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PUBLIC OR PRIVATE PENSIONS?

Pensions and pension politics in the Nordic countries

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Abstract

The pension structures of the Nordic countries are often described as statist structures. Generous public pensions are supposedly crowding out private pension alternatives (including occupational pensions). It is argued that these systems unite the pension-political interests of workers and marginal groups resulting in stable "pension regimes".

This paper questions these statements. It argues that old political tensions are "built into" the institutional designs of the Nordic pension systems. There is a general tendency away from flat-rate "universal" pension arrangements toward dual systems in which the working population receives earnings-related pensions and the non-working (marginal groups) receive means-tested benefits. This development fits in with Gordons (1988) hypothesis that a convergence process is taking place in industrialized countries toward "two-tier" systems.

High tax levels, gloomy demographic forecasts and increased competition at the world market have led the Nordic countries to consider cutbacks in their public pension systems. Tax subsidies to occupational and individual pension plans have also been cut back, partly to increase government revenue and partly to create increased competition in the markets for different types of financial assets. Recent changes in regulation policies also aims at creating increased competition in the private pension sector. If this trend prevails, a larger and more diversified private pension sector is likely to emerge in the Nordic countries in the future.

PART 1: THE RISE OF PUBLIC PENSIONS

1. From means-tested to flat-rate minimum pensions

Across Europe two basic questions have dominated (and to some extent still dominate) the pension-political debate. 1) Should public pensions be based on an insurance principle ("to everybody according to their merit") or on a taxation principle ("to everybody according to their need")? 2) Should public pensions be reserved for some segments of the population (notably industrial workers) or should every citizen be a member? The first German pension system was reserved for industrial workers only (Alber 1987). By contrast, the first British scheme made every citizen a potential recipient of public pension

benefits. The Nordic countries (unlike most countries on the European continent) made the same choice as Britain. They did however differ in their attitude toward the insurance principle. The first Danish system (1891) consisted solely of tax-financed means-tested benefits (Vesterø-Jensen 1985 p 41). The first Finnish system (1937) by contrast relied on a "people's insurance principle" linking benefits to contributions (Kangas 1988 p 16). Sweden (1913) and Norway (1936) choose the middle road combining "people's insurance" with tax financed means-tested supplements (Rasmussen 1985 p 20, Hatland 1984 p 54)¹

In the course of time the Nordic pension systems converged. The insurance principle was gradually abolished. Tax-financed means-tested pensions became dominant². After the war means-testing was gradually softened and was finally replaced by a system of tax-financed flat-rate pensions ("basic pensions"). Sweden pioneered (1948) followed by Norway (1956) Finland (1957) and Denmark (1970).

Proponents of tax-financed public pensions defeated those who wanted an insurance-based minimum pension system. However, the debate reemerged as the demand for earnings-related pensions hit the political agenda during the 1950s. Three of the four Nordic countries (Sweden, Finland and Norway) choose to introduce earnings-related pensions. Again, Sweden pioneered (1959) followed by Finland (1960) and Norway (1966). By introducing earnings-related public pensions these Nordic countries have moved back toward an insurance-based public pension system³.

Occupational pensions were widespread before the introduction of earnings-related public pensions, especially in the public sector and among salaried

¹ In the Norwegian case it can be argued that the pension system only paid lip service to the insurance principle. An earmarked tax financed the pension benefits but no attempt was made to forge a link between contributions and the benefit amount (Hatland *ibid.*). It is interesting to note that already at this early stage in the pension-political process Denmark and Finland emerged as polar opposites with Sweden and Norway in between.

² Means-tested supplements were made more generous and the link between contributions and benefits were broken, converting contributions into earmarked taxes.

³ However, an earnings-related pension system is not necessarily financed through contributions any more than a minimum pension system is necessarily financed through taxes. The Finnish earnings-related pension system is financed through contributions only while the Norwegian system to an ever larger extent is financed through general taxes. Thus the conflict between proponents of contribution-financed and tax-financed public pensions do exist also within an earnings-related pension structure.

staff. Occupational pensions continue to play an important part in the Danish, Swedish and Norwegian pension regimes and their importance is probably increasing.

2. Occupational pensions fuelled the demand for earnings-related pensions

Employees with access to occupational pensions have no immediate self-interest in supporting a demand for similar schemes for other employees. Thus a large occupational pension sector might reduce the chances of getting sufficient political support to introduce public earnings-related pensions. However, a different situational logic is also at work: Occupational schemes may serve as points of reference for other occupational groups, showing them "the promised land". If occupational pensions become more widespread, and if membership is limited to some employees in each company, an ever larger segment of the working population will be confronted with the gap between their pension level and the pension level of their more fortunate colleagues/comrades.

Central government civil servants were among the first to get access to occupational pensions⁴. The pension level was set at approximately 2/3 of final salary provided a service record of at least 30 years. This pension level served as a point of reference for other occupational groups. The demand for similar occupational pensions spread to local government civil servants and to salaried staff in the private sector. As larger segments of white collar employees got access to occupational pensions, the demand spread even further to manual workers. After the war the unions of blue-collar workers in all the Nordic countries began demanding equal pensions for white-collar and blue-collar workers (Heclo 1974 p 233, Vesterø-Jensen 1985 p 117, Pedersen 1991 p 51-55, Kangas 1988 p 32)⁵.

The demand for earnings-related pensions resemble a diffusion process. Civil servants were the first to receive earnings-related pensions and the demand spread like circles in the water to ever larger segments of the work force.

⁴The origins of these pension schemes dates back to days even prior to the formation of the present Nordic nation states (to the days of the Swedo-Finnish and Dano-Norwegian kingdoms). In the beginning of the 20th century these pension arrangements were codified through legislation following the introduction of formal retirement ages. Sweden pioneered (1907) followed by Norway (1917) Denmark (1919) and Finland (1926).

⁵ Parallell to this development the demand spread from full-time to part-time employees and from permanently to temporarily employed personnel inside each segment of the labor market.

