes that people in positions to open policy windows must be careful as the consequences may be a far cry from their original hopes. He refers to new policy windows as “opening a can of worms” or “opening Pandora’s box”. Once the process begins, it is highly difficult to control.

The main point of Kingdon’s argument is that the chances of an item moving up to the decision agenda and a policy being implemented are much higher if all three streams of problems, policies and politics are coupled. He writes that no single stream is determinant in the process, all are integral and necessary. At this point in the story we can return to the role of participants that we skimmed over earlier and see the need for the enablers of the coupling process: the “policy entrepreneurs”.

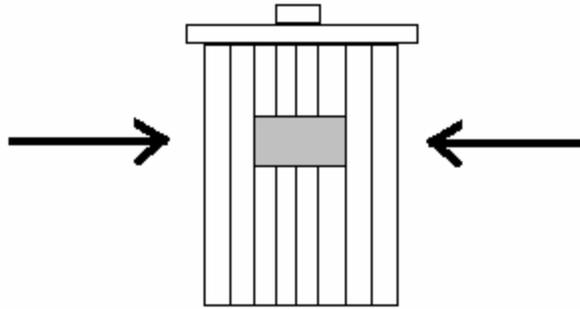
Kingdon writes in his study that policy entrepreneurs can be connected to most cases of implementation of new policy. Kingdon notes that policy entrepreneurs can be found everywhere and have three defining traits. Firstly, they have a “claim to hearing” in the form of expertise, the ability to speak for others (ex. a lobby) or they are in an authoritative decision making position (ex. a president). Secondly, they have political connections and negotiating skill so as to form coalitions and, thirdly, they must be persistent in the pursuit of their goals. The entrepreneur’s role is to wait for a policy window to open and then push the waiting policy through. It must be noted that I write “waiting policy” because it is vital that the solution be ready when the opportunity comes. It is too late to begin detailing the solution when the window is open. In such a case it will not be ready before the policy window closes. Again, we must note that any crisis or problem event may be the opportunity that the entrepreneur is looking for, so they must always be ready.

If the Garbage Can Model is accurate in depicting decision making, we can see more clearly some of the shortcomings of the Rational Choice Model. If one ponders solutions only when problems occur, the moment, more often than not, will be lost and new problems will require attention. Any activist or lobbyist working from a Rational Choice perspective would always be behind the action. Again, solutions must exist *prior* to problems in the Garbage Can Model.

When we take solutions as given, we can see that the nature of discussion surrounding decision-making changes as well. Participants do not debate over the rationality of solutions so much as *negotiate* and *bargain* in order to gain support for their own policies. Here we can note the role of “politics” as it is most commonly known. Policy entrepreneurs and politicians are always bargaining their support, time and energy in order to build consensus for their own ideas. As noted earlier, interest groups and lobbyists may attempt to block such actions but Kingdon writes that when the political and problem streams are strong enough, such opposition can be overcome. Kingdon notes the spontaneity and creativeness that the Garbage Can Model entails. Within the Garbage Can streams of solutions, problems, politics and participants are constantly combining and recombining. It is the role of the policy entrepreneur to combine the streams and couple the streams in order to meet his own goals. As Kingdon writes, the process is not fully organized and luck does play a role. It may be that an entrepreneur happens to be at the right place at the right time so as to allow coupling to occur. A well prepared entrepreneur, who is not overstressing his goals, has solutions ready, can negotiate well, and know the limits of favors and time that he can ask from various participants, and is persistent is one who is most likely to be successful.

Figure 3, The Garbage Can Model.

"Solutions Must Be Ready When Policy Windows Open"



The importance of a sound policy for the entrepreneur is vital as well. Here we can see the role that specialists and academics play in the decision making process. If a policy is rejected as politically unfeasible, these actors can refine the policy proposal so as to more digestible the next time a policy window opens. Here we can see that Incrementalism is an apt description of policy formation. Kingdon writes that persistence is vital, as the long process of refinement and retuning “softens up” the political resistance to a new policy. Kingdon claims the process is almost like biological selection in that policies must stay relevant and must adapt in order to have any chance of success.

To conclude Kingdon’s model, we can state the most important aspect is the coupling of all three streams of problems, policies and politics. Entrepreneurs must define problems so as to match their policies to current problems or politics. These policies also gain legitimacy through long term commitment. The entire coupling process does not, however, occur in steps. Long term policies must be ready at short notice when policy windows open. Thus, solutions must exist prior to problems in order to be implemented. Luck does play a role but processes within the streams do limit randomness and skillful entrepreneurs enhance the likelihood of coupling and, finally, decision-making.

Garbage Can Theory – March & Olsen

March & Olsen revisit the Garbage Can Theory in their book, *Rediscovering Institutions*, from 1989. Their approach, as the title suggests, is institutional in its outlook yet shares many of the features of Kingdon's model. Their analysis focuses more upon historical attempts at reform as opposed to the agenda setting focus of Kingdon's book. Their analysis helps provide a broader picture of the overall aspects of reform.

March & Olsen see institutions as restrictive of the free flow of ideas of a Rational Choice Model while at the same time providing order within the more chaotic Garbage Can Model. March & Olsen also see the simultaneity of solutions and problems as leading to coupling. The writers do not see institutions as being efficient just because they exist; there is no historical evolution in play in institutions. To the writers, the fact that an institution is old does not necessarily mean that it is good. In their review of history, the authors note that major deliberate structural reform is rare. As Kingdon wrote, the authors see attention-garnering from participants as the key to understanding transformation; the problem itself is less important. In addition, March & Olsen write that *changes are often incorporated or "co-opted" by existing institutions* so as to become part of them. They, too, note that change is easier to begin than to control (p. 65).

Within reform, March & Olsen write that a kind of reorganization rhetoric usually accompanies change. Within this rhetoric lie a number of proclamations as to why reform is necessary. Included among these are the statements that explicit planning of administrations is possible by managerial leadership, that cost-cutting and efficiency are the reasons for reform, and that coordination, effectiveness and the elimination of administrative overlap are the goals. However, their historical findings are that large reorganizations of institutions almost always fail.

March & Olsen explicitly use the Garbage Can Model in relation to major reorganizations (p. 81). Again, the focus of the Garbage Can is the short attention spans

of the participants involved. Major reorganization brings out an abundance of actors, specialists, lobbyists, politicians, etc., and all of their accompanying solutions. March & Olsen note that the problems and solutions discussed are often ambiguous, thus allowing many differing “definitions” to be attached to them. As such lobbyists can block attempts at reform through negatively defining opposing participant’s proposals. As Kingdon did, March & Olsen write that limited participation is essential to overcoming this hurdle (p. 84). Major reforms are almost by definition not of such nature and they note the common failure of such reforms.

In an interesting note, the writers see that though these major reforms often fail, the failures seem to be the groundwork of success. In case after case in their studies, they see the failure of a reform yet that it is subsequently implemented with little fanfare in the years after. The “softening up process” process that Kingdon writes about seems to be very real. Persistence pays off.

