

**The Swedish Pension Reform Revisited:
In View of Contested Politics over Investment and Redistribution**

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Abstract

The purpose of my research is to investigate some unspoken but important implications of a series of pension reforms in the mid 1990s for the future rearrangement of the Swedish model that could place itself as one of the most advanced welfare states. In the history of Sweden, the problem of pension reform has been handled connected with how to produce a pie such as the way of linking savings to investment and the control of capital as well as how to divide a pie. The Swedish pension system in the postwar period has been one of the main props for the Swedish model for the following reasons. On the one hand, public pension funds played the decisive role in institutionalizing the administration of capital, labor unions actively participated in the management of occupational pension, and thereby both retarded the growth of privately controlled pension market. On the other hand, the earning-related effect of supplementary public pension was offset by generous basic public pension, occupational pension benefits were equally distributed between and within four sectors (blue-collars in private sector; white-collar in private sector; central government workers; local government workers) with the help of central collective bargaining, and thereby both made difficult the exit of middle class that is mostly composed of white-collar workers in private sectors from the coalition supporting public welfare. Therefore, gradual disintegration of the overall pension system was a symptom of the crisis of the Swedish model in terms of both growth coalition based on economic policy pursuing regulated financial system and welfare coalition based on social policies pursuing egalitarian redistribution. In these respects, most of relevant researches have too serious drawbacks to disregard. Above all, they have been likely to focus narrowly on the reform of public pension plans, not the historical change in the overall pension system. Second, the gist of public pension reform was to introduce privately managed and funded individual accounts into the first pillar besides nominal defined contribution system. Third, they praise harmonious consensus in the process of public pension reform, but there was the Swedish corporatism remarkably weakened behind it. Lastly, a series of pension reforms presage the unprecedented transfer of economic power from the society as a whole to special interests such as private insurance companies and mutual funds in the near future. From the viewpoint of pension regime in transition, Sweden was leaving from solidaristic public pension-based regime to individualistic private pension-based one, possibly already before public pension reform.

1. Introduction

The crisis of public pension system with aging of population is one of the most complicated and thorny problems all of welfare states should tackle today. Many existing studies have considered the change in the proportion of public pension to private pension and the level of public pension benefit as the trustworthy indicators to substantiate the retrenchment of welfare states. However, the importance of pension reform is more than the change of a mere welfare program.

First of all, pension is the nexus between public or private savings and investment. Who controls, how to manage, and where to invest a tremendous amount of money significantly affect the way the government supports and regulates private economic actors as well as the characteristics of financial system. Therefore, the problem of administration has been one of the burning issues in terms of economic policy. Second, the government, the capital, and the organized labor have a stake in pension because it is closely related to budgets, profits, and current or future income respectively. For this reason, who finances as well as how much returns and risks are accompanied has been the core of social policy.

This research tried to analyze several unspoken issues about a series of pension reforms in Sweden from the standpoint of the contested politics over investment and redistribution. Their hidden meanings can be better understood when paying more attention to the big debate over pension reform in the 1950s and the emergence and consolidation of Neoliberal political climates supported strongly by the capital against the development strategies and institutional arrangements the Swedish model were based on. Especially, this research satisfactorily explained the way some substantial changes in the overall pension system are influencing on the regulated financial system and the welfare coalition that are the necessary conditions of the Swedish model.

2. Critical Review of Relevant Researches

1) Researches on Swedish Pension System and Some Characteristics of Recent Reform

Swedish pension system has been classified as the universalistic state-dominated system for the following reasons. First, the replacement rate of national basic pension for everyone who has lived for more than some years given is higher than any other countries. Second, income-related superannuation is not divided by occupational status. Third, the proportion of private pension income to retired income in total is relatively small (Esping-Andersen 1990).

<Insert Figure 1 here>

According to prevalent studies, Swedish pension system, in spite of the partial privatization of public pension schemes in the mid 1990s, still has several key features of the universalistic state-dominated system. Above all, those who have a little or no income are expected to receive a new guaranteed pension financed by the state, and it cancels out the abolition of basic public pension. Most scholars have regarded this as the evidence that the Swedish government still shows her invariable concern about the principle of income redistribution (Yoon et al. 2000). Secondly, some of scholars have emphasized little resistance of stakeholders, especially labor unions, in the process of public pension reform(ILO 2000; Pierson 1996: 172). Lastly, it has been frequently underlined that the universalistic state-dominated system continues because a new pension system based on the principle of nominal defined contribution should be thought as an exemplary reform beyond the dichotomy between parametric reform and structural reform(Yun 2000; Yang 2002; Sundén 2000; Wadensjö 2000)

However, my research challenged such optimistic assessment for the following reasons. First of all, most of existing researches fail to understand that the Swedish pension system has been deeply coupled with what strategies for economic development to choose. It is hard to deny that

the recent public pension reform allows an enormous transfer of economic power to private actors such as private insurance companies and mutual funds(Hagberg and Wohlner 2002). This means that the established economic development strategy connected to public pension fund was discarded that prevented economic growth based on high profits and capital concentration through self-financing. Additionally, they keep silent about the fact that the privatization of public pension is very rare in advanced welfare states whether it is partial privatization or not. Another, they are less interested in occupational pension plans and private pension plans, and thereby they are not able to grasp the critical fact that the development of private pension market in the 1980s was one of driving forces to introduce the partial privatization of public pension. Lastly, they have the tendency to ignore the gradual change in political coalition in terms of politics of consensus that has been characteristic of social democratic corporatism.

2) Researches on the Rise and Fall of the Swedish Model

Some studies on the rise and fall of the Swedish model, criticizing any deterministic approach, have put stress on the fact that its rearrangement direction is politically affected by power relationships among key actors. This new approach has been called 'power resource model'. Political sociologists following this perspective have focused on 1) the conditions of class compromise or 2) the change in welfare coalition as an intermediary variable. The first group of scholars argue the retrenchment of social democratic welfare states emphasizing that three participants in corporatist policymaking could not keep some promises any longer because of inherent pitfalls of their models as well as globalization. The second group contends that different paths of rearrangement of welfare states could be accounted for by the dynamics of welfare politics over egalitarian redistribution.

The former approach is convincing in the sense that Keynesian welfare states based on full

employment are conditional on capital accumulation and stable economic growth. In this regard, the latter approach that pays narrow attention to the conflicting interests in redistribution should be more interested in contested politics over some other aspects of redistribution such as social control of investment and the level of profits. In the case of Sweden, there are many phenomena that are hard to explain satisfactorily through the prism of welfare coalition dynamics such as low savings rate of households or private investment control that led to the nationwide debate during the economic crisis in the 1980s. Nevertheless, all two approaches have the tendency to make regulated financial system that was one of the decisive props for postwar class compromise invisible in their analysis. In other words, all of them do not regard it as something given rather than one variable connected to internal institutional arrangements.

In sum, my research tried to keep the eyes on the dynamics of growth coalition and welfare coalition at the same time in order to better understand the rise and fall of the Swedish model through the prism of pension regime. In this research, how regulated financial system has changed over time was analyzed as well.

<Insert Figure 2 here>

In order to produce the positive cycle such as <wage restraint→ profit increase→ productive investment>, the organized labor should compromise with the capital over the contract that the dominant faction of labor unions is ready to trade off wage restraint against productive investment and the dominant sector of the capital is willing to carry out its duties as the national bourgeoisie. Second, the government plays some important roles as an arbitrator lest such contract should be broken by the opportunistic behavior of the labor or the capital in terms of game theory. Additionally, the welfare alliance should be formed and continue within working classes who accept universal public welfare at the cost of wage restraint. To meet this condition, first, organizational cohesion among labor unions should be strong and the strategy of labor

movement should be encompassing enough to prevent the conflict over narrow economic interests like the competition with each other for wage increase (Shin 2000; Cho 2001). Secondly, with regards to capital, regulated financial system is needed in the sense that maintaining growth coalition is conditional on the appropriate control of financial capital which otherwise pursues very short-term interest such as capital flight abroad and the withdrawal of productive investment. The maintenance of growth coalition and welfare coalition requires loyalty as well as voice of key actors rather than their exit in Hirschman's terminology and a tight coupling of economic policies and social welfare policies rather than a loose coupling in March and Simon's terminology. Moreover, such contract is asymmetric in terms of power relationships, and the government ability to manage various institutions efficiently and legitimately is also critical. In these respects, it is not surprising that institutional arrangements in universalistic welfare system based on tripartite corporatism very often entails too much tension and stress.

Pension is kind of the center that links all of these relationships together. The Swedish pension system showed the tight coupling between economic policy and social policy. For one example, public pension funds under the control of the government are one of the major tools of macro economy regulation from supply side. In other words, public pension funds as patient capital have made significant contributions to the pursuit of stable economic development in terms of real gross domestic investment without excessive dependency on foreign capital investment in Sweden. The Swedish social democratic government tried to lead the postwar growth coalition between the government and the business world by providing private sectors with some parts of public pension funds.

Additionally, the organized labor is a key actor in pension politics because the right to labor union's participation in fund management as well as more general policy-related decisions is

institutionally guaranteed both at the enterprise or industry level and at the national level. Not surprisingly, this labor-inclusive political opportunity structure helps labor unions prefer the closer integration of economic policy and social policy (e.g. extending democratic principles to the economic arena)

3. Typology of Welfare States considered: An Approach based on Pension Regime

According to Zysman(1983), the structural arrangements, the relations between several markets (e.g. capital market, loan market, and money market) and institutions through which funds flow, shape the process by which savings are transformed into investments and allocated among competing users. He also focused on the ability of government to influence company choices through the medium of financial system. His approach to ‘the politics against markets’ (Esping-Andersen 1985) is particular in the sense that he emphasized the characteristics of financial system on which class compromise in welfare states relies, the way of industrial financing, and the importance of government’s intervention in resource allocation and adjustment of markets.

I am afraid that his argument, however, seems to have at least two drawbacks. First of all, he did not pay attention to the growth of a new financial institution, namely a pension fund. Although the relative importance of pension funds and their roles might be different in each country, it is obvious that they are one of the major actors of financial system because they are already the considerable parts of private wage or social wage, and thereby they are the channel that is able to link a great amount of money to investment. In addition, he did not pay enough attention to the conflicts between the two actors and the organized labor by limiting the key actors to the government and the capital. In other words, it seems in his work as if such conflicts has been already settled. However, history shows that labor unions as the organized stakeholders,

though their impact on macro economy was still relatively weak, were not a negligible player at all in terms of investment politics either at the enterprise level or at the nation level.