Reference group theory may explain the social mechanism behind this process. People have a drive to evaluate their outcomes or rewards. To accomplish this evaluation they select others similar in "inputs" (defined as the contributions an individual brings to the job). The greater the (perceived) similarity in inputs and the greater the (perceived) difference in "input/output" ratio, the greater the urge to reduce it⁶. Local government civil servants soon demanded pensions arrangements similar to those of central government civil servants⁷. As these employees gained access to occupational pensions, the demand spread further to groups less inclined to compare themselves directly with central government civil servants. In the end almost the whole work force had internalized the pension level of central government civil servants as a "natural" point of reference.

2. The trade unions and the demand for earnings-related pensions

The trade unions could pursue the demand for earnings-related pensions through collective bargaining or by lobbying for public pension schemes. It is sometimes regarded as self-evident that trade unions prefer public welfare solutions rather than solutions pursued through private channels (cf. Korpi 1981). Political solutions have some obvious advantages from a trade union point of view, the most important being that public arrangements shift the costs from those without coverage to the employers or taxpayers in general (if the schemes are financed through taxes or employer's contributions)⁸. By contrast, in a collective bargaining-situation the employers will normally demand wage restraint or other concessions in order to agree to set up occupational pensions. However, this need not be a sufficient reason for trade unions to prefer public earnings-related pensions. Unions organizing low-paid workers might choose to lobby for higher minimum pensions rather than earnings-related pensions. Besides, strong unions might choose to use their bargaining power to negotiate a pension settlement with their employers rather

⁶ This prediction is taken from Goodman (1977) and refers to Leon Festinger's dissonance theory.

⁷ Actually, many local government employees were included in the central government scheme. This fuelled the demand from the remaining groups of local government employees to have similar schemes of their own. Cf. Thulin 1945, Michanek-Åström 1959, Vesterø-Jensen 1985, Bastiansen 1988.

⁸ From an economic point of view it is necessary to take into consideration the possibility of cost-shifting through the elasticities of supply and demand in different markets. From a political perspective this objection is of limited importance. Not actual costs but perceived costs matter in the political decision-making process.

than to pursue a time-consuming and uncertain political strategy together with weaker unions. There must be some degree of cohesion in a trade union movement in order to pursue a common strategy. The unions must be willing to submit to the decisions made by the central level of the Confederation. Even if the central level in the Confederation is strong it might prefer a bargained solution if the employers can be persuaded to keep unorganized workers out of the scheme. Last but not least the strategies pursued by the trade unions will of course depend on how likely it is that an attempted political solution will in fact succeed.

Sweden probably has the most coherent trade union movement in Norden (cf. Rasmussen 1985 p 37). The Swedish Confederation of trade unions demanded public earnings-related pensions as early as in the 1940s⁹. The trade union movement had strong ties to the Social Democratic party and the Social Democrats was by then the ruling party, thus a public solution seemed within reach¹⁰.

In Finland the diffusion of occupational pensions had been more limited than in Sweden. Occupational pensions were rare outside the public sector. Thus in Finland the Confederation of white collar workers was the first to demand public earnings-related pensions but it was soon followed by the Confederation of blue-collar workers (Kangas 1988 p 67).

While the Swedish and Finnish unions demanded public solutions at an early stage, the Norwegian and Danish unions were originally more inclined to follow a collective bargaining-strategy. In 1960 the Norwegian Confederation of Trade Unions (LO) reached an agreement with the employers to set up an occupation pension scheme (FTP) covering all employees in the private sector. The scheme only provided flat-rate benefits. The Danes introduced a similar scheme in 1964 although problems in reaching a final agreement prompted the Social Democratic government to implement the scheme through legislative measures.

If membership in occupational pensions is limited to organized workers,

⁹ Even the Swedish confederation had some initial problems with keeping the Construction and Metal Worker's unions in line with the other unions (Molin 1965 p 15-16).

¹⁰ Still, the Swedish Confederation also entered preliminary negotiations with the employers in the 1940s (Molin 1965). This might indicate that different opinions persisted inside the trade union movement, or it might have been a deliberate attempt in this early stage of the process to pursue parallel strategies.

unorganized workers are provided with a strong selective incentive to join unions. However, neither Norwegian nor Danish LO succeeded in denying unorganized workers access to the negotiated pension scheme. The employers were unwilling to give in to this demand. Neither did the schemes provide the workers with pensions as generous as the occupational schemes enjoyed by salaried staff. In the following years the unions became more interested in a political solution¹¹.

3. The political parties and the demand for earnings-related pensions

The primary responsibility of an interest organization is to take care of the economic interests of its members. A political party has a more diverse task. Its aim is to win an election and in order to do so it usually needs the votes of a more diversified group than members of specific interest organizations. Although institutional links often exist - e.g. between trade unions and the Social Democratic parties - it cannot be taken for granted that a political party will always adopt the pet programs of the interest organizations it is associated with.

The Nordic left parties responded to the demand for earnings-related public pensions in different ways. Some argued that such pensions would create equality between blue-collar and white-collar workers and/or that "income maintenance" was a more adequate pension-political goal than minimum protection. Others argued that public pensions ought to counteract the inequalities created at the market place rather than to preserve them. They wanted to stick to flat-rate or means-tested minimum pensions. Two different concepts of "equality" collided: Equality between blue and white collar workers versus equality between citizens regardless of labor market performance¹².

¹¹ Norwegian LO made an (unsuccessful) attempt to get the Parliament to conduct a committee report on the question of public earnings-related pensions before they started negotiations with the employers (Pedersen 1990). Confederations of trade unions are not monolithic organizations and different opinions no doubt existed - and continue to exist - within the Confederations. This may to some extent have led to the pursuing of parallel strategies. This makes it difficult to reconstruct an exact chronology of positions taken by the trade unions at different points in time.