March & Olsen look at institutional reform as a form of public policy (p. 95). They note that voters are generally in favor of “reform” that can produce increased efficiency and cut costs; all voters want their politicians to make things better. The means of implementing such reform and the contents of what “makes things better” are what cause division. As such, the writers note that politicians can, and often do, use vague “reform” as a campaign slogan, especially in times of crisis. These statements are made despite the historical fact that such actual reforms are almost doomed to failure. The writers note the sense of comfort that voters have that “something is being done”. If the “softening up” process is, in fact, a real phenomenon, the voters may be correct, though in a much more intangible manner than one would suspect.

The writers deal specifically with Nordic countries in their work. They write that the 1980’s brought a profound shift in national mood (what the Garbage Can calls the political stream) in allowing the critique of social democracy, subsidies, monopolies and welfare systems. March & Olsen write that there was a criticism of the political institutions for being too rigid and centralized while at the same time lacking a sense of

unifying direction. They note that Sweden changed the symbols of most of its institutions to more “private” looking ones in the 1980’s (p. 104). The authors see the Nordic institutions as co-opting criticism and deflecting it from their social democratic roots. The countries needed to de-emphasize the political and ideological aspects of the reform; rather than speaking of “de-regulation”, March & Olsen write that institutions emphasized such terms as “modernization” so as to allow changes while still maintaining their basic philosophies. March & Olsen write that Nordic countries maintained the integration of organized interests to maintain the norm of consensus in forming political decision-making.

March & Olsen state that Nordic countries do not have a history of rapid shocks in their institutions and that ministries have tended to be weak in their ability to implement significant changes. Debate and modest proposals have rather been the method of operation in Sweden specifically and that ideological goals were gradually loosened through an item by item approach. March & Olsen see the Nordic countries as facilitators of change rather than controllers of it. As Kingdon wrote earlier, it seems difficult to do both. As such, it has been more difficult for the Nordic countries to begin the processes of change. The Nordic governments have, rather, had a role amongst the bargaining participants and the welfare state can be seen as a form of “corporate bargaining”. Since there is no strong sovereign state, reorganizations must then reflect numerous interests. Political leaders cannot design or reform the institutional structures themselves.

Garbage Can Theory Applied – Jacob Gustavsson

Garbage Can Theory has been used to analyze other political events. In a more recent book, *The Politics of Foreign Policy Change*, Jacob Gustavsson looked at Sweden’s reorientation to becoming a member of the EC using the Garbage Can Model. Gustavsson notes that public policy, especially foreign public policy, has often been looked at using a “phenomenological approach” based upon work by Snyder, Brock &

Sprain (1954). A phenomenological approach means that: “Structural conditions were only to be taken into account to the extent that it could be shown that they had been perceived and re-acted to by decision makers. Rather than being determined by ‘objective forces’, foreign policy was the result of decision makers’ subjective ‘definition of the situation’”. Gustavsson says that “it is not the objective reality that counts, but how it is perceived and reacted to by decision makers” (1998, p. 24). We can call this “problem stream definition” by policy entrepreneurs within the Garbage Can Model. As such, the perception of a problem or crisis is more important than its “real” importance.

As Kingdon does, Gustavsson places an emphasis on the policy entrepreneur. In the case of Sweden’s EC membership, Gustavsson looks to Ingvar Carlsson and Allan Larsson, Ingvar Carlsson’s minister of Finance, as key figures. Larsson was appointed to the position in early 1990 after political dissension within the SAP led the previous minister, Kjell-Olof Feldt, to retire. At the SAP party congress in Sept 1990, Ingvar Carlsson implied that joining the EC was no longer a threat to Sweden’s policy of neutrality. This was a new position, but Anita Gradin, Minister of Foreign Trade reassured party members that it was still too early to debate entering the EC and there was no debate within the SAP (Gustavsson 1998, p. 176). When Sweden faced an acute balance of crisis payments in Oct. 1990, the policy entrepreneurs were able to frame Swedish entry into the EC in an economic light rather than politically as they had done previously. Gustavsson writes that Ingvar Carlsson and Allan Larsson were able to present EC re-orientation within the “economic package” that came in response to the crisis. Larsson presented the idea that Sweden should join the EC as being part of the “government’s position for a longer time”, though there was indeed a shift in policy (Gustavsson 1998, p. 181). Interestingly, the group that drafted the economic relief package (including entry into EC) which was presented to the *Riksdag* was quite small and did not include two seemingly important members: Sten Andersson and Anita Gradin, the Ministers of Foreign Affairs and Foreign Trade, respectively. By keeping the group small, Ingvar Carlsson: “‘reduce[d] the circle’, ensuring that key decisions were taken by people that were in favor of taking this step” (Gustavsson 1998, p. 187). Gustavsson believes that economics was what turned Sweden’s orientation towards the EC: “The balance of

payments crisis was...of great importance. [It] served as a final trigger, providing Ingvar Carlsson with a window of opportunity that could be used for launching a new position while keeping potential opponents within the cabinet out of the inner circle of decision-makers” (1998, p.194). In addition, by presenting EC membership as an economic issue, he could deflect attention towards the new minister of finance, Allan Larsson.

Gustavsson’s model of foreign policy change is based upon three elements: a change in structural conditions, strategic political leadership and crisis. The structural conditions can be defined as sources that change internationally and domestically, politically and economically. Strategic political leaders provide a cognitive element in perceiving the structural changes. The crisis element provides the impetus for action in the decision making process and a window of opportunity.

Garbage Can Theory – Conclusions & Analysis

Given these works we can see some general trends amongst the Garbage Can Models. Multiple “streams” of inputs (basically problems, policies and politics or “general public opinion”) are inherent in all the Garbage Can Models. The problem and political streams are more unpredictable in their nature than the policy stream. Events such as regime change or a crisis may focus attention to the political or problem stream and may call for action. These calls for action open “Policy Windows”. Policy Windows are, in essence, the dimension of *time* in the Garbage Can Model. They are durations of time where the organized anarchies are more likely to make decisions. Decisions occur when the streams intertwine and are “coupled”, often at the urging of individual “policy entrepreneurs”. Structurally, we must take note of the constraining power of lobbyists and interest groups. These groups can often prolong the time it takes to make decisions through delaying tactics. As such, policy windows may close and the attention of participants is diverted to other issues that are more likely to be passed in legislation.

In a small revision of the Garbage Can Model, I would emphasize the importance of small working groups in implementing reform. We should note that March & Olsen, Kingdon, and Gustavsson mention the impracticality of large reforms with many participants. The more participants involved, the greater the chance that someone will object. Such objections can kill the chances of reform being implemented. If, however, there are fewer participants involved, there is less chance that any lobbying group will become active in attempting to delay any decision. It is, thus, my assertion that smaller groups working in greater “secrecy” create a much more favorable atmosphere for organized anarchies to implement reform.

