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The Welfare State in the Twentieth Century: A Case Study of the Swedish Public Pension System

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THE WELFARE STATE IN THE TWENTIETH CENTURY:
A CASE STUDY OF THE SWEDISH PUBLIC PENSION SYSTEM

by

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A thesis submitted in partial fulfillment of the requirements
for the Honors in the Major Program in Political Science
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ABSTRACT

This is an attempt at depicting welfare state developments in one of its most notable success stories: Sweden. As a major subsector of the Nordic country's welfare state, this paper focuses on the evolution of social insurance, particularly the public old-age pension system from its liberal beginnings in 1913 all the way to 1998, when the novel three-tiered pension system was introduced. In addition to its policy emphasis, this paper examines the relationship between the welfare state and social democracy by studying the implications that cross class alliances and social reformism had on the political viability of the Swedish Social Democratic Party. Though it is a case study, the aim of this thesis is to shed light on a vital institution in all industrialized societies and to hopefully serve not only those curious about Sweden's experience but anyone with a preliminary interest in social policy or welfare state studies.

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INTRODUCTION

This paper is an attempt at depicting and explaining welfare state developments in one of its most notable success stories: Sweden. Evidently, the forces of industrialization, urbanization, and liberalism had a profound role to play in Sweden's early economic development, but democratic consolidation along with sociopolitical mobilization were major players behind the institutionalization of its welfare state. Throughout this paper, two guiding theoretical frameworks are therefore followed: (1) The Swedish welfare state belongs to the cluster of highly-decommodified and marginally-stratified welfare state regimes (Esping-Andersen, 1990); (2) Social Democracy in Sweden, like in its neighboring Denmark and Norway, through parliamentary participation and forging electoral alliances between key social classes, succeeded in advancing its reformist agenda first in the 1930s and then again in the late 1950s (Esping-Andersen, 1985). To illustrate these principles, the development of Sweden's public old-age pension system is traced since 1913 to 1998, when the novel three-tiered pension system was introduced. Hence, the temporal focus of this thesis spans early to late Twentieth century.

Being a case study of Sweden, this thesis is based on an extensive literature review, made possible by the efforts of many field experts and academic scholars. As previously hinted at, two major works that contained ideas that served both as a source of inspiration and direction for this paper are *The Three Worlds of Welfare Capitalism* (1990) and *Politics Against Markets: The Social Democratic Road to Power* (1985), both authored by Danish sociologist Gosta Esping-Andersen. In addition to others, Chapter 3, which chronicles the development of Sweden's old-

age pension system, relies on the contributions of Hagan (2013) in his *A History of the Swedish Pension System*.

Chapter 1 is meant to introduce the concept of the welfare state, as an institution of modernity within developed countries, by reviewing its history, sectors, regimes, and other associated definitions.

A welfare state study could not be complete without reviewing Sweden's prosperous economic transformation as well as the story of her political democratization; all focal points of Chapter 2.

Chapter 3 focuses on the evolution of the Swedish public pension system up until 1959, when the earnings-related supplementary pension reform was passed in parliament.

Chapter 4 which tackles the 1998 major reform also attempts to answer one curious and somewhat natural question: Did the new reform adhere to the once established decommodified and universalist character of Sweden's welfare state advanced by Esping-Andersen (1990)?

Finally, a conclusive section revisits the main analytical points discussed in this paper and introduces future research questions and suggestions.

CHAPTER 1: THE WELFARE STATE AS A MODERN INSTITUTION

Historical Overview of Welfare Developments in Europe and North America

One story of early welfare state developments took place in the late nineteenth century Imperial Germany where Chancellor Otto Von Bismarck introduced his compulsory social insurance programs. During this time period, the ongoing industrialization process in Europe and the spread of liberal ideas have already been transforming the way social problems were perceived. A new understanding of these problems emerged: One that viewed unemployment and other social risks in the light of the business cycle (as cited in Briggs, 1961) and paved the way for the working class to pursue what it deemed were its social rights (Kuhnle & Sander, 2010). On their part, nation-states through welfare measures attempted to address the social and political unrest that industrialization brought about. When he implemented his insurance programs, Bismarck, for instance, sought to suppress the socialist opposition and solidify the German workers' loyalty to the state (Kuhnle & Sander, 2010). Nation-states also used welfare to invest in the well-being of their citizens, not strictly out of moral obligation, but these states understood that the might of their nations depended on the welfare of their citizens (Gamble, 2016). Nation-building and competition between European nations were thus instrumental factors behind the Nineteenth century state consolidation and expansion of power and, therefore, welfare provision (Gamble, 2016). Though the nature and scope of each state's welfare trajectory depended on complex historical circumstances, social insurance programs were visible throughout Europe and by the end of World War I. In Sweden, the Liberal government introduced the first universal contributory old age pension plan in 1913; the French government