Consequently speaking, pension funds are unique and important financial capital in the contemporary welfare states in the sense that the organized labor has some influence on the management of them through collective bargaining at the enterprise or industry level, or tripartite corporatism at the nation level. In these regards, “who, to what extent, owns and controls labor’s capital, and how they are used” have a significant effect on the financial system, especially about the way the government juggles two seemingly conflicting goals, supporting capital accumulation and regulating its movement.

I proposed the following several criteria for two kinds of pension regimes as ideal types, solidaristic public pension-dominated regime and individualistic private pension-dominated regime. 1) Proportion of each layer (public pension dominated vs private pension dominated) 2) Portfolio regulation (strong vs weak) 3) Composition of household financial assets (more bank deposit vs more equities) 4) Composition of pension fund investment (more bonds vs more equities) 5) Labor union’s participation in fund management (political inclusion vs exclusion) 6) Financing principle (e.g. pay-as-you-go vs funded) 7) Benefit calculation principle (e.g. defined benefit vs defined contribution) 8) Pension funds’ share in corporate financing in terms of the supply of patient capital (high vs low) 9) Occupational pension scheme structure (Centralized vs decentralized)

Mishra(1984, 1986) made a distinction between corporatist welfare states(CWS) and pluralist welfare states(PWS) by using three criteria: the way of economy regulation, the relationship between economic policy and social policy, and the political process of conflict adjustment and settlement.

Accordingly, I suggested several criteria for two kinds of welfare state models, CWS and

PWS. 1) The way of macro economy regulation (demand side vs supply side as well as demand side) 2) Capital control (strong vs weak) 3) Financial system (Credit based vs capital based) 4) The relationships between economic policy and social policy (Tight coupling vs loose coupling) 5) The degree of growth coalition (stable vs unstable) 6) The degree of welfare coalition (Strong vs weak) 7) The degree of corporatist policymaking (high vs low) 8) Labor union's strategy (Long-term, nonsectoral, nonfactional vs short-term, sectoral, and factional) 9) Collective bargaining structure (Centralized and Decentralized)

<Insert Table 1 here>

It is not unique to Sweden that pension system is the nexus between financial system and social welfare system. My argument here is that pension regime has selective affinity in Weber's terms with welfare state model because the pension system is embedded in the institutional arrangements of welfare states. To put it another way, solidaristic public pension-dominated system dovetails with corporatist welfare states and thereby there is synergy effect between the two, whereas individualistic private pension-dominated system with pluralist welfare states. In this sense, we could better and in another way understand the dynamics of welfare politics through the lens of pension regime.

4. Research Questions

This study suggested two hypotheses as follows. First, the recent pension reform has significantly positive influence on the development of market-based financial system in Sweden, undermining the growth alliance. Second, the gradual change in the overall pension system has caused the inequality of wealth and income distribution, increasing the possibility of the rift in the welfare coalition.

There are still two important questions I wrestled with, especially with regards to the recent pension reform in Sweden. One is about why the public pension reform in the 1990s could be implemented more harmoniously without any heated debates among stakeholders in contrast to what is called “ATP debate” in the past. What implications does this silence have for the future welfare politics in Sweden? The other is about why the recent public pension reform got unintended compliment from the centers of neo-liberal camp such as Wall Street Journal and Cato Institute. In the course of answering to these two questions, I tried to draw some comparative implications of the recent public pension reform for pension politics in other advanced welfare states.

5. Methods

This research could be regarded as a “one-shot case study” without comparison groups in the statistics-driven methodological sense because it involves an observation of a single event at one time point. Therefore, I willingly accept that my study is useful as an exploratory research. In other words, my study has unavoidable limits to causal explanation and generalization.

However, some of comparative historical sociologists have emphasized some fundamentally different approaches to the meanings of cases and case studies. As Smelser(1976: 198-9) pointed out, although a plethora of scholars have pointed out that a single, cross-sectional constellation of empirical phenomena does not afford the possibility of establishing causal relations among those phenomena, the crucial factor determining the limitation of the case study lies not in the actual number of cases but in the lack of variation in possible causes and effects. Paige(1999: 797) also contended that the difference in the treatment of the “case” is one of the clearest indications of the fundamental epistemological distinction between statistical and

comparative historical analysis. As he sees it, for statistical analysis the goal is to find typical or average effects in populations so a case can at best be an illustration of such effects, whereas for comparative historical analysis the goal is to find causal principles, and a case is regarded as a natural experiment in which competing causal theories can be tested. In this sense, cases are “made” by invoking theories, whether implicitly or explicitly, for justification or illumination, in advance of the research process or as its result (Walton 1992: 121).

In terms of comparative historical sociology, my research is closer to the macro-causal analysis than the parallel demonstration of theory or the contrast of contexts. The last two approaches try to verify a given, explicitly delineated hypothesis or theory and place historical limits on overly generalized theories focusing on contextual particularities respectively, whereas the former prefers to make causal inferences about macro-level structures and processes on the condition that there are too many variables and not enough cases (Skocpol and Somers 1980).

To substantiate my provisional arguments above, I collected various kinds of secondary data besides a lot of relevant documents. For three layers of pension plans and pension funds, I consulted the documents published by Swedish Financial Supervisory Authority, Ministry of Health and Social Affairs, Ministry of Finance, National Social Insurance Board, Premium Pension Authority, National Government Employee Pensions Board, and Federation of Social Insurance Offices. For the debates about the recent public pension reform, I referred to the documents published by major parties and labor unions. Especially for the statistical data, I relied on the data provided by Swedish Financial Supervisory Authority, Central Bank of Sweden, and Statistics Sweden besides the “Comparative Welfare States Dataset” from 1960 to 1994. Huber, Ragin, and Stephens collected and OECD Economic Surveys in various years. In the course of collecting the data, Terasa Munzi (Luxemburg Income Study) and Hans Olsson (Statistics Sweden) gave some useful tips for the interpretation of the data. Margareta Engholm

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6. The Comprehensive Summary

A. The Formation of Pension Regime in the Postwar Period and the Development of the Swedish Model (From 1950s to mid 1970s)

1) ATP Debate and its Consequences: Politics of Pension Reform and its Implications

After the World War II, the debate about the introduction of a new earnings-related superannuation scheme was proceeding along two major issues. One is about different interests of workers in income distribution. At that time retiring workers made a living on flat-rate national basic pension that covers almost all the citizen. Public employees and white-collar workers in the private sector were able to get another benefit from occupational pension plans that were based on the contract with their employers, whereas there are few blue-collar workers in the private sector who were provided with such occupational pension benefits.

Under the circumstances that the demand for wage restraint became more severe than before as the overall economic condition became favorable enough to give rise to inflation in the postwar period, the Swedish labor unions were beginning to call for the increase in the retirement pension benefits at the sacrifice of wage restraint. Retreating from the principle of egalitarian redistribution, LO also asked for the introduction of a new pension plan, not the raise of flat-rate basic pension benefits. SAP accepted the necessity of the earnings-related pension plan for the following reasons even though SAP knew that it would deepen the inequality of

income distribution. Above all, it was the strongest supporters of SAP who demanded this plan. Moreover, white-collar workers whose income was relatively high would have openly defied SAP and preferred private pension plan to already established public pension plan if the introduction of additional pension plan had procrastinated. Last but not least, SAP should get support from emerging middle classes in order to take the initiative as the Social Democrats' share of the working class vote was decreasing (Davidson 1989).

In the end, three proposals were put forward different in the problem of who would finance and who would control although they all had earnings-related principle in common. The first proposal was the compulsory superannuation scheme based on employers' responsibility for contribution to public pension funds. The second one was the voluntary superannuation scheme based on normal insurance principles the Agrarian Party suggested, but the government's control of funds was accepted in this proposal. The last one was the voluntary superannuation scheme based on collective agreements between parties in the labor market. This was presented by the Liberal Party and the Conservative Party (Hadenius 1990: 88-90; Olsen 1992, 63-4; Davidson 1989: 221).

Above all, the business world and the bourgeois parties criticized strongly the way pension funds were administrated, especially the state's control of partial funded capital. They regarded this approach as "pension fund socialism" or "creeping socialism". In 1957, the Pension Committee was organized in order to settle this conflict over pension fund management. Finally, it was submitted that pension fund capital should be administrated to secure the greatest possible gains to those insured under the ATP system, and thereby the AP funds, like private insurance companies, should maximize the return on investment within some constraints of fiduciary responsibility. Additionally, economic policies and social policies should not influence the funds' investment decisions (Pontusson 1992: 83)

The enactment of the ATP system, despite that some original demands of LO were attenuated, represented a milestone in the development of the Swedish model. First, the ATP system played the decisive role in institutionalizing administration of capital in Sweden (Lindbeck 1975: 218). AP funds, especially, as a source of industrial finance made difficult the economic growth based on high profits and capital concentration through corporate self-financing. Second, the ATP scheme as a kind of quasi-taxation facilitated the flow of wealth from private sectors to public sectors by absorbing the part of corporate profits into public savings. Moreover, the ATP scheme contributed to the formation of welfare coalition, a social democratic wage-earner realignment (Esping-Andersen 1985: 109) in the sense that it enabled SAP to gain more support from white-collar workers in the private sector as well as traditional working classes.

2) Pension System and Regulated Financial System

The Swedish financial system was shifting gradually from credit-based bank-dominated system to credit-based state-dominated system in the 1950s, as the central bank whose board was responsible for the Swedish Parliament took several actions in order to establish the comprehensive system of domestic credit control. The following factors account for the underdevelopment of private insurance market and capital market.

First, as the AP funds became the source of investment capital to economic sectors, the proportion of public sector was beginning to increase gradually, whereas that of commercial banks and private insurance companies was on the contrary in terms of credit supply or financial intermediation since 1960's. (See the table 2)

<Insert Table 2 Here>

Second, the introduction of the ATP system left little room for private insurance. Some advantages of private insurance disappeared because the ATP plan, in contrast to the national

basic pension plan, followed the earnings-related principle. Third, there were strong regulations by the central bank of private insurance companies' investment portfolio and loans. Fourth, none of them were fully funded in an actuarial sense although the dominant form of occupation pension plans was the pension insurance. Furthermore, prior to the introduction of the ATP scheme, most of occupational pension schemes were managed by labor market insurance companies. (See the table 3)

<Insert Table 3 Here>

Fifth, ATP savings as well as progressive income tax caused high public savings, and such massive socialized savings made it possible to maintain domestic investment at a stable and high rate without excessive recourse to foreign borrowing and to prop up the foreign exchange control as we see it from the figure 3 and 4. (Pontusson 1992; Jonung 1993; Øverbye 1996; Palmer 1999).