It is not the point of this paper to test this hypothesis, and its applicability to the real world remains to be studied, but I feel such a statement makes theoretical sense within the Garbage Can Model and would be an interesting area for further research.

The Pension Reform

At this point we will turn our attention to the Swedish pension reform. As with the theoretical portion of this paper, I have chosen to use a limited number of sources to explain the reform. The material, even aside from the extensive Official Swedish Government (SOU) reports, is vast and it is impossible to include it all within this paper. As noted in the meta-theoretical portion of the paper above, analysis can be subject to criticisms of interpretation. I have chosen sources that I believe provide a fairly objective and balanced approach to the reform.

Background of Pension Systems

Sweden and many other developed countries have contributed a higher and higher percentage of public expenditure on public pensions. Pensions as a percentage of GDP

have grown roughly 2400% from 1913 to 1996 in developed countries from 0.4% of GDP to 9.6%. Per capita expenditures in developed countries have gone from \$15 (1990 dollars) in 1913 to \$1,956 (1990 dollars) in 1990. In addition, taxes on social security have become an ever larger portion of government revenue, being over 20% of total government revenue in countries in the highest Income Quintile in the world. Clearly, pensions are a large part of developed nation's economies as a whole and of government expenditure and revenues. (Wallis 2003, p. 290-293)

Pensions were legislated and put into law throughout developed countries at the end of the 19th Century and at the beginning of the 20th Century. Most pension systems were aimed at providing workers with a means of supporting themselves after a lifetime of employment. Some systems required such employment in order to be entitled to pensions while others used the system more in terms of poverty relief and provided benefits independently of employment history.

Pensions were generally reformed after World War II, commonly becoming universal in their coverage. Sweden introduced a supplement to the basic pension in the 1960's that was income related, the "ATP". Pension systems generally and Sweden's pension system specifically were based on pay-as-you-go schemes, where current expenditures are paid for by current taxes and a reserve fund. As time has passed, the Swedish pension system has become more and more generous, reaching 83% of average earning in Sweden in 1980 while it has been supplemented by employer and private pension plans (Thane 2003, p. 104).

Overview of the Reform

Prior to the reform of 1994, Sweden had a public, obligatory, pay-as-you-go (PAYGO) pension system with defined benefits. The system was public in that the government was responsible for handling the plan. The system was obligatory in that citizens had no choice but to enter the pension plan; if you worked, your money went into the plan.

PAYGO entails that current expenditures are paid for by current revenue. That is, the taxes being taken today are also being spent today. The PAYGO system entails an implicit intergenerational contract between citizens. One works today paying for one's elders in the expectation that younger generations will pay for one later (Samuelson 1958). Defined benefits refer to the payout scheme of the pension plan. In a defined benefit scheme, the benefits one receives are set. In Sweden, benefits were based upon a minimum pension for everyone, the *folkpension*. In addition, "ATP" provided addition earnings related benefits. One needed to work 30 years to be eligible for full benefits. Once an individual had worked for 30 years, they could retire with full benefits of the average of their 15 highest earning years. The level of benefits would not change regardless of how long the individual lived or if the individual had worked over 30 years. Benefits were indexed to prices so as to retain purchasing power. Thus, a defined benefit scheme is not flexible on the expenditure side of the balance sheet. A set figure must be provided each and every month. The only changes that could be made within a defined benefit scheme are to the levels of contributions. Prior to the reform, contributions to the pension system were 18.5% of gross pay. The previous Swedish system had a ceiling on benefit levels, restricting the size of pension one could receive. The *folkpension* was a floor guaranteeing minimum benefit levels to everyone. The public pension plan was supplemented by individual employer contractual pension plans and private savings. The old Swedish pension system contained a large public buffer fund, the AP fund, which served as an investment tool and as a source of revenue for the pension system. (Kruse & Ståhlberg 1992, Kruse 2003)

After the reform of 1994, Sweden changed to a public, obligatory, partially PAYGO, partially funded system with defined contributions. A funded system entails investment into the market of current funds to be redeemed at retirement. In a defined contribution scheme, the benefits one receives are contingent upon the amount of contributions one makes over one's lifetime. In Sweden this meant that the 15-30 years rules were scrapped. Instead, personal accounts were set up. Contributions to the system remained at 18.5% of gross pay with 16% going into the "traditional" PAYGO portion and 2.5% going into personal investment funds. Individuals have the right to chose into what fund

they want to invest their 2.5% portion. If the individual does not actively choose to invest in one of the over 500 available funds, they are automatically invested in a publicly managed fund. As benefits are no longer set, more time in the workforce provides higher benefits upon retirement. In addition, annuities are based upon life expectancy. Pension “contributions” into the system are granted for time spent out of the workforce during periods of maternity or paternity leave, conscription in the army, and higher study. The reform still provides a floor of benefits but these are moved out of the pension system and into the domain of social assistance. Benefits are also indexed to wages rather than to prices as they previously were. (Kruse 2000, Kruse 2003)

Defined contribution plans help unravel the problem posed by defined benefit plans as they are more actuarially fair. Sweden’s pension reform of the 1990’s moves it from a defined benefit to a defined contribution plan. ATP was designed in the 1950’s and the preconditions for its functioning have changed drastically: Workers are much more mobile, health care has improved dramatically and technology is far more advanced. In terms of life span, people are living one year longer for every decade that passes. Despite this, male workers are working less today than they were in the 1970’s (Palmer 2002, p. 172). Earlier retirement ages in the 1990’s and the increased schooling that is common today are the main explanatory factors in explaining how people are working less. The pension crisis is no mystery given that people are working less and living longer; demographic change further intensifies the problem.

Demographic and Economic Change in Sweden Prior to the Reform

There is no question that Sweden has experienced an economic slowdown since 1970. From 1870 to 1970 there was never a 20 year period with under 2.6% growth in GDP. From 1960 to 1970 GDP grew by 4.5%. From 1970 to 1980 growth slowed to 1.9%. Though growth returned 1980 to 1989, it still only was only at 2.1% (SOU 1990:76, p. 61). Productivity has grown more slowly recently as well. Productivity growth for 20 year periods was at its lowest 1.6% from 1870-1970 and was at 2.9% and 3.7% for 1950-

1960 and 1960-1970, respectively. Productivity grew only 1.1% from 1970-1980 and 1.5% from 1980-1989 (SOU 1990:78, p. 56). More recently, Swedish GDP fell 2% per year from 1990-1993. During that time unemployment has gone from 1.7% to slightly more than 8% (SOU 1994:20, p. 50). Household savings have also decreased dramatically since 1970, going from 3.8% of disposable income in 1970-1974 to -2.1% in 1985-1989 (SOU 1990:76, p. 87).