subsidized a large-scale voluntary unemployment insurance in 1905; and Liberal Britain has already had a means-tested old age pension program (1908) and the National Insurance Act (1911) in place (Kuhnle & Sander, 2010). The period following the end of the First World War also witnessed a general agreement among European parties from across the political spectrum on the desirability of welfare programs (Gamble, 2016). As suffrage was then enjoyed by virtually all citizens, political parties on the Left gradually and successfully spread their welfare convictions through winning parliamentary majorities and controlling government bureaucracies (Gamble, 2016). The increasingly widespread and expansive social security plans and the notion of the state being responsible for their administration, therefore, heavily influenced the Post-World War I social policy not only in Europe but also across the Atlantic in the American continent (Kuhnle & Sander, 2010).

The attack on the legitimacy of the old liberal order soon intensified as the 1929 Great Depression unfolded. Traditional Laissez-Faire capitalism was no longer believed to sustain the demands of neither the domestic nor the international political economy. Throughout the 1930s, welfare reforms were executed in an incremental fashion (Gamble, 2016), and social insurance plans were characterized by a great variation as states grappled with newer and broader social risks (Kuhnle & Sander, 2010). In the United States, however, the enactment of the 1935 Social Security Act represented a major departure for the federal government to centralize its intervention in mitigating social risks and set new standards for its legitimacy in an exceptionally favorable political context. The American welfare state was thus effectively established out of President Roosevelt's New Deal legislation. Meanwhile in Europe, a fundamental transformation of social policy was not in full effect until the outbreak of World War II (Gamble, 2016). The

WWII period was characterized by a newfound focus on universal welfare as a route to peace and prosperity, as “the intensity of the struggle for national survival brought with it the demands for a new domestic order as well as a new world order”. (Gamble, 2016, p.18). This was ultimately reflected in the United Kingdom’s 1942 Beveridge Report, which called out the “Giant Evils of Want, Disease, Ignorance, Squalor, and Idleness” (p.79) as the underlying problems the government ought to fight (Kuhnle & Sander, 2010). Although it corresponded to various sets of social programs depending on its country of origin, following the end of WWII, the welfare state had been established as a vital component in all industrialized states, setting the stage for what was known as its “Golden Age”. The welfare institution has come to be effectively regarded as an indispensable element of modernity and the market economy. This was largely due to the remarkable economic growth of the period centered around a Keynesian determination to full-employment and higher expenditures. Governments were no longer limited to delivering social insurance programs, but through a myriad other laws and protections, they effectively ensured that social programs and services were accessible to those deemed eligible.

The Welfare State: Definitions and Sectors

In *the Welfare State: A Very Short Introduction*, Garland (2016) describes the welfare state generally as “a mode of government and an institutional dimension of modern society” (p.6) that takes various and distinctive forms across states and changes over time. It should not, in his view, be seen an idea associated only with one specific political ideology or a hinderance against economic growth since it provides a viable economic and social environment for the sustainability of all capitalist economies. Garland (2016) also offers three conceptual

perspectives through which its functions and extent are institutionally defined. Beginning with a narrow definition that characterizes the welfare state strictly as a non-contributory and means-tested system for the poor, the unpopularity of this conceptualization often renders the welfare state subject to criticism in the public political debate. A more inclusive definition focuses on the social provisions that benefit a wider segment of the population, and these include, for instance, social insurance, and social services; the former being the focus of Chapter 3 and 4 in the case of Sweden's old-age pension system. This second conceptualization, according to Garland (2016), targets the "core elements" (p.8) of the welfare state, which are celebrated and supported across the political spectrum. Lastly, his third definition broadly studies the government-welfare state relationship in terms of the state's intervention in the economy manifested in various macro-economic policies and how these impact welfare indicators, such as full employment and economic growth.

According to Garland (2016), the welfare state generally consists of five sectors: social assistance, social insurance, publicly funded social services, social work and personal social services, and economic governance:

- Social assistance encompasses all non-contributory programs designed to help only those who demonstrate financial need. Examples of social assistance programs include Food Stamps, Earned Income Tax Credits, Medicaid, and TANF in the U.S as well as Income Support in the U.K.
- Social insurance schemes are typically state administered, designed to provide protection against unemployment risks confronted in the labor market, such as sickness, injury, old age...etc. Unlike social assistance programs, they are

contributory, and enrollment is compulsory for the majority, if not all, of the population. Social Security in the US is the classic example for social insurance programs.