<Insert Figure 3 Here>

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However, although the AP funds became one of the major actors in the capital market, the allocation of credit supply and the control of private investment did not changed drastically for the following reasons.

First, legally prevented from purchasing corporate stocks, the funds were restricted to indirect forms of lending to the private sector such as the purchase of bonds and promissory-note loans to intermediary credit institutions. Second, the ATP system as a public pension plan imposed external constraints on the AP funds as a means of public control over investment, and thereby sound investment yielding sufficient returns on capital was regarded as being more important than any other goals with regard to capital control. Third, the system of retroverse lending LO regarded as an obstacle to efficient industrial restructuring propped up the relative significance

of commercial banks as a source of industrial credit. In other words, the retroverse lending of the AP funds rather strengthened corporate financing through commercial banks (Pontusson 1992; Olsen 1992).

With the legal-institutional limits of the AP funds being disclosed, the Rehn-Meidner model was beginning to bring about the unintended consequences such as the generation of excessive profits in some of private sectors, the unequal distribution of wealth, and the concentration of capital. The serious problem was that the Swedish labor unions reached an impasse under the “asymmetry of growth coalition” that shows some fundamental limits of the postwar class compromise. For instance, whereas the restructuring of the labor force was subject to detailed state intervention and union influence through corporatist channels, the efficient restructuring of capital remained for the most part beyond the reach of public policy and corporatist bargaining (Pontusson 1992: 13). This was why the debate started during the end of the 1960's about whether the AP funds should try to supply more risk capital such as shares to firms, the fund should try to exert power over the firms obtaining capital from the fund, and the board members of the fund should try to steer the capital market in certain politically determined directions (Lindbeck 1975: 218).

3) Pension System and the Formation of Welfare Coalition

The ATP scheme increased the effect of the solidaristic wage policy that had operated effectively since the 1960's. First, workers were able to tolerate the downward pressure of wage restraint by being guaranteed productive investment from the capital and relatively high public pension benefits from the government. Second, employer contributions without employee contributions in the ATP schemes helped to delay the diffusion of wage drift.

There were a great number of different occupational schemes, inclusive of company-based

schemes, before the introduction of the ATP scheme. However, all the occupational schemes were standardized and united into only four schemes that reflect the structure of union organizations and collective bargaining with the introduction of the ATP scheme as the momentum. How was it possible? From the standpoint of employees, solutions other than those which are built upon central negotiations tend to result in unequal social benefits, as does an uneven wage structure in general, depending on each sector's different negotiation ability and strength (Wadensjö 1997: 284). From the standpoint of employers, SAF could coordinate occupational pensions more effectively, facilitate labor mobility, and equalize the conditions of competition between companies (Kangas and Palme 1996: 227). In other words, such centralized occupational schemes, in contrast to company-based schemes in the UK, strengthened the characteristic of pension as deferred wage rather than as something attracting skills.

Accepting earnings-related principle in public pension, of course, could be criticized as the deviation from the ideal for egalitarian redistribution the Swedish labor movement had tried to make a reality (Myles 1992). Though the apparent effect of earnings-related benefits would seem to lessen the redistributive impact of institutional welfare states, the opposite is the case. In spite of the fact that public pension income is unequally distributed with earnings-related pensions, gross income and final disposable income are more equally distributed. Generous public pensions, those with high replacement rates, crowd out all other alternatives such as negotiated occupational benefits, private insurance and personal savings, all of which are much unequal than earnings-related public benefits (Stephens 1995: 7).

Furthermore, most of Swedish occupational pension schemes were based on the system with defined benefit principle and more collective characteristics. As the result, though they were private pension schemes, they were similar to a kind of redistribution plans different from

typical pension insurance schemes where future benefits are determined by the actuarial principle. Additionally, the very wide coverage of occupational pension schemes heightened the crowding-out effect of the ATP scheme so that workers' dependency on private personal pensions could be much lower.

However, it seemed that there was still the possibility of the rift, in terms of welfare coalition, between blue-collar workers in private sector and white-collar workers in the same sector. More than anything else, there were some unavoidable defects in the ATP scheme itself.

The first one was derived from the unsatisfactory fulfillment of earnings-related principle: when more and more workers reach the maximum limit, the ceiling point, say k , in the figure 5, as the level of real wage increases, ATP will gradually be degenerated into an extended national basic pension. Not surprisingly, the more rapid the rate of economic growth, the quicker this process will be. For this reason, discontent of white-collar workers who are primarily composed of relatively high income workers will be higher as time goes on.

<Insert Figure 5 Here>

The second one could be found in what is called the 15/30 benefit formula. Generally this formula, which was intended to benefit women and white-collar workers who tend to work fewer years and experience more rapid growth of wage in their later years of employment, was more unfavorable to blue-collar workers who had the moderate slope of wage profile in spite of participating in the labor market generally longer.

Third, blue-collar workers in the private sector had been provided with STP since 1973 when the new pension scheme went into effect, but STP, before long, was changed to become a supplement to public pension like the other two pension schemes, SPV for central government employees and KPA for local government employees. In other words, all the ratios of pension to previous income are prone to drop suddenly with increase of income except the ITP scheme for

white-collar workers in the private sector (Kim 1993; Kangas and Palme 1996; Wadensjö 1997).

In sum, it might be too exaggerating to affirm that the introduction of the ATP scheme solidified the Swedish welfare coalition; there still existed the potential discord especially between white-collar workers and blue-collar workers owing to both a compromise between redistribution principle and earnings-related principle in the ATP scheme and two different benefit structures of occupational pension schemes.

B. Limitations of Postwar Pension Regime and the Crisis of the Swedish Model (From mid 1970s to late 1980s)

1) Changes in the Swedish Financial System and the Politics of Investment

The Swedish dominant faction of capital was beginning to lose interest in maintaining the growth coalition as the economic crisis started in the late 1960s. The SAF called for the decrease in labor cost, the recovery of high profits, and the deregulation of capital market, contending that solidaristic wage policy did not induce wage restraint any longer and credit supply under the government's control retarded a new investment.

<Insert Table 4 Here>

Confronting these changes, the Swedish labor unions had to select one alternative between two strategies: one strategy was to increase private savings and to allow private profit increase in order to settle the decrease in savings and investment. The other was to tighten democratic control of capital accumulation and investment process by establishing a new fund based on collective ownership of capital (Pontusson 1992).

The government responded to LO's petition regarding equity investment by the AP funds by instructing the capital market commission appointed in 1968. In a special report, this

commission recommended that investing ATP savings in equity assets be tried, but it emphasized its risky character and proposed a series of restrictions to preserve the soundness of the ATP system as an insurance scheme. This report insisted that its investment decisions should be independent of public policy considerations and that the separate fund should not assume an active ownership role. In the end, the Fourth AP fund was created in 1974, but equity investment was not allowed for major banks and insurance companies though the influence of labor unions on the administration of the new fund became bigger than before. Moreover, the 1979 legislation affirmed the principle that the Fourth AP fund shared fiduciary responsibility for the ATP system by stipulating that 80 percent of its annual earnings be used for pension payments (Olsen 1992: 70; Pontusson 1992: 189-91) The seemingly thoughtful intention of linking the new fund to the ATP scheme could be understood as another attempt to protect the public pension system, but it did not seem that such stipulation about higher returns on investment was compatible with the fundamental control of private investment.

Therefore, LO should have disconnected the future pension benefits of workers from the outcomes of economic democracy, and tried to looking for another solutions to public pension schemes. In other words, what is the most important thing at that time was to create separately a new fund based on collective ownership that does not have any responsibility for the ATP schemes. The original plan of wage earner funds was the most appropriate to achieve the progressive redistribution of wealth besides the democratic control of capital accumulation and investment process in the sense that it pursued the collective ownership of corporate excess profits instead of workers' savings by reserving corporate equities directly instead of buying corporate equities in the stock market. (Shin 2000a) Not surprisingly, it instigated the most vigorous debate in the history of Sweden. After a series of political negotiation, small five funds were introduced in 1983 that were linked again to the ATP scheme via AP funds at the cost of

wage restraint. The corollary was that wage earner funds showed little difference from the Fourth AP funds, sometimes from even private insurance companies, in terms of the composition of portfolio, the influence of corporate decision-making, and the roles as active owners (LO 1988; Pontusson 1992).

The bourgeois government set about the deregulation of foreign exchange control, as the amount of fiscal deficit and of current account deficit became higher around the mid 1970s when it was in the course of that debate. As the result, having more trouble in the regulation of credit market than before, which had relied on foreign exchange control, even SAP that grasped power again in 1982 could not but take several actions for the deregulation of financial capital. (Jonung 1993: 360-8; Englund 1990: 386).

One of the critical features of 'the third way' was the official approval of the renewal of the private sector as the engine of economic recovery. Above all, allowing Swedish large corporations for high profits gave rise to changes of corporate financing that could be regarded as the micro-foundation of growth coalition. As they came to favor retaining or self-financing to borrowed capital by making internal finance companies, the influence of the central bank on capital allocation became less and the position of AP funds as a significant source of credit also became unstable (Shin 2000b; Huber and Stephens 1998). To respond to the changing patterns of corporate financing and to circumvent the central bank regulation of interest rates, major commercial banks were beginning to develop various kinds of new techniques such as founding their finance houses and borrowing foreign capital. The figure 6 clearly shows that the overall changes in financial wealth during economic crisis that could be regarded as the outcome of the deregulation of financial capital, the increase in self-financing of large corporations, and the decrease in public savings as the source of credit supply. (About relevant statistics such as the debt-equity ratio, the returns on employed capital, the share of financial assets in total

corporate assets, and the issue of new equities, see OECD 1986/1987: 45-50 and Svenska arbetsgivareforeningen 1990: 42).

<Insert Figure 6 Here>

In this way, as some important features of the Swedish model based on supply side intervention were disappearing through the 1980s, the Swedish growth coalition, the gist of which is to absorb excessive profits into public savings and to compensate for the decrease in corporate savings with public savings, was practically broken down. It came as no surprise that even the limited goal of wage earner funds, i.e. the procurement of investment capital through collecting new funds, could not be achieved because the basic mechanism like <wage restraint → public savings → capital investment> LO tried to fulfill through new funds was incompatible with the solidification of market-based financial system the Swedish third way pursued.