¹² Occupational pensions covering white-collar employees were as a general rule not introduced through collective bargaining. In the public sector these schemes were even introduced through legislation. This made it possible to interpret these schemes as privileges given to salaried staff rather than deferred wages. To fight privileges and give everybody equal rights are clearly political issues while finding the optimal balance between regular

Different points of view were also voiced from the other side of the left-right divide. Some argued that the state should limit itself to serve those who were unable to buy private insurance ("bad risks"). Thus flat-rate or means-tested minimum pensions were to be preferred. On the other hand, it is easier to forge a link between taxes/contributions and benefits in an earnings-related pension system ("to everybody according to his/her merit"). Besides, earnings-related pensions preserve status differentials and thus enhances the stability of the social order.

Figure 1	Minimum pensions only	Earnings-related pensions
Left	Pensions should counteract inequalities created in the labor market	Pensions should create equality between blue & white collar workers
Right	Pensions should be reserved for "bad risks"	Pensions should preserve status differentials

The Social Democrats ended up supporting the demand for earnings-related pensions, although in Denmark the internal opposition was strong enough to prevent the Social Democratic government from actually putting a proposal up for voting (Vesterø-Jensen 1985 p 143). The Communist parties opposed the demand for earnings-related pensions in all the Nordic countries except in Sweden¹³.

The Swedish non-Socialist parties opposed the proposal set fourth by the Social Democrats but they were unable to agree on an alternative proposal. In the end the proposal was passed in 1959 by a one-vote majority. In Finland the Conservative party supported the demand for earnings-related pensions but the powerful Agrarian party (which controlled the government) originally opposed the idea (Kangas 1988 p 36). However, the Agrarians later changed their minds and the proposal was passed in 1960 by a "broad coalition". In Norway two small center parties (the liberals and the "Christian People's Party") supported the demand for public earnings-related pensions even before the

wage and deffered wage is more likely to be regarded as belonging to the collective bargaining-arena. Thus the lack of institutional links between occupational pensions and wage negotiations helped those who wanted to politicize the pension issue.

¹³ By the time the pension issue hit the political agenda (late 1950s) the Communist parties vere small and marginalized in all the Nordic countries except in Finland.

Social Democrats had made up their minds. The Conservatives and Agrarians opposed the idea but later accepted it. The non-Socialist parties won the Parliamentary majority in the 1965 election and the resulting non-Socialist coalition government introduced Swedish-style earnings-related pensions in 1966. In Denmark some conservative delegates inspired by the Swedish example suggested to introduce a similar pension system in Denmark (Nelson 1984 p 70). However, when the Social Democratic minority government finally did a half-hearted attempt to pursue the issue the non-Socialist parties decided to oppose it.

The different and sometimes changing opinions expressed by the parties not only reveal the lack of clear ideological guidelines, they also reflect differences in the economic interests of their voters. As Molin (1965 p 187) points out, earnings-related pensions were in the economic interest of high income earners (who tended to vote conservative) while many low-income earners (who traditionally voted for the Social Democrats, Communists or Agrarians) would be better served by increases in the minimum pension¹⁴.

How can the differences in the attitudes of the parties be accounted for? Why did the non-Socialist parties unite against the proposal in Sweden and Denmark while their Norwegian and Finnish sister parties ended up supporting earnings-related schemes? Not the pension issue itself but how the scheme was to be financed turned out to be the major controversy in the Nordic countries.

The Swedish Social Democrats linked the proposal to introduce a legislated earnings-related pension scheme (ATP) to a proposal to create large government-controlled pension funds. This invoked the ghost of "pension fund socialism" and united the non-Socialist parties against the proposal.

When the Danish Social Democrats decided to support the demand for an earnings-related pension scheme one of their motives (and one of the reasons why the adherents of earnings-related public pensions were able to carry the day within the party) was precisely the argument that the pension issue could be used as a vehicle to increase the government's control of capital. This united the non-Socialist parties in Denmark against the proposal in the same fashion as in Sweden. Because of the opposition not only from the non-Socialist parties but from the small parties to the left of the Social Democrats as well, coupled with persistent opposition from within the party,

¹⁴ A survey conducted in Norway in November 1990 show that the attitude toward earnings-related pension cuts across the left-right dimension also at the mass level (Øverbye 1992).

the Social Democratic minority government in the end abstained from putting forward a formal proposal to introduce earnings-related pensions.

The Finnish employer's organization was advised by their Swedish sister organization not to oppose earnings-related pensions but rather to channel the demand into schemes that the employers felt more comfortable with than a Swedish-style solution (Pentikainen 1987 p 27). The employers declared that they were willing to accept earnings-related pension schemes if the administration of the pension funds were decentralized and in the hand of private financial institutions. The trade unions accepted this idea¹⁵. The conservative party had few problems accepting the idea as long as the control of the pension funds would stay in private hands. The Agrarian government finally accepted the idea when the Social Democrats suggested to introduce a pension scheme for seasonal and part-time workers (LEL) alongside the main pension plan (TEL). The end result was the introduction of earnings-related pensions in 1960. However, although membership is compulsory the government is not formally responsible for the payment of benefits. The schemes may in principle go broke. For this reason they must be regarded as semi-public rather than fully developed public systems. (The National Accounting system actually categorizes the Finnish private sector superannuation schemes as private pensions.)

Initially, influential members of the Norwegian Social Democratic party were reluctant to adopt the policy of its Swedish sister party¹⁶. Nonetheless, in 1962 a government appointed committee was appointed to work out a proposal for a Norwegian earnings-related pension scheme (Pedersen 1991). Before the committee had finished its work a mining accident in a state-owned pit in 1963 suddenly changed the pension debate. The accident caused the downfall of the

¹⁵ The Finnish left was split between the Social Democrats and the Communists (who opposed earnings-related pensions) and the trade unions had little reason to believe that they could get earnings-related pensions implemented unless they gave this concession to the employers. Actually, they were not that interested in large public pension funds in the first place. The National Pension Institute (which controlled the funds for the minimum pension scheme) was lead by the leader of the Agrarian party. Larger pension funds controlled by the National Pension Institute was likely to imply larger investments in the rural parts of Finland benefitting farmers rather than workers (Kangas 1988 p 34).