- Publicly funded social services: Universally accessible to everyone and are therefore the most egalitarian. Education services, museums, libraries, minimum wages, and other free of charge services or rights fall into this category.
- The social work and personal social services sector is primarily concerned with providing support and care for families and other vulnerable members of society such as mentally ill persons and offenders, who lack community support. Childcare services and home-based care for the elderly are other examples of social work and personal social services.
- Government of the economy: to address and manage the economic fluctuations associated with market capitalism, the welfare state employs a variety of policy instruments. Tax and subsidy laws, fiscal and monetary policies, labor market policies, federal regulations and other measures enable the welfare state to control the economy at large.

Esping-Andersen's Welfare State Clusters

In his highly influential book, *The Three Worlds of Welfare Capitalism*, Esping-Andersen (1990) argues that welfare state analyses that linearly define and classify this institution in light of measures such as expenditure levels, economic growth, and income redistribution are inadequate. The welfare state, the author explains, ought not be divorced from its theoretical

underpinnings that address and specify the relationships between welfare state actors: The market, the individual's social class, and his/her family role. It is in light of these relationships that welfare states in capitalist societies distinctly cluster into three regimes: Liberal, conservative, and social-democratic.

To study the individual's relationship to the market, Esping-Andersen (1990) develops his decommodification concept; that is, to which extent does the individual's "commodity" status that he/she inevitably inherits in the market interferes with his/her receiving of social rights solely based on citizenship?

Being an underlying concern for modern social policy, decommodification, the author argues, does not imply a complete eradication of wage labor as a commodity, but rather, "the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation" (p.37). The commodification of labor crystallized on a grand scale with the breakthrough of capitalism, as more workers increasingly depended on the cash nexus to satisfy their needs and provide for their well-being, abandoning the traditional welfare institutions like the Church, the family, or the feudal lord (Ibid). The conservative response to this dilemma was a rejection of what it deemed were the degrading, atomizing, and corruptive effects of commodification. The statist legacy for example, seen in Bismarck's social insurance laws, sought to preserve the existing social order by binding social rights to state loyalty. Liberalism, on the other hand, departed from a strict abhorrence for the extension of social rights to introducing minimal assistance schemes and social insurance arrangements that nonetheless were not to crowd out market efficiency.

In the liberal welfare state regime, in which there is a strong emphasis on the principles of self-reliance, individualism, and freedom from paternalism and government interference, the market is emancipatory and takes precedence in benefit provision. Typically, the state only intervenes when the market fails often with means-tested schemes and minimal assistance, a continuation of the old poor-relief tradition. In the conservative regime, characteristic of Continental European countries, owing to its historical Catholic Church influences and corporatist-statist legacies, a strong liberal commitment to the market never fully materialized in terms of benefit allocation. However, social rights in this regime type are typically structured in correspondence with occupational hierarchies and the male breadwinner model. Finally, a social-democratic regime, dominant in the Scandinavian countries, strives to maximize individual independence from both the labor market and family reliance, giving way to a universalist welfare state.

These variations in the decommodifying aspect of the welfare state corresponds to its second function: Stratification. According to the scholar (1990), the institution is a system of stratification in its own right as it had always engaged in the re-ordering of social structures and relations. In other words, besides its known and established income redistributive function, the welfare state may promote solidarity, occupational/status-related hierarchy, or dualism in its targeting of benefits. Stratification in the liberal regime, given its commitment to market participation in welfare provision, generates a dichotomy in social outcomes: Those who managed to provide for their welfare through market-based solutions, and others subject to targeted, typically means-tested, measures that are often associated with social stigma.

The conservative regime, on the other hand, is stratified based on the state's granted privileges to civil servants and salaried employees as well as the recognized status differentials between various occupational groups, an inherited feature from the old guild systems and mutual benefit societies. Lastly, stratification in the social-democratic regime, having always been a struggle against market-cultivated inequalities, is strongly ascribed to the notion of solidarity.

In addition to the historical and theoretical bases of the three welfare state regimes, Esping-Andersen (1990) also quantified decommodification and stratification for his classification and comparison purposes. His decommodification score which was calculated for pensions, sickness, and unemployment benefits in 18 industrialized countries, on one hand, is measured based on several and varying indicators for each entitlement; in the case of pensions, for example, minimum amounts, replacement rates, duration for eligibility, and degree of individual financing are all included variables. Regarding stratification, each regime type is measured based on its salient characteristics; corporatism (a subcategory of the conservative regime) is identified based on the number of existing occupationally distinct public pension systems¹.