Demographically, people are living longer. For people born 1921-1930, life expectancy was about 61 years. Those born 1984-1988 have a life expectancy of almost 74 years (SOU 1990:76, p. 78). At the same time the retirement age has gone from 67 to 65 years of age. People are also retiring early at a higher rate. These three combined factors have driven down the dependency ratios from 5.4 workers for every retiree in 1960 to 2.7 workers in 1987. Lowered pension age, demographic changes and early retirement have brought down the quota -0.8, -1.4 and -0.5, respectively (SOU 1990:76, p. 79). Average age has increased as well, going from 36.4 in 1960 to 39.5 in 1988 (SOU 1990:78, p. 11).

Percentage-wise, 11.8% of the population was over 65 years of age in 1960 while the percentage lay at 17.8% in 1988 (SOU 1990:78, p. 12). The number of ATP payments has increased substantially as well, going from 138,900 in 1965 to 1,827,800 in 1989. Of old age retirees, 9% qualified for ATP in 1965, 73% qualified in 1989. In Swedish Krona, the average ATP payout was 785 in 1965 and 44,111 in 1989 (SOU 1990:77, p. 65). In terms of the AP fund, payouts have become ever larger in comparison to the fund size. In 1965 the fund was 55.3 times larger than payouts for the year. In 1989, the fund was only 5.5 times larger than payouts (SOU 1990:77, p. 77).

Palmer (2002, p. 187) notes the premises of the old system were no longer valid by the 1990's. The old system was based on expectations of 3% (or at worst 2%) economic growth. Today 2% growth is at the high end of expectations for growth. In looking at the reform attempt of the 1980's, the pension commission believed the ATP system to be sound with economic growth of at least 2%. The Social Democrats (SAP) and the Labor Union (LO) were in full support of raising the contribution rate if the need arose. All

groups admitted economic growth of 1% was a serious problem, however, and the deep recession of 1991 indicated to all that the pension problem needed to be solved.

Goals, Principles and Reasons for Reform

The goal of the Swedish pension reform was to create a robust system that could withstand changes in demography and economic growth. At the start of the 1990's OECD countries all had their pension plans based on PAYGO systems with defined benefit plans. Retirement age was typically 65 but that the real age of retirement was actually lower due to disability claims and early retirement. Combining a lower retirement age with demographic change and an economic downturn produced higher dependency ratios. Given a defined benefit system, the only aspect of the pension system that could be altered was the contribution level. The threat of contribution levels spiraling out of control was a very real danger at the start of the 1990's.

In addition, defined benefit plans provide perverse economic incentives to older workers. Once a full benefit is achieved, continued work provides no benefit. The problem of combining work and benefits within such a system was a factual problem; workers had little to gain by working later into their lives when their benefits were already set and additional work provided little economic incentive. Work by Gruler & Wise (1999) points out the unfair nature of penalizing those workers who chose to work later into their lives.

The Swedish reform of the 1990's was based upon three principles: 1) Benefits should be based on a contribution of lifetime earnings, 2) Benefits are indexed to the growth of wage rates (not on prices as they previously were), and 3) Annuities should reflect changes in life expectancy. The principles are what allowed the defined benefit scheme to become a defined contribution scheme. The essence of these pension reform principles was presented by the bourgeois parties in 1968 (Palmer 2002, p. 173).

Palmer gives several reasons for the reform, some history and how it was possible (2002, p. 185). In addition to the perverse work vs. benefit effect mentioned above, he provides 3 main reasons for reform: 1) the old system actually redistributed money from lower income brackets to higher ones, 2) the system perversely provided a larger percentage of benefits to pensioners when economic growth was low, and 3) the baby boomers would deplete the AP fund by 2020. In a cited report by Ståhlberg (1990), it was found to be fallacious to claim that the old system was to the benefit of women. Ståhlberg found that poor or working class women actually were the worst off given the old rules.

The Private Fund Feature & the Issue of Private Savings

The Pension Reform Group of 1992 called for these changes *and* a move towards a funded system rather than a pure PAYGO scheme. In this “paradigm shift” contribution rates remain unchanged from earlier. The changes helped solve the benefit vs. work conflict that provided perverse incentives to older workers. Economically, the funded portion of the pension is significant in that it can provide greater returns and a stronger sense of “retirement accounts” for worker. In addition, and perhaps even more importantly, the funded aspect of the pension adds a dimension of “forced savings” to the Swedish economy as a whole.

Economists in the 1960’s predicted that the old system would decrease private savings given the implementation of ATP. This was found to be true in studies in the late 1970’s and early 1980’s. The creation of the AP fund was expected to offset the private savings losses given the implementation of ATP. Eriksen & Palmer (2004) make more explicit the role of national savings in the pension debate. They write that the SAP was in favor of the creation of a large AP fund in the 1960’s as it would increase national savings. Increased national savings were again the reason that they supported the creation of the private fund portion of the 1994 reform. The entire working group for pensions focused upon this unifying aspect of reform in their work.

The strength of the new pension system is its similarity to a pure insurance system. Disability and “minimum benefits” (the pensions provided to those with no or low work-history) are moved out of the system and are explicitly part of social assistance. The new Swedish Pension system is not a tool for redistribution *among social classes*; it is a system for redistribution *among generations*. The money that goes to the disabled and the poor come directly from taxes, the pension system is no longer involved. Sweden is the first country to introduce a defined contribution scheme (Eriksen & Palmer 2004, p. 85). The pension system is built for creating savings rather than distribution.

Politics of Pensions

We can note that the Social Democrats (SAP) were at first disinclined to invest any money from the AP fund into equities. They rather invested primarily in bonds and direct loans. The fund was also only invested in government regulated bonds which further lowered their yield by 1% (Palmer 2002, p. 188). By 1974, the SAP was forced to change its position and began investing in equities and by the 1990's under 15% of the fund was invested therein. The Swedish government had battled recessions in the late 1970's-early 1980's and the early 1990's with heavy government borrowing. The new system of “individual accounts” will limit the government's ability to do this.

The 1960 reform introducing ATP was a SAP reform. Eriksen & Palmer (2004, p. 86) see this fact as making it difficult for the SAP to admit to changes in the 1980's. The party positions on pension reform were roughly the same as they were in the 1950's. With respect to defined contribution plans, Eriksen & Palmer note that LO was the first contractual scheme to change from defined benefit to defined contribution. This is rather remarkable in that the SAP/LO stance had traditionally supported defined benefits as the way to structure of pensions and that they had worked together to introduce ATP in the 1960's.

In terms of opposing the reform in the 1980's, the ceiling on benefits was central to LO opposition. At that time, the average blue collar wage was still quite a bit below the ceiling. White collar workers were conversely already above the ceiling of benefits and part of their pension contributions were not returned to them. The effect was to create a pipeline of funds from the white collar workers to LO members. The employer federation (SAF) was also against any change in the pension system that would entail more contributions. An unusual alliance was formed. By the time of the 1994 reform average wages had risen to near the ceiling and LO no longer saw a "ceiling benefit". When this point was reached, the SAP could admit that lifetime earnings may be to the benefit of LO workers.