¹⁶ After the introduction of the collectively-bargained FTP scheme in 1960 the leader of the Social Democratic Party (Gerhardsen) officially stated: "There is no reason to follow the Swedish example if we can find a solution that suits us better" (quoted in Hatland 1984). More recently the leader of the Norwegian Central Bank (Skånland) and former Trade Minister Hauge have officially called for the abolition of the present earnings-related pension scheme.

Social Democratic government¹⁷. For the first time since the war a non-Socialist coalition government came to power. A few days after the new government was installed the Social Democratic Party announced that they wanted to introduce Swedish-style earnings-related public pensions. The motive was probably to drive a wedge between the parties in the new non-Socialist coalition government (Ringen 1988, Hatland 1984, Skånland 1989). The Liberals and "the Christian People's Party" wanted to introduce earnings-related pensions, the Conservatives and Agrarians did not. However, the Swedish experience had taught the non-Socialist parties not to let the Social Democrats monopolize a popular issue. Instead of opposing the proposal both the Agrarians and Conservatives announced that they also supported earnings-related pensions. The non-Socialist parties gained the Parliamentary majority in the following 1965 elections and introduced earnings-related public pensions the next year¹⁸. The Norwegian scheme was basically a blueprint of the Swedish system with one important exception: It was financed on a pay-as-you-go basis to a much larger extent than the Swedish scheme. By making the scheme pay-as-you-go the non-Socialist coalition government avoided a large public pension fund.

To sum up, supporters of earnings-related pensions won the internal power struggle inside the Social Democratic parties (with Denmark as a possible exception). Thanks to the dominant role of the Social Democratic parties disagreements were more or less "kept within one party" on the left but were played out openly on the political scene by the many competing parties on the fragmented right. This created a divide-and-rule situation which ultimately led to the introduction of earnings-related public or semi-public pension schemes in all the Nordic countries except Denmark.

Denmark has kept the flat-rate public pension supplement introduced in 1964, but as can be seen from table 1 this pension supplement has much less impact on the overall pension level than the supplementary pension systems of the other Nordic countries.

¹⁷ The Social Democratic government controlled the Parliamentary majority only through the support by the two MPs from a small Socialist Party. In 1963 these MPs joined the non-Socialist parties in a vote of no confidence.

¹⁸ The Social Democrats supported the proposal. Premiums paid to the collectively-bargained FTP scheme were stopped the same year.

Table 1. Public pensions as a percentage of average male wage in industry (after tax) for a single pensioner, 1987. Source: Nordisk Socialstatistisk Komite 1989 p. 48.

	Denmark	Norway	Sweden	Finland
Minimum pensions only	44	44	46	39
Including public supplementary pensions	47	72	73	60

4. The role of occupational pensions in the decision-making process

An employee covered by an occupational pension scheme has no immediate self-interest in public superannuation schemes, especially if the public scheme is supposed to marginalize (crowd out) existing occupational schemes. This lack of enthusiasm on behalf of workers already covered explains some of the difficulties the Danish Confederation of trade unions has had in keeping the unions behind a demand for public superannuation. There are however ways to win the support (or at least prevent opposition) from those who are covered by occupational pensions, and the decision-making process in Finland, Norway and Sweden show different ways to do it.

In Finland occupational pension coverage was not widespread outside the public sector. Membership in the new earnings-related pension schemes (TEL and LEL) was simply limited to private sector employees thus bypassing the problem of how existing occupational pensions should be integrated in the new public schemes.

The Swedish Social Democrats wanted to introduce a scheme that covered everybody, including members of existing occupational pensions. They thus faced the potential opposition from these groups in their attempt to set up earnings-related public pensions. There are however at least two ways to buy the support of such groups, and the Swedish government used both of them: 1) To grant such groups an overall pension level higher than the one they enjoyed before the public scheme existed or 2) To give such groups wage compensation. Public employees were given wage compensation as well as improvements in their overall pension level in 1959. In the private sector it was made possible to

"contract out" of the new public scheme (during a limited time period) given certain conditions (Molin 1965)¹⁹.

Norwegian employees covered by occupational pensions were not given wage compensations or increases in their overall pension level when the new public superannuation scheme was introduced in 1966. This difference between Norway and Sweden can be explained with reference to the bargaining position of employers covered by occupational pensions. In Sweden the pension question created one of the most intense political conflict in postwar Swedish history. An advisory referendum, dissolution of Parliament and new elections were necessary before the Social Democrats were able to squeeze their proposal through Parliament with a one-vote majority (a renegade from the Liberal Party secured the majority). Hence it was of utmost importance for the Social Democrats to gain the consent of as many voters as possible. By contrast, in Norway all the major parties in the end agreed to introduce earnings-related public pensions. There was no need to "buy" support from those covered by occupational pensions since they had nowhere to go with their frustration²⁰.

5. The design of the earnings-related schemes and the remaining role for occupational pensions

Esping-Andersen (1985) suggests that the Social Democrats used the pension issue to forge a new alliance between manual workers and the rising middle class. This was probably not the case, at least not to begin with. The Social Democrats wanted to grant their old core constituency earnings-related pensions rather than to create a new alliance between manual workers and the middle class. These motives could have moved in tandem. However, both the Swedish and Norwegian Social Democrats proposed upper limits on the income that would "earn" supplementary pension²¹. Low-income groups were given more generous pensions (expressed as a percentage of their labor income) than high income earners. In Sweden supplementary pension is only acquired for income up

¹⁹ It turned out that noone contracted out; instead the employers and the Confederation organizing private sector salaried staff (TCO-P) agreed to set up a new national pension scheme (ITP) on top of the public superannuation scheme.