2) Growing Conflict over Income Distribution and Changes in the Welfare Coalition

Increasing uncertainty about growth coalition made it more difficult for the Swedish labor unions to favor corporatist trade-off strategies in Archer's terms (Archer 1995) in which they, with long-term and encompassing interests, exchange profit-threatening goods (e.g. wage increase) for private investment control. In the end, the crisis of growth coalition brought about growing conflict over income distribution, and the decentralization of wage bargaining was accelerated by "the third way" in the 1980s. First, the temporary economic recovery by devaluing the currency twice induced the workers' demand for wage increase because they had been endured wage freezing during the economic crisis. Second, the increase in profits in the 1980s made the need for wage restraint less compelling to export-oriented employers that were emerging as the dominant faction in the Swedish capital, and stimulated wage drift through company-level bargaining over piece rates, productivity bonuses, and the like (Pontusson 1992:

118). For instances, some of the Swedish large corporations (e.g. information, telecommunication) besides foreign companies tried to introduce employee share option or profit sharing plans as a method to decrease skilled workers' mobility and to solidify firm internal labor market.

In sum, employers in the large corporations had given more importance to collective wage restraint than wage flexibility before the early 1970's, but after that they started to emphasize the need for wage flexibility repeatedly and labor unions also began to compete for wage increase in a more myopic way than before. To some extent, wage drift from the 1960s to the 1970s served a positive function as the adjustment for the rigidity of central collective bargaining because the level of wage increase was determined by the solidaristic wage policy regardless of corporate performance (Cho 1997; Shin 2000a). However, uncontrolled wage drift was beginning to spread the desire for wage increase under the decentralized bargaining structure.

The concept of wage drift could be applied to workers' competition for occupational pension benefits: pension drift. As addressed before, a lot of occupational pension plans were united into only four negotiated pension schemes by sectors with the introduction of the new earnings-related public pension scheme(ATP). Even though the public pension system has crowded out occupational pensions in Sweden, there have been positive feedback loops as well. A good example is the rapid increase of ITP coverage following the implementation of ATP legislation (Kangas and Palme 1996: 238).

(Insert Figure 7 Here)

The figure 7 shows that pension coverage for workers has increased over time since the introduction of the ATP scheme, especially more those in private sectors than those in public sectors. This indicates that a number of workers in private sectors was not benefited from

occupational pension plans until the mid 1980s, which was not exceptional to workers the LO organized. The LO had no choice but to demand something similar to ITP for white-collar workers in private sectors in the 1970s in the spite of the introduction of the ATP scheme: STP. This is why the slope for private sectors is increasing steeply between 1970 and 1975 in the figure.

The legislation of the ATP scheme clearly stimulated the expansion of occupational pension coverage, but the share of occupational pension in the total expenditure was likely to decrease over time. Let's see the figure 8. As Kangas and Palme(1996: 222) mentioned, pensions for public sector employees were integrated into the ATP scheme, which means that the amount of the state pension was to be calculated as the difference between the target replacement level and what was paid out as ATP benefits.¹ As a result, the maturation of the ATP program has gradually eroded the relative importance of public sector occupational benefits. This is the same case with blue-collar workers in private sectors because the STP for them was also calculated in the similar way.

<Insert Figure 8 Here>

Then, one interesting and important question arises when taking a close look at the figure. "Why did not the proportion of private sectors decrease as that of public sectors did?"² First, the increase from 1970 to 1975 was because of the implementation of STP. Second, the temporary decrease from 1975 to 1980 was possible because of lowering of the normal age of retirement in the public pension scheme in 1976 from 67 to 65 years of age(Kangas and Palme 1996: 226).

¹ Shortly speaking, this is why the line for ATP is parallel with the line of SPV and KPA in the figure 5.

² Moreover, a few percentage of change in the proportion of occupational pension in the total should not be ignored considering that the size of the total pension expenditure after the 1970s was more than twice compared to that in the 1960s because of the start of expenditure for ATP.

Nonetheless, the effect of this cutting cost has decreased since 1980, which suggests that white-collar workers in private sectors based on premium reserve financing provoked workers' competition for higher pension benefits regardless of the implementation of the ATP scheme.

<Insert Figure 9 Here>

In contrast to the decrease in the proportion of occupational pension in the total pension expenditure, we can easily realize that the importance of occupational pension as another source of household income has been increasing over time in the figure 9. In other words, this figure clearly presents that the dependency of households on occupational pension has been growing with the maturation of the ATP scheme and its insensitivity to real wage increase.

In sum, what is important is that the occupational pension plans for white-collar workers in private sectors were always regarded as exemplary in the competition process for pension benefits. The introduction of the ATP scheme transformed a lot of occupational pension plans into only four negotiated pension schemes, but the competition for pension benefits continued along the sector instead of individual company. Interestingly, STP for blue-collar workers in private sectors was introduced at the very close year when the decentralization of collective bargaining virtually began. This allude to the fact that four negotiated pension schemes contributed to the decentralization of collective bargaining along the sector in the negative sense, which means that the institutional tight coupling between negotiated pension benefits and centralized wage bargaining was also beginning to weaken.

3) Effects of the development of private insurance market on the pension reform in the 1990s

The demand for the structural reform of public pension schemes had not been raised even until the economic crisis in the 1970s. There were only partial modifications such as the flexibilization of eligibility age, the extension of income range for contributions, and fund

strength consolidation through the linkage between several funds and the ATP savings.

However, the SAF full of political orientation was beginning to agree with the privatization of some of social welfare policies more passionately, and bourgeois parties was also starting to demand to take more drastic actions to deal with the ATP scheme since the 1980s. The existing studies have answered to why the bourgeois parties and the SAP were able to reach the consensus on the necessity of structural public pension reform in the mid 1980s as follows (Wadensjö 1997; Palmer 1999; Moon 1999; Yoon et al. 2000).

The first problem was related to the income ceiling in the ATP scheme. Above all, it was indexed to the development of consumer prices, not real economic growth, so that it could not keep pace with future wage development. In addition, such indexing caused the problem of inequality between working generation and retired generation. The second drawback could be found in what is called 15/30 benefit formula. As addressed above, this formula was more beneficial to white-collar workers than blue-collar workers on the whole. The third one was that the AP funds were depleting with maturation of the ATP system. (See the table 5)³ Besides, it was emphasized that both generous public pension and weak relationship between contributions and benefits decreased household saving rate and incentive to work.

<Insert Table 5 Here>

However, such studies do not take notice of another problem related to the politics of investment and development: who will control and manage a large amount of earnings-related pension funds, whether it is connected to the first layer or the second layer, in the near future.

³ Although it is hard to deny that the strength of AP funds was on the decline because of the growing increase in the number of retired workers and covering the central government's deficit, we can realize that the size of AP funds was rather increasing gradually. In this sense, it seems to be a little bit exaggerating to say that a structural reform was unavoidable when considering the fund strength decrease.

Surprisingly, Sweden had never had a free market for pension funds because even occupational pension funds were administrated by ‘labor market insurance companies’ (e.g. AMF-Pension, SPP, and KPA-life) composed of labor unions and their employers, not to mention public pension funds.

Only when paying more attention to this problem, we could understand ceaseless efforts of private insurance companies to draw pension funds in the private pension fund market and to incorporate the principle of unit-linked insurance into public pension schemes and occupational pension schemes. To put it another way, it is really worth emphasizing that the development of private insurance market since the mid 1980s played a pivotal role in determining the direction of a series of pension reforms in the 1990s, whether it was about public pension scheme or occupational pension scheme.

<Insert Figure 10 Here>

Too late but fast growth of private pension insurance market in Sweden, as the share of life insurance assets in real GDP clearly shows in the figure 10, owed to the following factors. First, workers who earned relatively high income became more interested in private insurance plans as time goes on because the ATP ceiling was not sensitive to real wage increase. Second, some changes in taxation policies in the late 1980s decreased the incentive to occupational pension schemes by reducing tax subsidies to them though there was a little drop of marginal tax rate at the same time. The third factor was the rapid development of financial market institutions and various financial instruments in the deregulation process in the 1980s. Fourth, the public had shown their interest, slow but steady, in mutual funds since the establishment of the Swedish Mutual Fund Association in 1974, the introduction of tax subsidized fund saving (aktiesparfonder) in 1978, and kind of public saving program (allemansfonder) in 1984 (Kangas and Palme 1996; Øverbye 1996; Palmer 1999).

C. Formation of New Pension Regime and the reorganization of the Swedish Model (From 1990s to present)

1) Partial privatization of public pension scheme and deregulation of collective pension schemes

Compared to the ATP debate in the past, in the pension politics in the 1990s the power shift in the credit market the partial privatization would bring about was paid little attention to, not to mention the capital control through public pension funds. Major issues around pension reform were restricted to an efficient transformation of the old system into something new. Moreover, the problem of egalitarian redistribution was treated from the viewpoint of the fair allocation of retiring income, not the inequality of wealth.

The gist of guidelines passed in the Swedish parliament in 1994 can be summarized as follows. First, the existing system based on the principle of defined benefit will be shifted to defined contribution-based system on the whole. Second, nominal defined contribution principles apply to one part of public pension schemes. Consequently, it will continue to be a pay-as-you-go system, and the funding will be fictitious. Third, contributions equivalent to 2.5% of gross wage are deposited in PPM personal account based on fully funded system. Fourth, a new system is indexed to the development of real wages, which means that the income ceiling for benefit purposes will be raised if real wage grows. Fifth, earnings-related benefits become main part of a new system, and universal basic pension is replaced with guaranteed pension those who have a little or no income are able to receive (Kangas and Palme 1996: 236-7; Palme 1997; Palmer 2000).⁴

⁴ Because of the limit of space, I did not say here about the analysis of the structure of political alliance over public pension reform in the 1990s. Interestingly, but not surprisingly, the Scandia

In addition to public pension reform, there were noticeable changes in four occupational negotiated pension schemes in the 1990s. The most important were the ideas about unit-link insurance introduced in the private insurance market in 1993. Especially, it is based on the idea of separating the investment phase from the annuity phase, and providing a choice between different funds in the investment phase (Palmer, 1999). There were other driving forces behind this convergence to premium reserve and defined contribution plans white-collar workers in private sectors as a pioneer already introduced in 1977 (ITP-K) such as the budget deficit in the local government, employers' preference to defined contribution in terms of the decrease in their responsibility and cutting costs.

<Insert Table 6 Here>

This deregulation of occupational pension schemes is deeply significant for the following reasons. First, from the viewpoint of income distribution, the fact that occupational pension schemes based on defined contribution system are prevalently diffusing suggests that a new system is more beneficial to those who have high income but work for few years. Similar to premium pension in the first layer, the rate of return in defined contribution parts in the second pillar will be also determined by the development of financial market and individual choice of funds. The emphasis on the insurance principle and the tight linkage between contributions and benefits in the new system reveals that most of egalitarian features the occupational pension system in the past had have virtually disappeared.