The bourgeois parties never supported the large PAYGO pension system implemented by the SAP or the aspect of the AP fund. SAP and the worker's union were quite happy with the fund, however, as it was very large and provided the government with resources. By the time of reform the lowered private savings mentioned above had reached an all time low and were actually negative even given the large public fund. By the time of the reform, the SAP was aware of the need to increase private savings and this helped create a space for private funds within the pension system. The bourgeois parties were pleased with gaining this concession but in return had to concede that a large pension plan would have to be part of "their" pension system as well.

We must note the importance of ATP to the SAP. By the 1990's pensioner's benefits were almost at the same level as wage earner's. The ability to proclaim security for pensioners was a major political point for the SAP. By the 1980's pension debt had to be funded by state budget debt and the system was weakening. A 1983 pension report showed the need for economic growth. By 1984 Sweden had managed to climb out of its recession and the problem was temporarily solved. The SAP formed another pension committee at that point to further study the system. By 1990 the commission finished its report and published over 1000 pages of reports. Few proposals were created however.

Palmer (2002) writes that during that commission it had been impossible for the various political parties and interest groups to agree on anything. The SAP stood firm by the ATP and said that no changes were needed as long as economic growth stayed strong at around 2%. Almost on cue, the economy went into recession again in late 1990. At that point Scandia put forth a proposal for partial private funding of the pension. The proposal was unacceptable as it was far too expensive to implement. Palmer notes the importance of the proposal as it forced the bourgeois parties to tone down its requests for a privately funded system (2002, p. 191). In response, the SAP put forth a proposal to change the defined benefit plan so to be calculated on 40 years of work with the average earnings of the 20 highest paying years being the basis for benefits. The “Tjänstemannens Centralorganisation” (a white-collar employers union) killed this proposal by leaking it to the public and claiming that it was bad for women (Palmer 2002, p. 191). After elections, the bourgeois parties took over power in the fall of 1991.

Minister Bo Könberg formed a new pension working group at the start of 1992. All seven parties of parliament were invited to join though two of the smallest parties quickly came at odds with the work and were not part of creating it. Importantly, the four parties of the coalition government and the SAP were involved. The bourgeois parties had the same position as they did in the 1950's in promoting lifetime accounts (Palmer 2002, p. 193). Palmer writes that the SAP agreed with the pension working group's proposal though at the price of disgruntlement within its rank and file members. The ideas were presented in 1992 and by fall 1992 the economy was at rock bottom: the currency was floated, unemployment was at a postwar high and the government was in massive debt. The Lindbeck commission of early 1993 agreed with the proposals presented by the pension working group and when it was presented to Parliament in 1994, it was accepted with 80% of the vote. Palmer emphasizes the importance of consensus as it was the lack thereof that doomed the reform attempt of the 1980's

The SAP and the Reform

Urban Lundberg's book is an in depth, historical analysis of how the Sweden's pension reform was viewed, handled and, finally, accepted by the SAP. As the title, *The Crown Jewel*, implies, ATP was no small item for the SAP. The ATP pension system was symbol for the SAP of concern for the working class and dedication to retired workers. As many of the analysts above have noted, consensus was a major factor as to why pension reform was successful in Sweden. Understanding why the bourgeois parties were looking for change is no mystery. Understanding why and how the SAP resolved itself to support an opposing party's initiative is much more intriguing.

Lundberg builds the story of the SAP and its ability to support a pension reform around the idea of a divide between the leaders of the SAP and its "rank and file" or "core" members. From Lundberg's vantage point the main question is: How could party leaders overcome the resistance of the members of their own party? Lundberg writes that the reform of 1994 came after 14 years of preparation but that the real changes in political stance began in the fall of 1990 after that Pension Commission produced its report. At that time the bourgeois parties began pressing its proposals and even experts *within* the SAP started talking about a big reform. Lundberg notes that the SAP was still officially in support of ATP at the time of the 1991 campaign, however.

After the bourgeois parties took over power in 1991, work on pension reform took off. Lundberg notes that (to the best of his knowledge) the decision of the SAP to join the bourgeois parties working on pension reform *was not discussed or debated* within the party organization. The party set up a support group with representatives of different interests (like LO, the women's groups, etc.) to help the SAP's two representatives in the pension working group, Ingela Thalén and Anna Hedborg. The group presented its results within the party in Oct. 1992. The statement was, however, written by Ingela Thalén and Anna Hedborg. The statement was signed only by these two individuals and the forward indicated that the views presented were only those of the authors. In addition, the forward stated that the support group "lacked the possibility to reserve

opinions against the statement” (p. 240). The author writes that the pension working group’s work had already come a long way at that point and the statement read like an argument for the work already done therein. At the same time, the forward indicated that the SAP wanted to be led by SAP member opinion in the pension question. As Lundberg notes, since only Anna Hedborg and Ingela Thalén wrote the statement, the connection is unclear (p. 241). The statement presented was quite general and gave seven roles of an acceptable pension system. The roles described security, fairness, distribution, durability, simplicity, equality and freedom. SAP members were presented with four alternatives of action including abandoning ATP, reducing the role of government in pensions, reducing pension benefits, or “modernizing” ATP. The alternatives were presented so as to make the fourth alternative the rational choice. There were no indications that ATP was to be abandoned under this alternative; the guidelines rather only spoke about “the new ATP”. Lundberg writes that the main point of the document seemed concerned with raising the ceiling of pension benefits. The ideas of lifetime earnings and of partial private funds were included in the piece, but de-emphasized as mere methods of achieving a higher ceiling. The document was presented as one created by the SAP but it was, in fact, the results of the pension working group.

Lundberg writes that the remiss answers showed that members of the SAP had limited knowledge of how ATP even worked, let alone what the proposed changes meant. In addition, the remiss answers showed that members of the SAP did not think beyond the four alternatives given. No answers presented any different alternative options. Most answers were generally positive to the lifetime earnings concept and only 26 out of 124 answers even mentioned the private fund idea, and of these 26, 18 were generally positive (p. 246). Lundberg notes that the remiss answer period coincided roughly with the EU question and that the document was considered “too technical” too warrant the attention of most SAP members. He writes that the members had little idea that they were supporting a “new mandate”.

The next meeting of the SAP was in Sept 1993 and hardly mentioned the pension system. Most pension questions involved a proposal for increasing the retirement age from 65 to

66. Lundberg notes that pension system statements defined any changes to the pension system as those of a “revised ATP”. He also writes that the SAP started to hint that the pension working group was proceeding with the mandate that they had received from the earlier remiss. Lundberg terms such a statement as a “retroactive mandate”. The meeting of 1993 did start some debate on lifetime earnings. Several members began questioning what such statements actually meant for workers. Several women’s leaders questioned the wisdom of adopting such measures. The debate surrounding the “revised ATP” as a whole was yet to come.