²⁰ And frustrated they were; especially public employees.

²¹ So did the Danish 1967 proposal.

to 7,5 times the so-called "base amount."²² In Norway the 1966 pension Act stated that only income up to 8 times the "base amount" should acquire supplementary pension. The income ceiling was raised to 12 times the base amount in 1971 by a non-Socialist coalition government against the votes of the Social Democrats (Hatland 1982). This suggests that the Social Democrats were motivated by their commitment to their old core constituency rather than by any strategy to "buy" support among white collar workers. This interpretation is further strengthened by the fact that in 1990 the Norwegian Parliament (led by a Social Democratic government) decided to cut back on the earnings-related scheme. The income ceiling was lowered thus reducing the pension level of high-income earners²³.

Why did not the Finnish earnings-related pension system have an income ceiling? Probably because the Social Democratic Party in Finland was weaker than in Norway and Sweden and had to join forces with the Conservative party to squeeze the proposal through Parliament. If the motive behind the introduction of earnings-related pensions is to forge a link between contributions and benefits and/or to stabilize status differentials then upper limits should not be imposed (cf. Figure 1). Thus the stronger the political position of the conservative party, the less likely it is that a public earnings-related schemes will have upper income limits²⁴.

The income ceilings in the Swedish and Norwegian pension schemes implies that high-income earners get a lower replacement rate than low-income earners in the public pension system. This is even more so in Denmark. This leaves room

²² Molin (1965) claims that the Swedish Social Democrats originally made the public pension scheme even less attractive from the point of view of high-income earners. The Social Democrats increased the pension level for high-income earners as the conflict with the non-Socialist parties escalated. Hence the motive to "buy" support from higher income groups was brought into play at a late stage of the decision-making process. It was not part of a pre-designed long-term strategy.

²³ These cuts also show that "institutional" welfare arrangements are not immune to cutbacks. The Social Democratic government argued that priority should be given to welfare arrangements benefitting the less-well-to-do in a situation with a non-expanding government budget. Note however that the Norwegian earnings-related pension scheme to a large and increasing degree is financed through general taxes. This makes the Norwegian system more vulnerable to cutbacks than e.g. the Finnish system, which is based exclusively on earmarked contributions. In Finland it may be argued that "what you get depends on how much you pay". In Norway low-income earners may instead ask themselves "why should a retired managment director get a larger slice of my tax money than a retired busdriver?"

²⁴ The fact that the Norwegian scheme has more liberal upper limits than the Swedish system further confirms this hypotheses.

for occupational pensions "on top of" the public schemes. There is no room for such occupational pensions in Finland. Hence the occupational pension sector in Finland is smaller than in Sweden and Norway.

6. Tensions between earnings-related and minimum pension systems

After the introduction of earnings-related public pensions both Norway (1969) and Sweden (1969) introduced a general pension supplement to be tested against income from earnings-related pensions. During the 1970s and 1980s the relative importance of this pension supplement relative to the basic (flat-rate) pension has increased. Similar pension supplements in Denmark and Finland have also been on the increase, especially in Finland²⁵. (Denmark tests the general pension supplement against all types of income. Finland used the same procedure until 1984, when it limited means-testing to income from earnings-related pensions only.) As can be seen from Table 1 the basic pension is of decreasing importance in all the Nordic countries. The tendency is most pronounced in Finland and less so in Denmark²⁶. How can these differences - and the long-term trend - be explained?

Table 2. Maximum means-tested pension supplement as a share of the basic pension. Single pensioner, selected years.
Source: Overbye 1991.

	Denmark	Norway	Sweden	Finland
1970	0.22	0.08	0.06	2.66
1972	0.22	0.16	0.12	3.38
1982	0.18	0.49	0.46	4.18
1987	0.19	0.54	0.48	4.67
1989	0.26	0.57	0.48	4.67

²⁵ Denmark and Finland had kept a general means-tested supplement even after the introduction of flat-rate basic pensions.

²⁶ In addition all countries provide special means-tested supplements targeted at smaller segments of the pensioners, e.g. housing allowances for pensioners with high housing costs. These benefits must be applied for thus creating a take-up problem. Because of this, they are excluded from the minimum pension as defined in Table 1.

First, it must be noted that the retrenchment of the means-tested benefits during the 1940s and 1950s was a controversial issue. Different points of view were expressed both on the left and right. On the left, some argued that means-tested benefits had the highest redistributive potential and were preferable to flat-rate benefits. The trade unions however lobbied for the abolishment of means-testing, because means-testing served as a disincentive for employers and unions in their efforts to set up occupational pensions. Some further argued that a minimum pension should be regarded as a "citizenship right" and be given to everybody regardless of previous income. This argument was also utilized on the right, especially by the Agrarian parties. Most Conservatives preferred means-tested benefits, but some adherents of flat-rate benefits were also to be found. They argued that flat-rate benefits did not discourage private savings to the same extent as means-tested benefits, echoing old Conservative concerns that the incentive effects of different welfare arrangements should be given more emphasis than redistributive effects. The Social Democratic governments more or less grudgingly yielded to the pressure and limited and ultimately abolished means-testing (Hatland 1984 p 39, Kangas 1988 p 21, Olson 1991 p 102, Baldwin 1989). However, the introduction of earnings-related public pensions changed the "balance of power" in favor of those who preferred means-tested minimum pensions. First, the trade unions no longer had any reason to lobby for flat-rate pensions in order to encourage the employers to set up occupational pensions. Second, in order to increase the pension level of the worst off without simultaneously increasing the pension level of those covered by earnings-related pensions it became necessary to introduce benefits that were at least tested against income from earnings-related public pensions. This explains why Denmark remains the only country which has maintained a high basic pension²⁷.