Second, from the viewpoint of capital regulation, it will be more difficult to control financial capital, as private insurance companies are able to administrate some part of occupational pension funds which were administrated by labor market insurance companies in the past.

that is the biggest private insurance company in Sweden was not different from other's opinions (Two main bourgeoisie parties, business leaders in SAF, and SACO composed of high income white-collar workers)

Therefore, there will be higher possibility of the 'sustainable' development of private pension and insurance market.⁵

2) Implication of New Pension Regime for the Swedish model in transition

What do a series of pension reforms imply for the rearrangement of the Swedish welfare state? I think that the overall change in the pension system in the 1990s is a real turning point in the sense that the partial privatization of public pension scheme and the introduction of privately managed defined contribution into occupational pension scheme is buttressing private pension market.

First, let's think about its implications for the development of capital market-based financial system. Nominal defined contribution in a new public pension scheme means that pay-as-you-go principle will be applied to contributions equivalent to 16% of gross wage, and thereby there will be no effect of that amount of money on the Swedish capital market. However, premium pension is usually managed by private fund managers, and pensioners are able to choose five different funds at one time among hundreds of private pension funds including foreign ones during the phase of investment.⁶

As of January in 2001, a new rule of the AP fund investment was implemented.⁷ First, the

⁵ The LO established its own insurance company (LO-Folksam) as the SAP does not show any passionate interest in capital control by using public pension funds.

⁶ For those who do not choose any funds, their money is administrated by a new national fund (Sjunde AP-fonden). This provides them with 'Premiesparfonden' (premium savings fund) that is stable but relatively low in terms of returns on investment.

⁷ There is the outline of this rule in Finans Departementet(1999). "The AP fund will continue to exercise a buffer function within the reformed old age pension system. The present size of the AP fund cannot be justified on the basis of such a role... The remaining assets in the present 5 AP funds should be divided into four independent buffer funds of equal size... An overriding goal for the new AP funds is to achieve long-term high returns on capital. The policy should

degree of the influence of AP fund on the capital market is mostly determined by its size, but a new rule strongly disagrees with the increase in the AP fund's size as the old rule. Second, the deregulation of portfolio composition implies its change from domestic bonds to foreign bonds and highly risky equities. Third, socially responsible investment on ethical or environment-friendly funds is considered in more positive way instead of the governmental regulation of the overall investment process.

We should take a close look at three changes in occupational pension schemes in terms of their effects on the capital market. First, private pension funds in the second layer have been accumulated since 1980s. ITP for white-collar workers in private sectors has been taking the lead in this considerable accumulation. The figure 11 interestingly shows that pension funds in private sectors has come up to half of AP funds in the 1990s in terms of each share in the real GDP. In this regard, the problem, "who controls worker's capital?", has been more important issue in the second layer than before.

<Insert Figure 11 Here>

Second, if all of pension funds are linked to privately funded defined contribution were

state how environmental and ethical considerations have been taken into account in investment activities without relinquishing the overall goal of a high return on capital... The buffer funds should only be allowed to invest in financial instruments issued for public trading and listed on the market. They may not grant direct loans or invest in unlisted shares... With respect to the stock market, the investments of the buffer funds will be restricted to shares in companies whose shares are listed on a stock exchange or other regulated market. In order to prevent the buffer funds from becoming excessively large players and owners on the stock market, a regulation has been proposed that would limit each fund's ownership of Swedish companies listed to a maximum of 2 percent of the market value of all such shares... It has been also proposed that a buffer fund may not acquire shares corresponding to more than 10 percent of the total number of votes in such companies... In order to facilitate sound risk diversification it is suggested that opportunities to invest in foreign assets should be expanded... In order to improve prospects for efficient management and evaluation it is proposed that at least 10 percent of the assets of each fund should be handled by external asset managers."

counted, the size of privately managed funded DC individual accounts would amount to about 11.8% contribution rate on earnings in Sweden. This means that the stable development of private pension market and capital market will be secured with the help of public and occupational pension reforms unimaginable in the prime time of the Swedish model.

Third, as financial deregulation proceeds, the share of equities and foreign assets in the total assets has been increasing significantly in the recent years. This is the case with the investment portfolio of labor market insurance companies. In the figure 12 about the investment portfolio of STP, the share of domestic bonds has fallen drastically in the 1990s, whereas the share of foreign assets such as foreign equities and bonds has increased relatively fast.

<Insert Figure 12 Here>

Lastly, as stated earlier, one of the driving forces in a series of pension reform in the 1990s was the gradual development of private pension insurance market since the mid 1980s in Sweden. In 1980, only 4 percent of persons aged from 18 to 64 utilized a tax deduction regarding private pension insurance, but this number has increased to 17 percent in 1990, 29 percent in 1997, and 35 percent in 1999 (Palmer 1999; Palmer 2001; Ministry of Health and Social Affairs 2002: 137). Especially, the introduction of unit-linked insurance in the 1990s has lead workers to the mass culture of investment on mutual funds. For example, fund saving via unit-linked savings was the dominant savings method in 2001. 37 percent of new savings were from this type, and 25 percent via premium pension(Swedish Mutual Fund Association 2002: 21)

The figure 13 is about the comparison of new premium income between unit-linked insurance and traditional life insurance, and the next figure shows the trend of the development of mutual funds in the 1990s. Unit-linked type insurance was beginning to outrun traditional life insurance only in several years since its introduction, and the asset of mutual funds has been

increasing even faster recently with the help of relatively low inflation after mid 1990s.

<Insert Figure 13 Here>

<Insert Figure 14 Here>

Another important thing to be noticed is about the distribution of financial assets because this problem is closely related to “Who owns and controls Swedish large corporations in terms of corporate governance?” The figure 15 clearly shows that the share of individual in the total equities for listed companies has dropped remarkably, whereas the share of foreign investors has increased faster in the 1990s than in the 1980s. It seems to be little change in the share of financial institutions in this figure, but this average value does not show the different developmental trends of subgroups.

<Insert Figure 15 Here>

The next figure suggests that the share of mutual funds and private insurance companies has been increasing, whereas that of investment companies has been in the opposite trend. This dramatic change is intimately linked with the change in the composition of household financial assets.

<Insert Figure 16 Here>

According to Huber and Stephens, more fully funding social insurance systems would have several beneficial results. First, they would help maintain middle-class support for the social democratic welfare state and would preserve its egalitarian outcomes. Second, they would make the social insurance systems more resilient to cuts in the fact of adverse economic developments. Third, funding the insurance systems would create public savings and thus sources of investment that would restore at least on element of the golden age supply side model. Lastly, they would facilitate wage restraint and thus help reinforce another element of the golden age model (Huber and Stephens 1998: 392-3).

However, these noticeable changes in the overall pension system imply that there will be little room for the governmental intervention in the credit supply and the overall investment process, as the size of financial assets managed by private institutional investors increases such as investment companies, mutual funds, and insurance companies. Consequently, it will be more difficult for the state to take supply side measures than before, and capital market-based financial system will be solidified along with this. What is more important problem is that the SAP and the capital have become different to the growth coalition and welfare coalition based on the old pension regime. In this sense, a key point will be whether labor unions are able to suggest convincingly a blue print for a new form of corporatist welfare state model.

As the next step, let's think about another implications of pension regime shift for the future welfare coalition as well as wealth and income redistribution.

First, as I addressed above, the growing influence of private insurance companies and mutual funds on large corporations is strongly related to the change in the composition of household financial assets. The figure 17 makes it to this point. While bank the proportion of deposit and bonds has declined since the mid 1980s, the share of equities and mutual fund equities, besides cash, has increased gradually but with some fluctuation.

<Insert Figure 17 Here>

The second point is about the considerably unequal distribution of equities for individuals. In the end of 2001, only 21.6 percent of the Swedish have equities, and its distribution is extremely positively skewed considering the data provided (Statistiska centralbyrån, 2002a). Therefore, we can say that individual ownership of equities has been concentrated on a few in spite of its overall decline and the increase in institutional ownership.

Then, how has the relative proportion of capital income and pension income in the total disposable income changed over time according to different income strata? This statistics would

show how much pension income as well as capital income is able to explain the change in wealth and income distribution. The table 8 shows the significant increase in the capital income for those who have higher income over time even though considering the tax reform in 1991 that is favorable to them.⁸

<Insert Table 7 Here>

However, what is more important is to investigate whether the income structure of middle income group is closer to that of higher income group or that of lower income group. If the income structure of middle income group were similar to that of higher income group, this might suggest that middle income group of people would not support the existing welfare coalition between them and those with lower income in the near future.

<Insert Table 8 Here>

In this respect, the figure 18 about household disposable income in 1999 indicates that the lower their income, the more dependent on pension-related income. The opposite is true, but the higher their income, the more dependent on capital income, which is especially obvious to highest income bracket. Even though there is a little difference within middle income group, their income structure is much closer to that of higher income group in terms of the relationships between working income and pension-related income.

<Insert Figure 18 Here>

Lastly, I focused on the different reliance on capital income by different income group over time. The next figure tells us about the change in the importance of capital income for each

⁸ It is important to remember that the changes in this table are partly due to the income groups varying in their composition across time. This may perhaps be seen most clearly in the case of pension-related income, which declines sharply in the low income group and increase among the 20 percent in the high income bracket. This is because more retired pensioners were included in the low income group, but less in the high income group in the sample for 1999(Ministry of Health and Social Affairs 2002: 144).

income group over time. Interestingly and surprisingly, the importance of capital income for the highest income bracket has increased about twice from the first two years to 2001. However, this figure also implies that the income structure for most of income brackets except the highest income group is closer to that for lower income groups in terms of capital income.

<Insert Figure 19 Here>

In sum, the Swedish middle income groups are still closer to lower income groups in terms of the dependence on capital income, but they are much closer to higher income groups in terms of the relationships between working income and pension-related income. Therefore, the current situation is not yet ripe to judge the demise of welfare coalition even though there have been growing conflicts between LO and other white-collar labor unions (TCO and SACO) in the process of public pension reform.⁹

In this situation, what results will a series of pension reform in the 1990s engender? Above all, the gradual deviation from solidarity could be found in the reinforcement of income-related principle and insurance principle which have been one of the foundation stones of middle class-based welfare states. Even though the popular support to public welfare in Sweden is still high and beneficiaries of the changing pension system are restricted within the very high income group until now, the accelerated shift to individualistic private pension-dominated regime alludes to the fact that the chasm will be wider in the near future between low income groups who are primarily dependent on public pensions and high income groups who are primarily dependent on private pensions as well as capital income.

7. Some Findings and their Significance

⁹ This kind of conflicts is not new, and they happened in the ATP debate in the past. For example, SIF (Swedish industry white-collar federation) that was the main current of TCO supported the third proposal submitted by the Conservative party and the Liberal party.