By Jan. 1994, the Pension Working Group had finished its work and the results were presented. The remiss was sent out to SAP members who were to read over 600 page long proposal and answer it *within six weeks* (p. 253). The idea that it was something totally new began to take hold amongst SAP members and criticisms increased. Many members were astounded at the short answer period and suggested moving back the answer time until after the 1994 election. Remiss answers came and were highly critical of the proposal. In effect, the answers were powerless as the Pension Working Group had already concluded its negotiations. The proposal could not be changed. On the 15th of April, the SAP announced its acceptance of the five-party pension compromise.

Lundberg writes that the SAP started to suffer “on-setting schizophrenia” (p. 256). In the Riksdag party members spoke of compromise while members within the party spoke of continued support for ATP. After Ingvar Carlsson stepped down as prime minister in the fall of 1995, the SAP held another meeting in March of 1996. Members now had their first chance to speak since the remiss of 1994 and over 80 very critical motions were brought up concerning the proposed pension reform and of these, 20 were for ripping up the reform and 22 were for only reforming ATP (p. 257). Others motions sought to delay implementation of the reform or to make radical changes to it. Members were highly critical of the SAP leadership for the lack of debate concerning the proposal. SAP leaders responded by claiming that the *new system* was like the old one. Lundberg notes the important shift in phrasing given by the leadership; they no longer claimed that ATP was been “reformed” or “modernized”, the pension system was “new”. In addition, the

leaders admitted for the first time that the reform included portions (the private fund) that they did not fully support and that they had been compromising.

SAP leaders also deflected criticism away from the pension reform itself by focusing the debate on how to *implement* the reform. The implementation debate was enough of a question for the leaders. SAP leaders, specifically Ingela Thalén, also redefined criticism of the reform as “worry” and sought not to engage in debate, but rather in “calming” those worries (p. 261). Lundberg writes how SAP leaders are remarkable in their ability to move the debate from the pension system as a whole down to a debate over specific details.

Another remiss was sent out in the fall of 1996. The answers were to be discussed by a diverse and representative group of the SAP. The discussion in the group was strained and it was noted that the general thinking there within was that “the pension reform was next-to-complete” (p. 263). SAP negotiators tried to quell opposition by saying that the core principles of ATP remained in the reform. Members of the SAP were not happy with the proposal and the leaders of the SAP. Journalists were impossible to bring into the mix as they thought the issue as “too complex”. One critic of the reform, Karin Wegestål, quoted by Lundberg, claims that “Popular opinion took care of itself. People did not want the new pension system” (p. 264). Interestingly, SAP leaders never gave the group a forum to discuss the answer they received from SAP members. Instead, the answers were placed in binders and made available to leaders of the SAP.

Figure 4 (Lundberg 2003, p. 265)

| Pension meeting November 25, 1996 | |
|---|-----|
| <u>Overall Remiss Answers</u> | |
| Party Districts, other district organizations and associations | 32 |
| Worker Communities | 142 |
| Other – SAP-federations, Unions, Student Clubs | 356 |
| Total | 530 |
| Principally positive but with diverse comments | 29 |
| Want to reform current ATP, but also with comments about proposal | 271 |
| Comments about implementation and private fund and diverse comments | 49 |
| Other comments | 181 |
| Total | 530 |

Lundberg’s graph shows the breadth of opposition to the pension reform in 1996. These results remained bottled up by the higher levels of the SAP. In a SAP leader meeting at

the end of 1996, leaders discussed the remiss answers and decided to enter negotiations with the five-party working group over specific details of the *implementation* of the reform, the most important being how the transition to some private funding would work. Differing party leaders met in 1997 and decided to study problem further; their statements indicated that any problems were only administrative or technical issues.

SAP members were still generally unhappy with the pension reform. Lundberg writes that their reasons are generally vague and some had a hard time explaining exactly why they were unhappy. He gives three general complaints: lack of security, objections to moving portions of the pension into private funds, and a lack of understanding what moving to private funds even meant. Another critique was aimed at the “lifetime earnings” concept. Some felt that such a method was unfair to certain types of more manual labor and that redistribution would fall because of it. Despite these criticisms, party leaders remained confident in supporting the pension reform. This confidence would be put to the test at the next internal SAP party congress of Sept. 1997.

The meeting saw over 30 highly critical motions of the pension reform, with 22 asking for its immediate annulment. SAP members were very angry that SAP leaders had failed to respond to the remiss answers of 1996. At this point, SAP leaders played their first trump card. They stated that the party had been discussing reforms since the early 1980’s and that the reform should not come as a surprise to anyone. Lundberg notes that the fury that the leaders faced at the meeting led the first moderator, Maj-Inger Klingvall, to lose control. The meeting was upheld momentarily and Göran Persson pushed Ingela Thalén to the moderator position. It was apparent that SAP members were ready to fight. They were not going to allow themselves to be steamrolled one more time. SAP leaders then played their second trump card and said that anything other than support for the pension reform would doom the party politically both in terms of parliamentary power and voter confidence. At the time, the SAP was in a coalition government with the Center party and leaders asserted that the coalition would be broken if the SAP could not agree to the reform. SAP members were hesitant to destroy their own political power and conceded to the leaders after getting several minor concessions, amongst being a concession that

leaders had not acted *according to democratic principles within the party* (p. 276). The Pension reform was thus finally ratified within the SAP.

Lundberg writes that the political climate was very important in determining the timing of the implementation of pension reform. The bourgeois parties attempt to cut pensions in the 1980's was met by a strong political will to keep the ATP. At that time, the SAP still defined itself through ATP. The regime change of 1991 allowed the SAP to not be as firm in its commitment to ATP. As they were no longer in power and had to work with the other parties, SAP leaders were given more room to negotiate. They were no longer the ones fully responsible. Lundberg writes that the pension reform of 1994 was more important in that it existed than in what it entailed. The economic crisis of the time called for action. The SAP very much wanted the reform to be complete prior to the 1994 elections so as to minimize their responsibility for it. The short time for remiss answers was an indication to Lundberg that the SAP decision was quite oligarchic in its nature. Lundberg is insistent in his claim that the pension decision was not a member driven decision. He notes that many opponents of the reform were promised posts within the SAP to help quell their criticism. For while there was widespread criticism of SAP leaders, such criticism was diffuse and unorganized in its nature. SAP members were naturally coming from the ground up and there was no natural "leadership" there within to criticize the SAP leaders.

In the end, Lundberg writes that one can question whether the SAP "lost itself" in reforming the pension system or whether it was simply adapting to a new environment. To answer, he writes that one must look to SAP leaders and how they defined and explained the changes that took place. ATP no longer existed but they could and did claim that the new pension system was still a "modernized" ATP.