¹ Data for both variables is from the year 1980, and to access Esping-Andersen's (1990) empirical analysis, see (47-54) for decommodification and (65-78) for stratification.

Table 1: Esping-Andersen's Welfare State Clusters

Regime type	Characteristics	Level of Decommodification	Examples
Liberal	<ul style="list-style-type: none">. Benefits are modest. Strict entitlement measures. Dualist	<ul style="list-style-type: none">Low. Strong commitment to market dynamics	United States Canada Australia
Conservative	<ul style="list-style-type: none">. Benefits are attached to social/occupational status. Commitment to traditional family structures. Emphasis on subsidiarity	<ul style="list-style-type: none">Moderate. Lack of serious concern for market efficiency	France Austria Germany Italy
Social Democratic	<ul style="list-style-type: none">. Universality of benefits. Cross-class equality. Aims to maximize individual independence from market and family reliance	<ul style="list-style-type: none">High. Clear preferability for welfare state solidarity	Sweden Denmark Norway

Source: Adapted from *The Welfare State: A Very Short Introduction* (p.65), by D. Garland (2016) New York, NY: Oxford University Press & *The Three Worlds of Welfare Capitalism* by G. Esping-Andersen (1990) Cambridge, UK: Polity Press.

It is important to note, however, and as Esping-Andersen (1990) mentions, that there are no pure cases in terms of these classifications; a social-democratic welfare state, for instance, may very much contain liberal or corporatist elements in benefit allocation. In chapter 4 of his book, moreover, the author (1990) maintains that the study of social rights, such as pensions, ought to focus on the relationship between public and private initiative, or the state and market, in order to accurately account for which actor dominates a certain welfare state regime.

For the purposes and scope of this paper and in the case of the old-age pension that it studies, only the public component and no occupational pensions are covered. In Section 4 of Chapter 4, I explain that because the 1998 pension reform in Sweden indeed diverged into a

system where benefits closely depended on contributions, hence market participation, it is fair to conclude that the characteristics of the new system are more in line with the definitional properties of the liberal regime type.

A Theory of Social Democracy and the Welfare State

In *Politics Against Markets: The Social Democratic Road to Power*, Esping-Andersen (1985) begins by developing an operational definition for social democracy which were to be used later in his book to explain its success -and by the same token its potential setbacks- in the three Scandinavian countries of Sweden, Norway, and Denmark.

Although it has had revolutionary roots during its infancy, social democracy as a political movement is committed to parliamentary participation as it “distinguishes itself by the decision to subordinate class purity to the logic of majority politics” (p.8). National legislation, the main strategy utilized by social democratic parties in their mission to transform capitalism is also a means to mobilize class structures and foster solidarity. In the case of Sweden, this is evidently a function of its welfare state.

Rejecting the Marxist orthodoxies that propose that proletarianization is, for the most part, the only condition needed to attain socialism (p.26), Esping-Andersen (1985) instead suggests that the success of social democracy is tied to its relationship with class structures and its ability to forge alliances between them (class formation). On one hand, class structures such as those of industrial wageworkers, farmers, or white-collar professionals, crystallize as a result of the division of labor² and are thought of as “raw material” upon which class and political

² As cited in Przworski, 1975; Poulantzas, 1975; and Wright, 1979

alliances are built³. Class formation, on the other hand, is the process by which these groups are collectivized for the purposes of political mobilization. There are several conditions upon which class formation is to be achieved: Decommodification of labor and the promotion of solidarity by shedding class discourse and strengthening the link between party and union affiliation, for example. The ultimate and most effective pathway to class formation that also encompasses these conditions, Esping-Andersen (1985) explains, is through national legislation based on universalist principles and this once again is where the welfare state comes into play.

Finally, it is crucial to note that the long-term success of the social democratic parties once in power hinges upon their ability to forge continuous political alliances, a process the author (1985) refers to as political realignment. Two major instances of political realignment that this paper will cover are those of the worker-farmer alliance of the 1930s and the wage-earner alliance that took place in the context of the 1959 earnings-related pension reform.

³ As cited in Przworski, 1975

CHAPTER 2: ECONOMIC AND POLITICAL DEVELOPMENTS AND THE FARMER-WORKER ALLIANCE

A welfare state study in any capacity cannot be separated from examining the political and economic contexts in which it emerged. This chapter therefore gives a concise overview of the economic and political developments that unraveled in Sweden at end of the 19th century, not only to inform the reader of the historical experience of the Nordic country, but this chapter also covers the first instance of political realignment which Esping-Andersen (1985) spoke of.