In Sweden the gradual marginalization of the basic pension was built into the 1959 pension design. As Sweden introduced earnings-related public pensions in 1959 the level of the basic pension was fixed at the level of the so-called "base amount". The base amount serve a dual purpose in the Swedish pension

²⁷²⁷²⁷ The minimum pension level in table 2 is defined as basic pension plus general income-tested supplements. In table 1, municipal income-tested housing allowances were also included in the minimum pension definition. This change in defininition does not affect the general tendency in table 2. It is worth noting that Denmark has the highest minimum pension level of the Nordic countries if municipal housing allowances are not included in the minimum pension definition (Kangas & Palme 1989 p 7, Øverbye 1991 p 13). This further confirms the image of Denmark as the Nordic country with the most "universalist" minimum pension system.

system: It both determines the basic pension level and the number of "pension points" earned each year by the working population. In 1959 the Parliament decided to link the adjustment of the base amount to a price index only. Provided that real wages continued to grow, this would in the long run marginalize the basic pension. By linking the adjustment of the base amount to a price index only the Social Democrats induced a slow transformation of the Swedish pension system from consisting of flat-rate basic pensions toward a system where the working population receive earnings-related pensions and the non-working population (marginal groups) become increasingly reliant on means-tested benefits²⁸. This however is not the whole picture: The upper income limit that will "earn" pension points is also linked to the base amount. If real wages continue to grow a larger percentage of the working population will in the course of time hit this income ceiling (7.5 times the base amount), and in the very long run the Swedish earnings-related pension system will be transformed back toward a flat-rate system(!). These rather schizophrenic attributes of the Swedish system must be regarded as compromises struck between proponents of different pension-political visions back in 1959.

Similar tensions prevail in the other Nordic countries although they are not to the same extent built into the institutional design of the pension system. In Finland bitter conflicts prevails between the National Pension Institute (in charge of the minimum pension system) and the Pension Security Institute (coordinating the earnings-related systems). Norway has a Swedish-style system but the "base amount" is not linked to a price index. It is determined each year by Parliament after consultations with organizations representing different groups of Social Security recipients. In these consultations adjustment of the base amount has sometimes been pitted against adjustments in different types of means-tested benefits. Besides, in Norway (as in all the other Nordic countries) disputes concerning the scope of means-testing in the minimum pension system keeps reemerging²⁹. The Nordic pension systems can be perceived as institutional outcomes of conflicts and struggles between different pension-political visions (both within and between different

²⁸ In 1959 everybody assumed that real wages would continue to grow. Actually, during the 1980s Sweden experienced a period when real wages declined. This unexpected development has slowed down the marginalization of the basic pension.

²⁹ The Social Democrats have twice proposed to test the general pension supplement against all types of income, not just against income from earnings-related pensions (Hatland 1984 p 73). So far the non-Socialist parties have been unwilling to increase the scope of means-testing in the minimum pension system. Also note that Denmark and Norway have introduced elements of means-testing in the basic pension itself.

parties), as well as institutional settings for the continuation of these struggles. Their stability is a matter of degree.

Gordon (1988 p. 45) claims that a convergence process is taking place in industrialized countries. Most Continental-European nation states started out with insurance-based public pension systems while most Anglo-Saxon and Nordic countries originally preferred means-tested minimum pensions. In the course of time most Continental-European nations introduced means-tested minimum pensions while most Anglo-Saxon and Nordic countries introduced earnings-related supplementary pensions. Despite different starting points all industrial countries have converged toward a "two-tier" systems.

As far as the Nordic countries are concerned, the main mechanism behind this development seems to have been the desire of trade unions to grant their members a pension level closer to the level enjoyed by salaried staff. As soon as earnings-related systems were established (through legislation, collective bargaining or both) a feedback-effect took place in which the means-tested elements in the minimum pension system were strengthened. It may be the case that countries who start out with means-tested minimum pensions move through three phases: 1) Gradual abolition of means-testing: toward "flat-rate" minimum pensions 2) Introduction of earnings-related pensions 3) Return to means-tested minimum pensions and the emergence of a dual pension structure. And interesting prospect for further research would be to test if this holds true for other countries (United Kingdom, Canada, New Zealand and Australia) who started out with means-tested minimum pensions.

PART 2. IN THE SHADOW OF PUBLIC PENSIONS

7. The present status of occupational pensions

Finland: The bandwagon effect

Workers covered by earnings-related pensions (be they public or private) have no self-interest in supporting other groups demanding similar pension schemes. However, the success of some groups might also trigger a bandwagon-effect in which other groups increase their efforts to reach "the promised land". The introduction of legislated earnings-related pension schemes for private sector employees (TEL and LEL) in 1960 had this effect. In 1964 the existing pension arrangements benefitting local government employees were replaced by a new unified scheme (KVTEL). In 1967 the pension arrangements of central government employees were also incorporated into a new unified scheme (VEL). Finally, farmers and other self-employed acquired their own earnings-related pension scheme (MYEL and YEL) in 1969³⁰. Through these six legislated pension schemes almost the entire work force has access to earnings-related schemes³¹.

The role of regular occupational schemes (not introduced by legislation) is limited to providing pensions to birth cohorts born too early in the century to earn full pension rights in the legislated systems. In 1985 15 percent of Finnish employees were members of occupational pension plans (Kangas & Palme 1989 p 72). The number of such plans are on the decrease and occupational pensions will almost disappear when the public earnings-related schemes are fully developed (Kangas 1988 p 44).

Sweden & Norway: The art of leapfrogging

In the aftermath of the 1959 legislation the employers and the Swedish Confederation of Unions for White-Collar Workers in the Private Sector (TCO-P)

³⁰ Although not without fight: The Agrarians wanted to attend to the interests of the self-employed through increases in the minimum pension. They lost.

³¹ The public sector schemes offers a slightly higher pension level than the private sector schemes. However, in 1992 the pension level of public employees might be scaled back to the level enjoyed by private employees. This illustrates that the "bandwagon-effect" need not only operate in the direction of increases in the benefit level.

agreed to set up an integrated occupational pension scheme (ITP)³². Manual workers soon discovered that despite the introduction of earnings-related public pensions they still lagged behind their white collar colleagues. This led the Confederation of Unions for Blue-Collar Workers (LO) to negotiate a pension settlement with their employers in 1972. This scheme (STP) covers manual workers in the private sector³³.