The SAP regained power after the 1994 election. The SAP inherited poor economic conditions when they returned to power: skyrocketing budget deficits, expanding government expenditures and a shrinking tax base due to unemployment. In a fitting quote for this paper Palme & Wennemo write: "In a way, the 1994 election campaign

falsified standard public choice theory in the sense that the political parties were competing with programs that were aimed at cutting benefits and/or increasing taxes” (1998, p. 18). These authors note the compromise of accepting a “big” government program for the bourgeois parties and abandoning ATP and defined benefits while accepting a private fund portion of pensions for the SAP.

Some Results of the Reform

The reform was the biggest in Swedish history and we can note some of the changes that it produced: benefits to those married to non-pensioners and early retirees were reduced, benefits were not fully indexed, widow pensioners received less and the “floor” or minimum coverage was reduced (Palme & Wennemo 1998, p. 25). The biggest changes involve qualifying for pensions in cases of early retirement or sickness rather than the size of the pensions themselves.

In the graph below we can see a visual example of the cost-cutting measures taken in the early 1990’s. The graph shows that pension benefits remain at roughly the same level while pre-retirement benefits have risen slightly only to fall more quickly recently and sickness and disability benefits have fallen significantly.

(Source: Palme & Wennemo 1998, p. 38)

The Swedish AP fund was huge at the time of reform, being almost twice the size of the US buffer fund at the time (Sunden 2001, p. 142). She writes that the new pension system does, in fact, provide somewhat lower pensions than ATP, but that the change provides more individual responsibility for pensions. People must work longer or save more given their increased life expectancy. She does criticize the pension system in that people choose their own funds for the private portion and that many people lack the financial skills to make good decisions in this arena. The Swedish system has a wide array of fund choices (over 500), but she feels fewer fund choices would be beneficial to most of the population.

The pension reform of the 1990's is the first time that cutbacks in social services have been implemented (Palme & Wennemo 1998, p. 43). These authors see the cost-controlling political mood following the mass unemployment of the early 1990's an important factor in explaining how such cutbacks were possible.

Analysis & Discussion

Does the Garbage Can Theory apply?

At this point in the paper, we have laid the groundwork for Garbage Can Theory and we have an overall view of the Swedish pension reform. The question "Is Garbage Can Theory applicable?" can now be answered. It is my contention that the theory applies well in explaining the reform.

What were the Problems?

We can see that there were clearly several problems at play in the early 1990's within Sweden and its pension system. First, the Swedish economy was in very poor shape,

with economic growth rates far below sustainable levels for the ATP system. Second, expenses were higher than inputs within the pension system and had been so for quite some time. Third, average wages were approaching the ceiling level of benefits threatening to turn the ATP into a flat benefit program. Fourth, government debt and deficits were very high as the recession was being fought. Fifth, massive unemployment was shaking the confidence of the Swedish public. Sixth, private savings were negative at the time and the country needed to increase its savings. Seventh, and perhaps most important, there was a cost-cutting mood within the country. Such a mood is the prime impetus to the problem stream of this garbage can. All institutions were under pressure to reform in the name of efficiency and lowered costs.

What was the Policy Alternative?

The solution of lifetime earnings and private funding was not a new idea. As noted above, the bourgeois parties had been proponents of those principles since the 1950's. The failed Scandia proposal helped to refine the proposal so as to become more acceptable. The participants pushing the lifetime-earnings and private fund portions of the fund were well prepared and ready to act in the working group created by Bo Könberg. By the time the 1992 working group was formed, Swedish society had been "softened up" by two pension studies in the previous decade. Though the issue was considered complex, Swedish citizens and, especially, government participants were well aware that there was something wrong about the ATP system. The complexity of the issue kept many at a distance from the proposed solutions.

What were the politics?

Obviously, the regime change of 1991 brought an entirely new administration to the political stream in the early 1990's. A new mandate and new participants widened the scope for change considerably. Conversely, *not* having power allowed the SAP to make

decisions that never would have been possible had they remained in power. In addition, as mentioned by March & Olsen, the precedent of being able to question social democratic institutions had been set in the 1980's. Looking at the pension system was another step in the process.

What opened the policy window?

We can see the coupling of problem and political streams at the start of the 1990's. The economic crisis called for cost control, thus, opening the window for cutting government programs. The political window of a new regime produced participants much more open to accepting new solutions to such problems. The general public movement towards acceptance of questioning the social democratic institutions opened the window even further.

Who were the actors and entrepreneurs?

Almost all works cite Minister Bo Könberg as the catalyst of the pension reform process. His decision to create a small working group with a limited number of representatives from every party is essential in creating the pension reform. We can perhaps include the leaders of the SAP and specifically the representatives in the working group, Ingela Thalén and Anna Hedborg, in this group as well. By acting as politically astutely as they did, they allowed the pension working group to practically finish its work before any major objections were raised by the rank and file within the SAP.

What are the implications of the Swedish Pension Reform of the 1990's to Public Policy Reform and to Garbage Can Theory?

When one looks at the Swedish Pension Reform of the 1990's, one can see that history plays an integral role. The party positions are, in principle, the same from the 1950's up to the time of reform. The bourgeois parties favored smaller public pensions based on lifetime earnings and investment funds. The SAP favored a large PAYGO system with high benefits. Given the demographic and economic conditions of the "Golden Era" of Swedish development up to the mid 1970's, such a SAP system was financially feasible. Given the conditions thereafter, it was not. Obviously, Public Choice Theory is an excellent tool in its ability to describe why the populace favored the SAP over the bourgeois parties during most of the pension building process. Given the economic and demographic realities of the 1990's, something had to be done about the system if it was to survive. In Sweden, it did happen, but in many other countries nothing has happened. Why?

Using the Garbage Can Model, we can say that "the stars aligned" for Sweden in the early 1990's. Economic crisis was coupled with regime change. Institutionally, as March & Olsen write, Sweden was moving away from its Social Democratic nature during the 1980's. Institutions were adapting and co-opting some of the new criticisms coming its way. Little by little and item by item, Sweden was becoming less socialist and more capitalist. Karl Marx once wrote about the importance of understanding the subtleties of quantitative versus qualitative change. He wrote that change may occur slowly and only quantitatively, but that at some point the overall effect is a qualitative change. One can ask whether such was the case in Sweden. Was the SAP moving towards the right? Was the pension question the one which symbolized the qualitative nature of this movement to rank and file members of the SAP? I believe that the answer is yes.

If one looks at the historical movement towards a new pension system, we can see that SAP members reacted quite differently depending upon the definitions attached to

pension reform. “Modernization”, “Reformation”, and improvement caused no substantive reactions. Mentioning lifetime earnings and private funding did not wake reactions immediately. The remiss of 1992 and the meeting of 1993 raised little fanfare. Only when the proposal was defined as something “new” and contained “concessions to the bourgeois parties” did reactions occur. At the same time, remiss answers showed that members often did not even know what they were criticizing. The functioning of ATP was misunderstood; people thought that it was good for women, when it was, in fact, not. The criticism of 1997 was diffuse; members could often not articulate what they disagreed upon. The uproar seems to me to be mainly over having been “fooled” by party leaders. And SAP members may be totally correct.