1) The debate on the introduction of the ATP scheme was a watershed in pension politics in Sweden that showed stakeholders' interests in pension reform could not be limited to the economic ones. There was a broad agreement amongst them on the issue that a new pension scheme should be based on the income-related principle, but that was not the case in regard to its financing and the control of funded capital.

The ATP system contributed to the development of the Swedish model in several aspects. First, it facilitated the flow of wealth from private sectors to public sectors by transforming the part of corporate profits into public savings, and initiated new middle classes primarily composed of white-collar workers in private sector into the political coalition between the SAP and the traditional working class. Second, the absorption of corporate profits into the AP funds and the credit supply by them reduced the possibility of the economic growth based on high profits and capital concentration through self-financing, and thereby supported supply side interventions to macro economic problems.

In addition to the direct contributions mentioned above, with the introduction of ATP savings as a momentum occupational pension schemes were converted into only four negotiated pension schemes organized by major sectors. The regulation of occupational pension benefits under the central collective bargaining made the character of pension as a kind of incentive or gratification pay weaker and more exceptional and the character as kind of deferred wage stronger and more prevalent. Four negotiated pension schemes in Sweden covered almost all of workers and employees, and none of them was not fully funded according to the actuarial principle whereas occupational pension funds are usually connected to the development of private insurance markets in any other countries. Even partially funded pension capital in private sector was managed by insurance companies that had been established jointly by labor unions and their

employers. Because of the aforementioned features, the occupational pension schemes in Sweden did not give rise to the serious inequality of income, rather reducing the competition for wage increase, on the one hand. They contributed to the maintenance of the regulated financial system, on the other hand.

Furthermore, workers' dependency on private pensions has diminished since the introduction of the ATP savings. As a result, the private pensions' share in the total retirement income has been continued at very low level, and the development of the Swedish private pension insurance market has been also retarded until about the 1980s. In addition, private insurance companies have had a hard time of taking the initiative in the securitization of financial markets because the Swedish central bank tried to regulate the activities of private insurance companies (e.g. loans and portfolio composition)

2) However, there remained still a susceptibility of the Swedish welfare coalition and growth coalition. Above all, the tight coupling of social policy and economic policy mediated by solidaristic public pension-dominated pension system became highly demanding to the government as well as two other parties with time goes on. On the one hand, welfare coalition was temporarily stable because the ATP scheme was to be transformed into an extended basic pension and the different benefit structure of occupational pension schemes was more favorable to white-collar workers in private sector. On the other hand, the AP funds were exposed to some legal-institutional limits in terms of the control of private investment and the allocation of capital.

Sweden facing the economic crisis in mid 1970s, these limitations of the ATP system came to be disclosed more clearly than before. The AP funds' share in credit supply was beginning to fall drastically as the Swedish business preferred equity capital or self-financing to borrowed capital from those funds. The deregulation of financial capital and the change in the dominant faction in

the business world aggravated this situation. Especially, the third way implemented by the SAP in the 1980s did considerable and incurable harms to some critical features of the Swedish model like the supply side intervention in macro economy by supporting market-based financial system and high profit-driven economic development.

In terms of welfare coalition, both growing uncertainty of productive investment based on growth coalition and the profit-led economic recovery in the 1980s stimulated workers' demand for higher wages, and thereby the organized labor could not follow the trade-off strategy that workers endures repeated wage restraint in the hope of productive investment and another kind of compensation policy. The dominant faction of the Swedish capital was beginning to request the abolition of the centralized wage bargaining process and to stress the need of wage flexibilization, judging that solidaristic wage policy would not be helpful to wage restraint any longer. Coupled with the diffusion of wage drift, the decentralization of collective bargaining structure and the change in production strategies, the LO was beginning to lose the ability to adjust pension benefits, and thereby occupational pension was expected to be regarded as kind of remuneration attracting skilled workers and something to achieve higher returns on investment rather than standardized deferred wage.

The private pensions' share in total retirement incomes was beginning to increase gradually, as the relative high income group had been more interested in private pensions since the mid 1980s. Above all, the principle of unit-linked insurance introduced in the early 1990s took the lead in the structural change of the whole pension system in the sense that it was successfully inserted into the first layer and the second layer. In the past the first layer, i.e. the ATP scheme, as a standard led the changes in other two layers, i.e. occupational pension schemes and private pension schemes, whereas the development of private pension and insurance market in the third layer has been inducing some fundamental changes in the first layer and the second layer.

In the case of new negotiated pension schemes, workers themselves can decide where and how to invest, which means that they should be responsible for their own choice. Funded premium pension - private fund managers would be in charge of its management – clearly shows the introduction of that principle as well. This kind of partial privatization of ‘public’ pension was a quite exceptional policy for advanced welfare states like Sweden because she had been thinking highly of the socialization of income and the regulated financial system. Rather, during the process of public pension reform in 1990s, in contrast to the ATP debate in the 1950s, no one except the Left party and some of labor unions within the LO paid enough attention to the issues such as the control of capital by using pension funds and the power shift in the credit market the partial privatization of the public pension scheme could trigger.

(Insert Table 9 Here)

3) Based on what I said until now, I would like to give some comments contrasting to most of relevant researches on the overall change in the Swedish pension system. First, although there is guaranteed pension, the earnings-related principle has been attached more importance to in the new system than before. Second, the pith of the Swedish public pension reform was to incorporate privately managed funded DC individual accounts into the first pillar rather than the introduction of nominal defined contribution system with the reference to the history of pension politics. Third, we should focus on the trend of the whole pension system, not narrowly on public pension schemes. (See the table 9) In spite of the fact that nominal defined contribution system is liable to resist economic and demographical changes, the Swedish pension system might be more susceptible to market fluctuation than before in the sense that two layers are engaged in unit-link insurance legally.¹⁰ Fourth, the gradual change in the process of corporatist

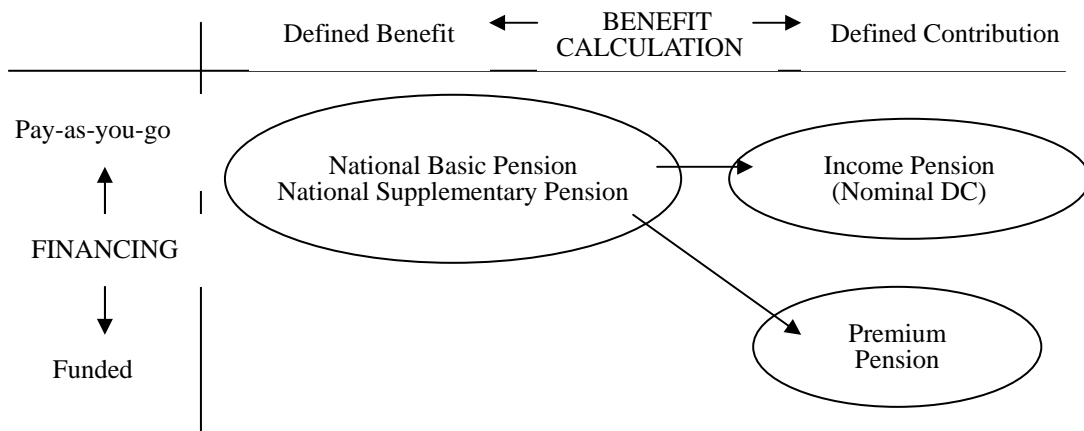
¹⁰ The Swedish private fund market, with its high percentage of equity funds (about 60% at the end of 2001), was hit hard by the negative stock market trend during 2001 (Swedish Mutual

policymaking, the political climate, and the political alliance among parties and labor unions (e.g. weakened affiliation between the SAP and the LO, the exclusions of unions and business leaders from the working group, SAP's turning to the right, and the growing conflict between LO and other white-collar unions such as TCO and SACO)¹¹ should not be ignored behind harmonious consensus in terms of the politics of consensus. Lastly, the recent pension reform give rise to an enormous transfer of economic power from society as a whole to special interests such as private insurance companies, mutual funds, and thereby stimulates the financialization of the Swedish capital and the flow of capital out of Sweden.

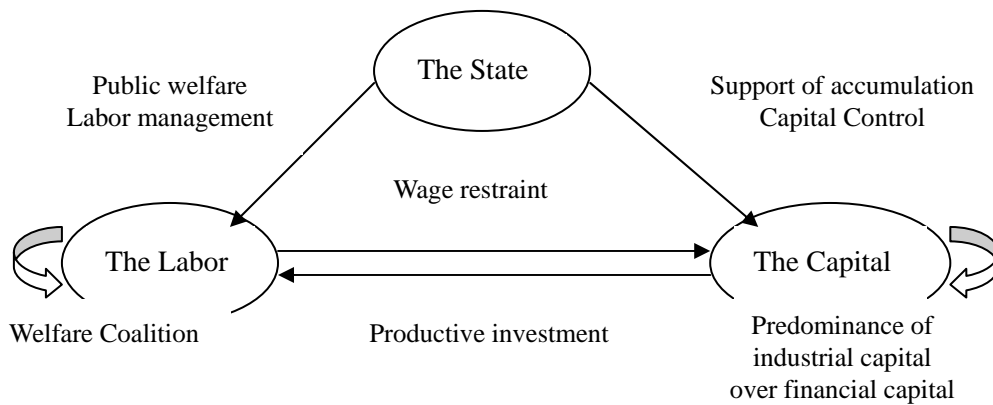
Fund Association 2002). Moreover, “Due to the negative development on the stock market, the shares, other equities and mutual funds owned by the social security sector (AP, or The Swedish National Pension Fund, and PPM, or Premium Pension Authorities) declined in value from SEK 362 billion to SEK 310 billion during the quarter. Since 1 January 2002, the sector’s share-related assets have fallen by SEK 159 billion in total.” (Statistiska centralbyrån 2003a) Like this, if asset deflation or the returns on the investment in equities happened, this situation would make the Swedish pay for the price of the recent pension system privatization.

¹¹ Some critics from within the SAP were proposed at the extra party congress in 1996. About this, see Palme(1997). Hagberg and Wohlner(2002) mentioned some problems not to be overlooked with the reform process. About the approach of the Left party to economic democracy, see Vänsterpartiet (2001). About some changing political lines of the SAP, see Socialdemokraterna(2001).