The pension schemes of government employees were improved in 1959. In 1974 central government employees renegotiated their occupational pension arrangements. The new scheme (SPV) covers workers as well as salaried staff and part-time as well as full time workers. Local governments operate their own scheme (KPA) fairly similar to SPV³⁴. As a result of these collective bargaining-agreements, Sweden has the highest coverage of occupational pensions in the world (Nielsen 1990). Almost all employees are members of one of the four major schemes³⁵.

The occupational pension scheme covering Norwegian central government employees (SPK) is fairly similar to the Swedish scheme. The local government sector is in principle more fragmented. A local government may administer its own scheme. However, a private insurance company (KLP) has almost monopolized the "market" for local government occupational pensions. This has resulted in standardized pension schemes imitating SPK³⁶.

³² ITP covers white collar employees in the private sector from the second up to and including the eight level in the Swedish nomenclature of assignments. It is in some respects even more generous than the scheme covering civil servants.

³³ It is however less generous than the ITP scheme.

³⁴ The state scheme was renegotiated once again in 1991 introducing some new elements that have not yet been adopted in the local government scheme.

³⁵ Funds are often considered necessary to secure the pension rights of the employees in case their employer goes bankrupt. However, none of the four large Swedish occupational pension schemes are fully funded. SPV and KPA are "pay as you go" while STP and ITP are partly funded. Public authorities cannot go broke and thus there is no need to fund SPV and KPA. In the private sector fully funded schemes are not necessary if other employers and/or an insurance company agree to continue pension payments in case of bankruptcy. This is basically how the STP scheme and the special "FPG/PRI agreement" inside ITP works. The Swedish occupational pension schemes show that private savings are not the only alternative to public pensions. The alternative may also turn out to be pay-as-you-go based occupational pension schemes.

³⁶ The standardization has also been brought about through regulatory policies. According to these regulations no local government can provide its employees with pension benefits exceeding the benefit level enjoyed by central government employees.

In the private sector the situation is very different from Sweden. Nothing similar to ITP or STP exists. Approximately 1/3 of the employees are covered by company based occupational pension plans. In 1988 59 percent of white collar employees and 24 percent of blue collar employees reported to be covered by such plans (Hippe & Pedersen 1988). Almost every scheme has been introduced by employers without formal negotiations between the employees and the trade unions³⁷. The schemes are earnings-related and provide a pension level between 60 and 70 percent of final salary.

In the absence of negotiated settlements a genuine market for occupational pensions exists in Norway. The market is tightly regulated. Employers who refuse to adopt the regulations are denied tax privileges otherwise granted to occupational pension arrangements.

The different occupational pension structure in Sweden and Norway cannot be explained by looking at differences between the public pension systems. The Norwegian earnings-related scheme is less generous than the Swedish³⁸. If the crowding-out thesis is correct, the lesser generosity of the Norwegian scheme should coincide with a larger occupational pension sector. The opposite is true. Why?

The explanation is to be found in the different trade union structure of Sweden and Norway. In 1960 the axis TCO-LO almost monopolized the organization of Swedish workers. TCO-P organizes white collar workers in the private sector while LO organizes blue collar workers. This division of labor enabled TCO-P and the employers to set up the ITP scheme without having to include blue collar workers in the deal. It also made it easier for LO to negotiate a similar deal for manual workers some years later. Since manual workers were excluded from ITP no tensions emerged between manual workers with and without occupational pension coverage.

³⁷ With one exception: In 1988 LO and the employers agreed to set up an early retirement scheme (AFP) covering private sector employees only.

³⁸ The Norwegian scheme demands an employment record of 40 years to achieve full pension rights. 30 years is required in the Swedish system. Pension benefits are calculated on the basis of average earnings in the "20 best years" in Norway as compared to the "15 best years" in Sweden. The so-called "pension-percentage" that enters the final pension calculation is 60 in the Swedish system and 42 in the Norwegian. On the other hand the Norwegian system has an upper income limit equal to 12 times the base amount compared to only 7,5 times the base amount in Sweden. Besides, the Norwegian base amount is regulated according to both wage and price increases while the Swedish base amount is linked to a price index only. Nonetheless the Swedish system is more generous than the Norwegian at least for low and middle-income groups and provided that wages do not grow faster than prices.

Norwegian trade unions lack a clear division between blue-collar and white-collar unions. The main Confederation of trade unions consists of unions organizing both salaried staff and manual workers. Nothing similar to TCO exists. This makes it almost impossible to reach a central agreement covering only white collar or only blue-collar workers³⁹. In the absence of negotiated settlements the (Social Democratic) governments of Norway have used regulatory policies to a larger extent Sweden to increase occupational pension coverage among manual workers⁴⁰.

Denmark: Different role models

Denmark deviates from Norway and Sweden not only with respect to public pension arrangements but also in the set-up of occupational pensions. First, no integrated occupational pension scheme exists neither in the public nor in the private sector. A segment of government civil servants have access to earnings-related occupational pension plans similar to the pension arrangements of their Norwegian, Swedish and Finnish colleagues. These schemes do not however cover all state employees as is the case in the other Nordic countries. Second, "defined benefit" schemes do not dominate the occupational pension sector to the same extent as in Sweden, Norway and Finland. (A "defined benefit"-scheme define the pension level as a percentage of earnings. By contrast, a large segment of the Danish market consists of "defined-contribution"-schemes. In a "defined contribution" scheme the pension contributions are defined as a percentage of annual earnings. The resulting pension level depends on the size of the contributions and the interest rate.)