If we looked at the case counter-factually, we could try to imagine what would have occurred if SAP leaders did not “fool” their members. Would SAP members support a reform on a totally “new” pension system partially built upon private funds in 1991? It seems to me that the defining of the reform as “modernization” and de-emphasizing the changes that were occurring was vital in allowing the SAP to be able to act. I believe that the decision made by the SAP was, like Lundberg said, oligarchic in nature. I also believe that the reform was rational. One could argue that most people would agree with the reform if they understood it. But Garbage Can Theory applies to individuals as well. People do not have unlimited resources of time. Work, family, exercise and hobbies take up the majority of people’s time. Many people did not know how the old pension system functioned yet they supported it. I believe most people would make the decision of “flight” or “oversight” that Cohen, March & Olsen describe. The issues are “too complex” or “do not have a solution”. Instead, they trust party leaders to watch their interests for them. I believe the disgruntlement of SAP members has to do with perceived failures of their leaders to do this. Any leader who opposed the reform would be their leader.

Given these conditions, I believe it was of fundamental importance that Bo Könberg created a small working group. Experts were able to look at the pension system without political barriers. In addition, a viable solution had been discussed for over ten years

prior to the forming of the working group. Academics such as Agneta Kruse (1977 & 1988) had pointed out failures of the ATP system far before work began. At the same time, the general public understood that there was a problem with the pension system and that “something had to be done”. The economic crisis of the time helped in bringing out expectations of action. As importantly, if not more, the general economic crisis kept the public’s attention away from the working group. Individuals are apt to be less concerned about their pensions than about their jobs.

As written earlier, the bourgeois parties coming to power was very important in giving the SAP room to support the measure. ATP was their system. It was impossible for the SAP to throw it away while they were in power. The SAP needed the bourgeois parties to start the process. Once the working group was formed, they needed to confirm its results prior to the 1994 election. I believe the short remiss answer period was a conscious decision and it is empirical evidence that policy windows exist. The reform could not have occurred if the remiss answer period was longer; the policy window would have closed.

In addition, I would not claim that the reform disproves Public Choice Theory. If anything, the reform reaffirms it. Cuts in social benefits must occur in small, almost secretive groups. Any large proclamation of reform in the form of cuts will fail precisely due to Public Choice Theory.

What can other countries learn from the Swedish case?

I believe one of the important aspects of the Swedish pension reform is the “softening up” process. The reform attempts of the 1980’s laid the groundwork for success in the 1990’s. The public was introduced to the idea of reform in the 1980’s and gained confidence that the SAP would protect their interests. At the same time, they were made aware that something was wrong in the pension system. Thus, the statement that ATP would be “modernized” could be seen as acceptable in 1992.

Any country attempting reform will have to go through a futile attempt at reform before a real reform can be made. It will be very interesting to see how the United States responds to President Bush's current attempt at social security reform. I know very little of what has happened so far, but it seems as though the reform process is very large and has many participants. Opposition to any reform is also very active in that country. An election has just occurred which may be the political stream needed to open a policy window. I do not, however, see the problem stream as being strong enough to open the policy window. The economy is doing relatively well and there does not seem to be a crisis mentality. The country may very well be prepping for another reform attempt at a later date when economic crisis does set in. The softening up process may be underway. We shall see.

Any reform process should be significantly easier for other countries as they have an actual reform example in Sweden. The solution or policy stream should be easier to refine given the Swedish reform. As noted above, a skillful policy entrepreneur should be lying in wait for their opportunity to present itself. Until the stars align, the entrepreneur should be busy preparing the solution.

Summary and Concluding Remarks

Though the reform process has been a long and complex process, I believe Garbage Can Theory goes a long way in helping us understand how, why and when political decision-making occurs. By breaking down the decision-making process into streams, we are more able to digest to separate conditions inherent in reform. If we return to the questions made at the beginning of the paper I believe we can produce satisfactory answers.

- What are the forces that drive public policy reform? The political mood of a country, the current problem subjects and the availability of policy solutions are all important in determining the viability of change or reform.
- Under what circumstances is reform possible? A recent political happening such as administration change combined with a problem crisis or event draws attentions to a particular subject. The time when attention is focused upon the subject is known as a “policy window”. When attention is crystallized around a subject, especially among government participants, there is a greater sense of urgency in coming to a decision.
- Does reform occur progressively, slowly, and rationally? Usually attention shifts rapidly and from subject to subject. One cannot predict when a particular subject will be high on the government’s decision agenda. Policy alternatives, conversely, are developed slowly over time.
- Who are the actors responsible for reform? There are many actors that can be involved in public policy formation. Alternative solutions may come from interest groups, lobbyists, academics or politicians among others. The decision-making actors are the politicians in government. It is the proposition of this paper that fewer actors involved in the *actual decision making group* increase the likelihood of reform.
- Are individual actors important for catalyzing reform? In most cases of reform one can name one actor who is particularly important in producing the reform. We have called such actors “policy entrepreneurs”.
- What role do institutions play in understanding reform? Institutions are often resistant to reform. Once pressure for reform builds, institutions often incorporate or co-opt the changes recommended in order to survive.

- Why do certain reforms take place at one time and not another? The unpredictability of the opening of policy windows plays a major role in determining when reform takes place. Policy entrepreneurs can increase the likelihood of their solution being accepted through persistence and negotiating skill. If a solution has not been previously legitimized by being part of debate, it is less likely that it will be enacted.
- What role does the public play in pressuring reform? The public plays several roles in the process of reform. Voting can bring about regime change that may provide an impetus for reform. Organized dissent to a particular solution can destroy the likelihood of a solution passing. The public may also affect the problem stream by voicing and organizing displeasure about a particular issue. As noted, it is very difficult to both open a policy window and to control what kind of solution is accepted.
- What role do interest groups, lobbyists and academia have in determining the outcomes? These groups primarily affect the various policy solutions available to the decision-making participants. They are also important in defining the meaning of problems, political events and solutions.

We can see the Garbage Can Model is able to answer many of the questions that surround the reform process and is able to compartmentalize our understanding of the processes therein. By providing the tool by which we can analyze change, we are more able to see the possibilities that exist within the government. We are also able to see the important roles that the differing participants play in determining the direction the public policy takes.

Sweden's pension reform appears to lend evidence to the predictions of the Garbage Can Model. A policy alternative had been legitimized by nearly forty years of persistence. When the problem and political streams coupled in the early 1990's a policy window was

opened; the general populace was aware that “something was being done”. Bo Königberg catalyzed the process by keeping the pension working group small; lobbyists and the political objections of SAP members were kept at bay long enough to create space for the decision making participants. Though the pension reform did mark a “paradigm shift” the SAP was still able to co-opt the reform so as to become part of their institutional structure.

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