<Figure 1> Changes in benefit calculation and financing principle in public pension plans



<Figure 2> Relationships between growth coalition and welfare coalition



<Table 1> Pension Regimes and Welfare State Models

Pension Regime	Solidaristic	Individualistic
	Public pension-dominated (e.g. Sweden)	Private pension-dominated (e.g. UK)
a. Proportion of each layer	Public pension dominated	Private pension dominated
b. Regulation of portfolio	Strong	Weak
c. Household financial assets	More bank deposits	More equities
d. Pension funds	More bonds	More equities
e. Labor union's participation	Political inclusion	Political exclusion
f. Financing	PAYG	Funded
g. Benefit Calculation	Defined Benefit (DB)	Defined Contribution (DC)
h. Share in corporate financing	High	Low
i. Occupational scheme structure	Centralized(United)	Decentralized(Fragmented)

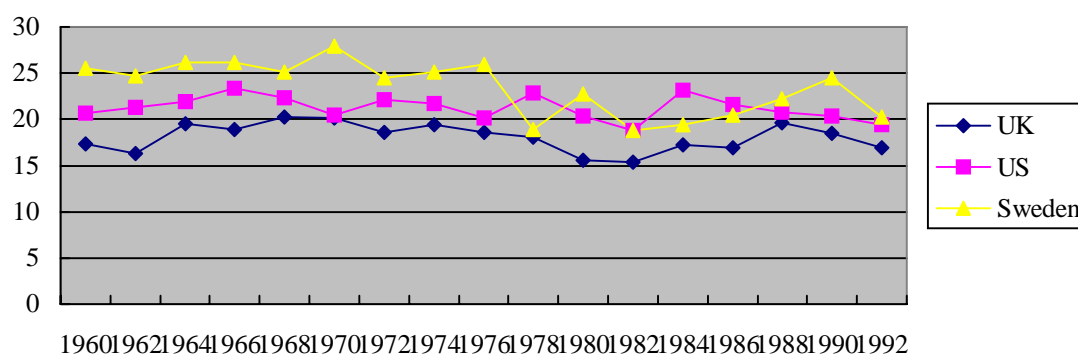
Welfare State Model	Corporatist Welfare States (e.g. Sweden)	Pluralist Welfare States (e.g. UK)
a. Regulation of macro economy	Demand side + Supply side	Demand side
b. Capital regulation	Strong	Weak
c. Financial system	Credit-based	Capital-based
d. Economic and social policy	Tight coupling	Loose coupling
e. Growth coalition	Stable	Unstable
f. Welfare coalition	Strong	Weak
g. Degree of corporatism	High	Low
h. Labor union's strategy	Long-term and nonsectoral	Short-term and sectoral
i. Collective bargaining structure	Centralized	Decentralized

<Table 2> Credit supply to the organized capital market (net flow, %)

	1951-55	1956-60	1961-65	1966-70
Central Bank	5.1	9.7	0.7	7.5
Commercial Bank	19.4	26.6	28.2	22.4
Other kinds of Bank	33.1	31.5	29.7	22.8
Private Insurance	26.4	23.1	12.3	10.0
Public Insurance	1.0	2.7	22.7	31.4
Others	15.0	6.4	6.4	5.9

Source: Lindbeck(1975: 216)

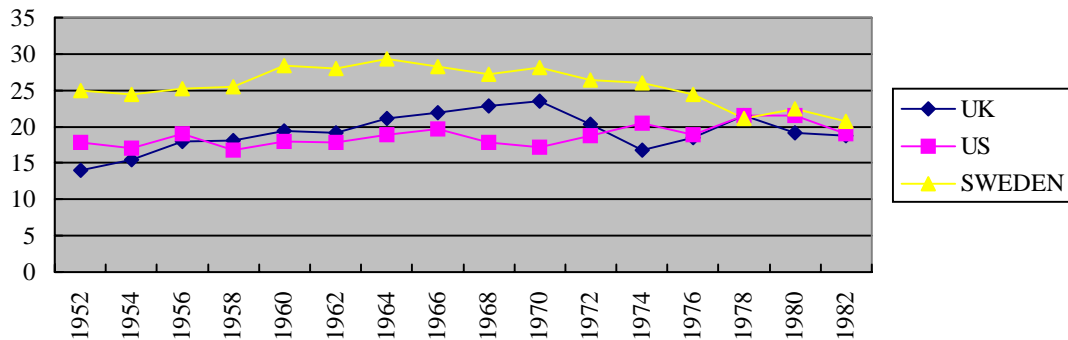
<Figure 3> Comparison of real gross domestic investment share in real GDP



Source: Comparative Welfare States Data Set

Footnote: From 1960 to 1975 mean(25.5), standard deviation(1.11) for Sweden; 18.8, 1.43 for UK; 21.7, 1.26 for US. From 1976 to 1992 mean(21.4), std(2.23) for Sweden; 17.4, 1.54 for UK; 21.0, 1.32 for US. Notice the standard deviation as an indicator of investment fluctuation.

<Figure 4> Comparison of current savings

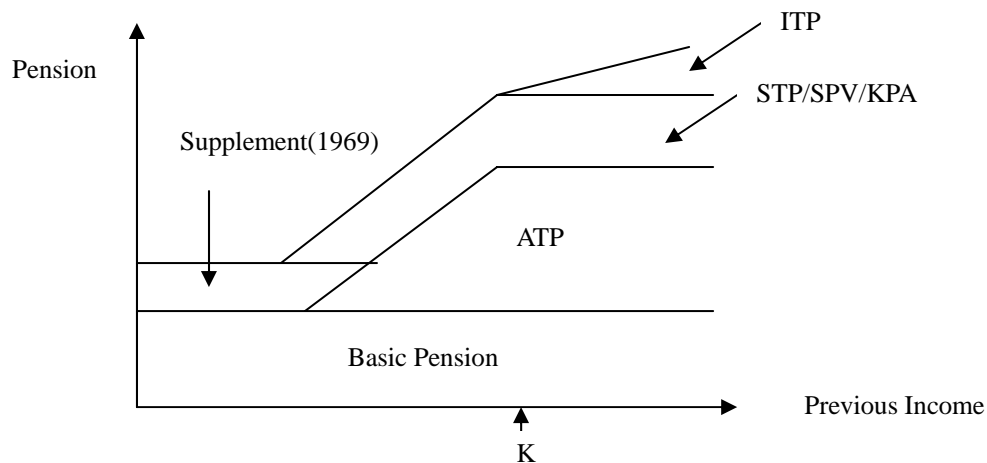


Source: The Penn World Table

<Table 3> Benefit calculation and financing principle in occupational pension plans

Sector	White-collar (ITP)	Blue-collar (STP)	Central Gov. (SPV)	Local Gov. (KPA)
Benefit Calculation	Defined Benefit	Defined Benefit	Defined Benefit	Defined Benefit
Financing	Premium reserve	Partial funded	PAYG	PAYG

<Figure 5> Structure of pension benefits



Source: I modified the figure in Kangas and Palme(1996: 220)

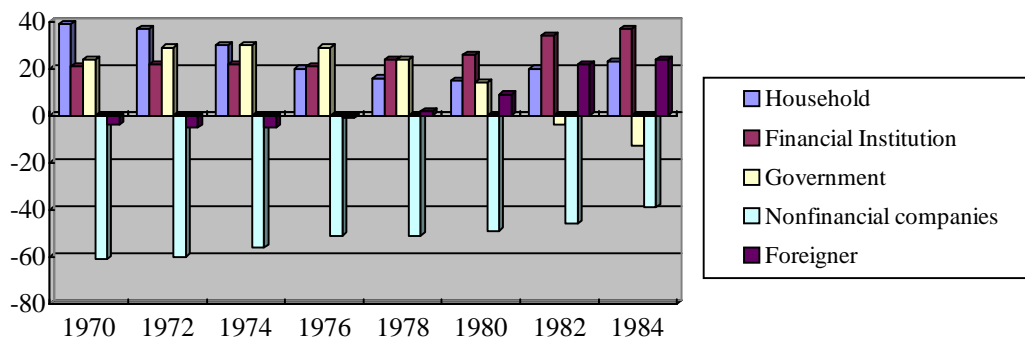
Footnote: Strictly speaking, this figure is relevant from 1971 to 1992. Before 1971, there would be no occupational pension schemes for blue-collar workers in private sectors because all of existing schemes were abolished around the year when the ATP scheme was introduced. The line for SPV will be no longer parallel with the line for ATP because the role of negotiated pension schemes for workers in central government organizations was changed into the compensation for the level of public pension benefit to some extent, regardless of the overall level of benefits after 1992.

<Table 4> Organization and unity of capital in Sweden

Criteria	Liberalism (1820~1932)	Social Democratic Keynesianism (1932~1976)	After crisis (1976~)
Dominant faction	Domestic sector	Domestic sector	Export Sector
Financial system	Bank-based	Bank-based, state-dominated	Bank-based, state's domination enfeebled
Capital concentration	Relatively low	Merge wave (1960's~70's)	Continuously increasing
Capital internationalization	Relatively low	Increasing since 1950's	Continuously increasing
Orientation	Organizing SAF (1902), functional	Controlled by domestic sector, functional	Controlled by export sector, overt political orientation

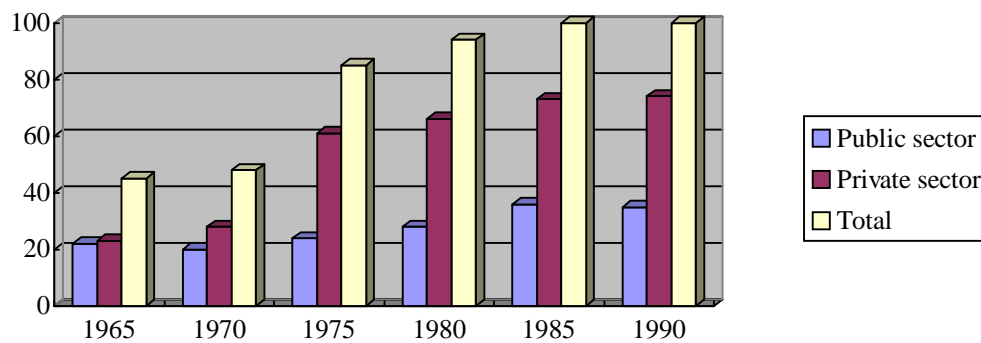
Source: I modified Olsen(1992: 85)