"Defined benefit" schemes dominated the Danish pension sector till the 1960s. Occupational pensions in the private sector were company-based schemes copying the old "defined benefit" scheme of civil servants. Following a reorganization of the public sector during the 1960s many public employees were allowed to

³⁹ Another explanation focuses on differences in the insurance markets of Sweden and Norway. Sweden has never had a free market for occupational pensions. Prior to the introduction of ITP almost all occupational pension arrangements were administered by the insurance company SPP. In Norway an insurance company ("Norske Folk") almost monopolized the market until the war. However, during the years under German occupation the monopoly broke down and was never regained. It is easier to shift from many different schemes operated by an insurance company to one scheme administered by the same company than to move from a free-market situation to a unified scheme.

⁴⁰ As early as 1952 the government introduced regulations stating that an employer must include all his employees in the occupational scheme regardless of their occupational status.

choose between traditional "defined benefit" schemes or "defined contribution"-schemes. The employees settled for "defined contribution" schemes⁴¹. By 1990 almost all public employees not covered by the old-style "defined benefit" scheme had got access to "defined contribution" schemes through collective bargaining. The split between "defined benefit" and "defined contribution" schemes in the public sector led to a parallel split in the private sector. The Confederation of Trade Unions tried to keep the unions united behind a proposal to introduce public earnings-related pensions. However, the Danish Confederation has traditionally exerted less influence over the local unions than similar Confederations in the other Nordic countries (Scheuer 1990). Besides, the chances for actually accomplishing a public solution gradually diminished during the 1980s. In 1990 the powerful Metal workers' Union decided to go its own way. Other unions followed and by the end of 1991 most major unions had negotiated separate pension settlements with their employers. The new schemes are based on the "defined contribution" principle.

As in the other Nordic countries the development in the Danish private sector seems to mirror earlier development inside the public sector. In the other Nordic countries the "diffusion process" inside the central government sector led to a similar development in the local government sector and later in the private sector. However, since the "diffusion process" inside the Danish government sector resulted in two rather than one occupational pension design, two rather than one role model existed which the private sector could take as a point of reference. After the 1960s pension negotiations in the private sector have resulted in "defined contribution" rather than "defined benefit" schemes. The long period without either public superannuation or occupational pension coverage among large segments of the labor force has also led to a much larger market for individual pension annuities in Denmark than in any of the other Nordic countries, as illustrated in Table 3.

⁴¹ These schemes were easier to integrate in a collective bargaining-framework. Besides, the funds were to be controlled by the unions without interference from the employers(!).

Table 3. Share of total pension expenditure by pension type 1985 (percentages). Source: Nielsen 1990 p. 82.

Country		Denmark	Norway	Sweden	Finland ⁴²
Public pensions	Minimum	76	64	45	39
	Supplementary	2	25	42	56
Occupational pensions	Public sector	10	7	7	0
	Private sector	5	3	4	4
Individual pensions		8	1	2	1
Total		101	100	100	100

6. The future role of occupational pensions in the Nordic pension regimes

In all the Nordic countries, the original "gratification pay" type of occupational pension schemes served as a point of reference for the pension-political demands of other groups. A process of "bandwagon" and "leapfrogging" effects followed. This "bandwagon" effect also occurred across countries: The success of Swedish trade unions and Social Democrats in introducing earnings-related public pensions and the humiliating defeat of the non-Socialist parties shaped the political preferences of trade unions and political parties in the other Nordic countries (although not always in the same fashion).

A case might be made for distinguishing between a "west-Nordic" (Denmark, Norway) and an "east-Nordic" (Sweden, Finland) pension-political structure (cf. Rokkan 1981). This difference is not a clear dichotomy but rather a sliding scale with Finland and Denmark as almost polar opposites. Denmark never introduced earnings-related public pensions and the occupational pension structure is more diverse than in any of the other Nordic countries. In Finland earnings-related semi-public pensions almost completely crowd out

⁴² Nielsen argues that the semi-public schemes benefitting public employees must be regarded in part as occupational schemes because they provide more generous benefits than similar schemes in the private sector. A good theoretical case can be made for this view, but public sector schemes have not (until very recently) been perceived that way in the Finnish debate. Therefore I have stuck to the traditional distinction and categorized all the Finnish legislated schemes as "public" pensions.

regular occupational pensions. Most of the remaining occupational schemes are administered by the Pension Security Institute and are subject to the same rules that apply to the semi-public schemes (Kangas 1988). They will disappear when the semi-public schemes are fully developed. Sweden combines generous earnings-related pensions with extremely standardized occupational pensions. Norway combines earnings-related pension (on a less generous level than in Sweden) with an occupational pension structure that is more fragmented than the Swedish but less fragmented than the Danish structure.

Old political tensions are built into the pension-political designs of the Nordic countries and will probably keep reemerging in the future. The downward adjustments of the income ceilings in the Norwegian and Swedish earnings-related pension schemes indicate that the importance of occupational pensions is increasing. However, recent changes in taxation policies indicate that other private alternatives might increase faster than occupational pensions as high-income earners face reduced pension levels. During the 1980s the Nordic countries reduced the tax subsidies to occupational pensions in an attempt to broaden the tax base while reducing the tax level on all (other) types of capital (Øverbye 1991 p. 60)⁴³. There has also been a tendency toward deregulating the occupational pension sector (ibid.). Fewer regulations will probably lead to increased product differentiation. This is also likely to happen if insurance companies from EC countries are allowed to sell occupational pension insurance in the Nordic countries. To sum up, a larger and more diversified occupational pension structure is likely to emerge in the Nordic countries in the future.

⁴³ The political debate leading up to these changes cuts across the left-right divide in a way similar to the debate concerning earnings-related public pensions (cf figure 1). "Left-wingers" argued that tax privileges to the rich should be abolished. They were joined by some economic liberalists who argued against selective tax subsidies. On the other hand, some conservatives argued that employers should be stimulated to look after their old and disabled workers and some trade-unionists argued that the tax system should provide employers with an incentive to include blue-collar workers in their occupational pension schemes.

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