<Figure 6> Structure of Financial Net Wealth



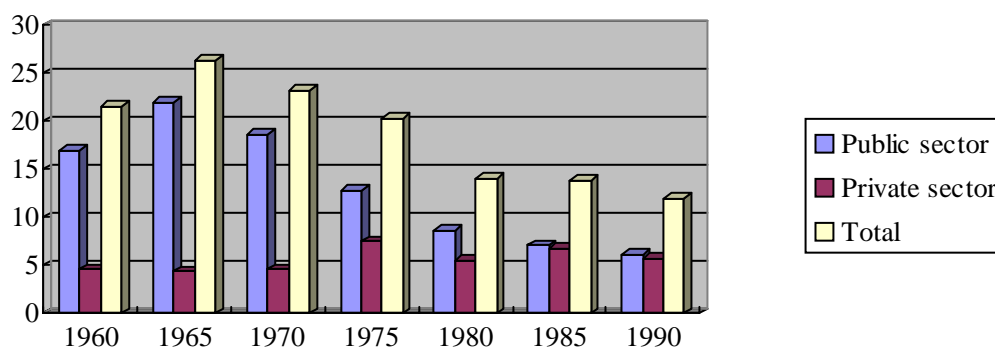
Source: OECD (1986/1987: 46)

<Figure 7> Change in the coverage of occupational pension schemes



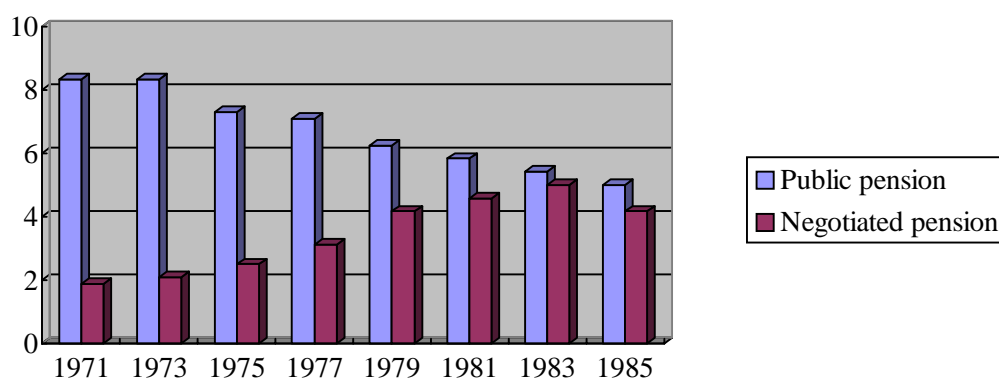
Source: I calculated from the table in Kangas and Palme (1996: 223)

<Figure 8> Occupational pension share in total pension expenditures



Source: I calculated from the table in Kangas and Palme (!996: 223)

<Figure 9> Public pension share and occupational pension share in disposable income



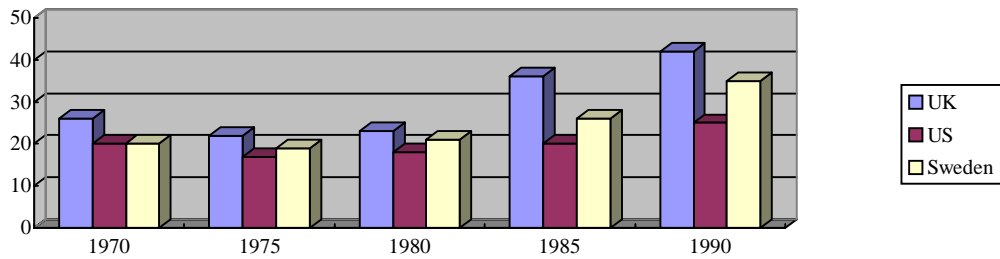
Source: I calculated from OECD (1988/1989: 41)

<Table 5> Fund strength and AP funds' size

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Fund Strength	8.6	7.7	7.4	6.8	6.7	6.3	6.0	5.9	5.7	5.5
Contribution-Expenditure (MSEK)	16,682	18,498	19,164	21,130	22,670	21,255	21,075	27,478	29,952	34,394
Fund Size(MSEK)	164,994	183,492	202,656	222,786	245,356	266,611	292,686	320,064	350,016	384,410

Source: I modified NSIB(1990: 45)

<Figure 10> Comparison of life insurance assets

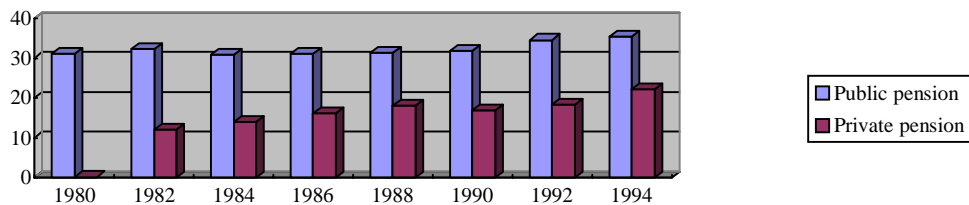


Source: I calculated from Davis (1995: 55-6)

<Table 6> Changes in benefit calculation and financing principle of occupational pension plans

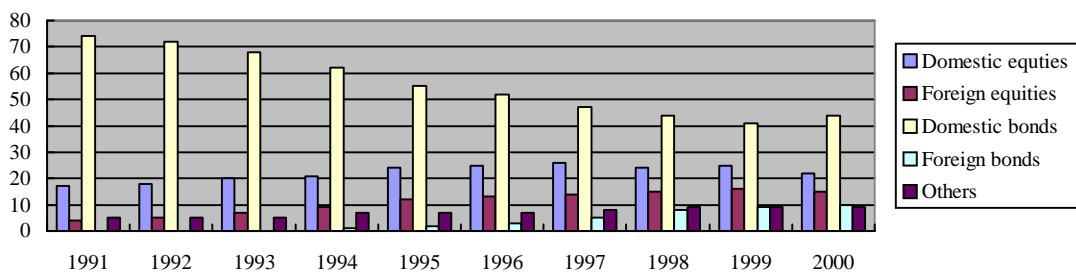
Sector	White-collar (ITP)	Blue-collar (STP)	Central Gov. (SPV)	Local Gov. (KPA)
Benefit Calculation	DB→ Introduction of DC component	DB→DC	DB→ Introduction of DC component	DB→DC
Financing	Premium reserve→ Continue	Partial funded→ Premium reserve	PAYG→ Continue	PAYG→ Premium reserve

<Figure 11> Comparison of AP fund assets and occupational fund assets



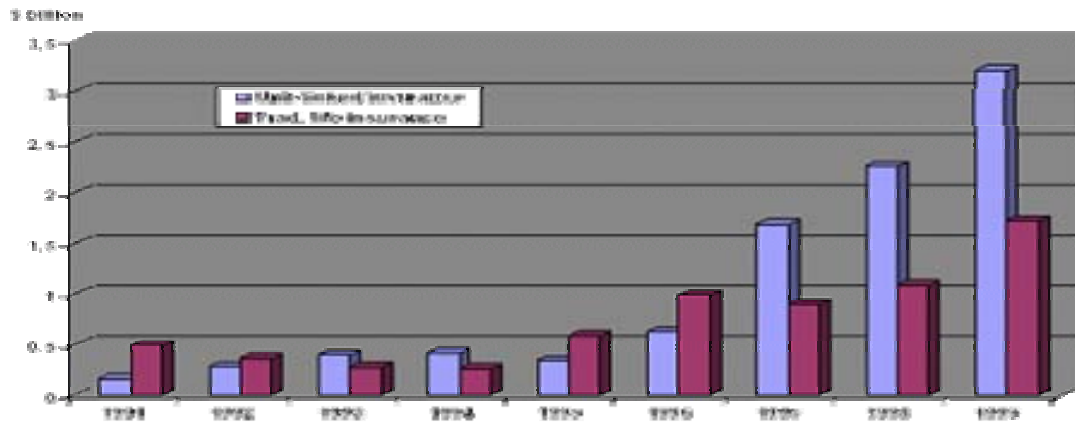
Source: I modified Wadensjö(1997: 298)

<Figure 12> Portfolio composition of occupational pension funds for white-collar workers (ITP)



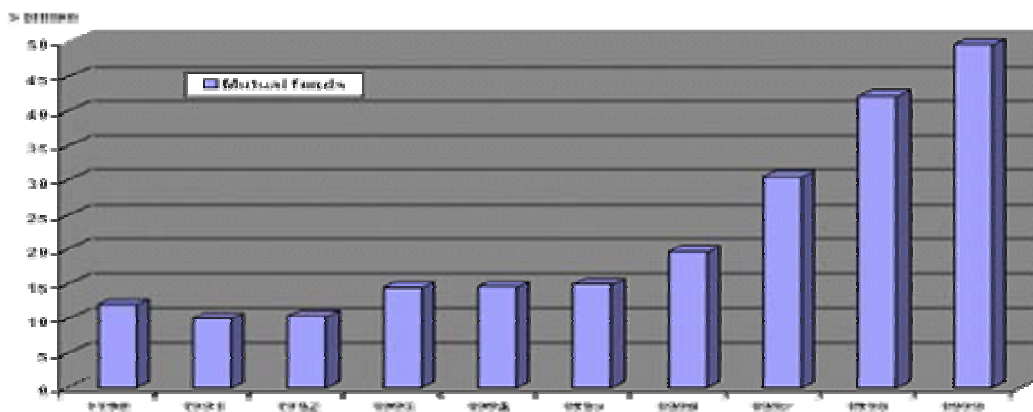
Source: I modified the figure in UBS Asset Management(2001)

<Figure 13> New premiums of unit-linked companies vs. traditional life insurance in Sweden



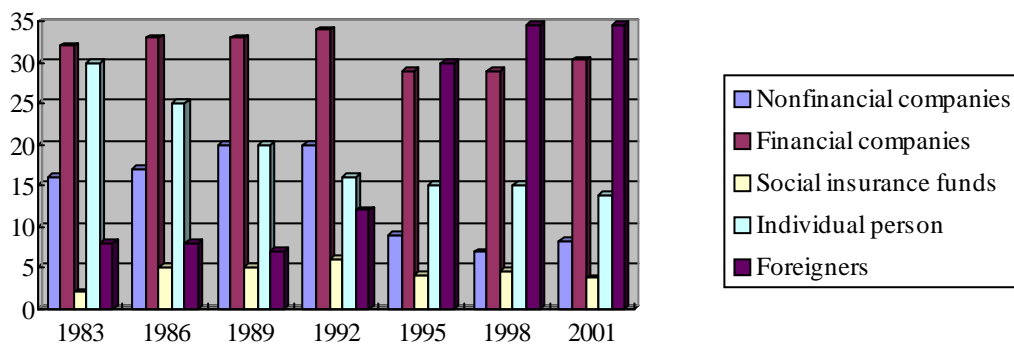
Source: The figure 3 in Symreng(2000)

<Figure 14> Growth of mutual funds in Sweden



Source: The figure 2 in Symreng(2000)

<Figure 15> Ownership of quoted shares in Sweden



Source: I calculated from the table 30 in OECD(1997: 168) and Statistiska centralbyrån(2002a)