Sweden's Economic Development

During the first half of the 19th century and prior to its relatively late industrial breakthrough, Sweden was primarily an agrarian and rural society, employing more than three quarters of its population in the agricultural sector (Schon, EHA). By 1870, several indicators of a rapid economic transformation began to manifest: large-scale investments in key industrial sectors including iron and steel took place; agricultural exports increased by 20% between 1869 and 1871; and national income rose by 30% up until 1875 (Jorberg, 1965). From 1850 to 1890 Sweden's GDP per capita grew at an impressive rate of 1.5% compared to 0.4% between 1800 and 1850⁴, and employment levels in the industrial sector expanded while those in the agriculture declined. The "Second Industrial Revolution" around 1900 further provided the country with the foundations for long-term growth: The creation of sophisticated machinery, such as the electrical motor, and

⁴ Schon (2012) as cited in Johansson (1967), Krantz (1986, 1987a, 1987b, 1991), Pettersson (1987), Schon (1988, 1995).

the spread of scientific knowledge and innovation birthed new companies (AGA, Ericson, SKF, among others), and increased the wages of Swedish workers⁵. Sweden's economic growth indeed continued at an accelerating rate up until the 1970s, rendering it one of the fastest growth rates ever recorded (Lindbeck, 1998).

Sweden's economic success continued into the twentieth century and in 1970, it ranked fourth among the richest countries in the world (Bergh, 2014). To explain this dramatic transformation, Bergh (2014) advances an argument that owes Sweden's prosperity during its "Golden Years" to the successful development of capitalist institutions. These institutions manifest in the several economic and political liberalization measures that Sweden implemented during this time period. Economic liberalization, as explained by Bergh (2014) mainly entails:

- The farming land reforms which began in the Southern Scania region in the late eighteenth century and continued throughout the country into the nineteenth century. Guaranteeing property rights for landowners, these reforms incentivized farmers to increase productivity and invited more people to participate in economic activity.
- The establishment of a developed financial system in the form of private banks, which were instrumental in financing the private sector through credit and loans.
- Trade liberalization in terms of domestic and foreign trade. Trade regulations and duties decreased in the mid-19th century and the guild system was ended in 1846.
- Early patent laws which facilitated the export of several Swedish innovations. The earliest patent law in Sweden was passed in 1834; since then, several successful patented inventions

⁵ For a more detailed discussion on the effects of the Second Industrial Revolution on the Swedish economy see (Schon, Economic History Association).

were subject to export, such as Carl Richard Nyberg's blowtorch (1881) and Lars Magnus Ericsson's hand-micro telephone (1895).

- Another overlooked factor of growth, according to Bergh (2014), is emigration from Sweden to the United States in the late nineteenth through the early twentieth century and the return of some of those who emigrated. The latter helped spur economic growth through their successful business ideas and ventures in Sweden.

One political liberalization measure has to do with anti-corruption and some state-sponsored efforts to reform the Swedish society. Some of these include investments in infrastructure by newly established government agencies, wage reforms and the adoption of a meritocratic system in employment for civil servants; and introducing a law criminalizing office misconduct in 1868 (Bergh, 2014).

Towards Parliamentary Governance and Universal Suffrage

Tings, which were local assemblies where kings were elected, laws were discussed and adopted, and disputes were resolved, may be viewed as the medieval antecedents for modern political institutions in Sweden such as the Riksdag (Parliament)⁶. The latter emerged as a distinct institution during the 16th century and consisted of four estates or chambers: The nobility, town leaders, the clergy, and the farmers. In 1617, the first Riksdag Act, instituted under king Gustav Adolphus, further empowered parliament by requiring the monarch to consult with the four estates in matters of war and forming alliances⁷. This was also the time when, as

⁶ Congleton (2011); Petersson (2015)

⁷ Congleton (2011)

Petersson (2015) mentions, parliamentary committees had started becoming important working components within the Riksdag. Periods of absolutism in monarchical rule were however present subsequently, particularly in the late 17th century and under the reign of king Gustav III in the late 18th century. It was not until 1809 that the Nordic country began its formative years towards a parliamentary and democratic mode of government⁸. The Instrument of Government (IG) of 1809 came into existence following a troubled period in Sweden's history; one which was characterized by the assassination of Gustav III in 1792 and the overthrow of his son Gustav IV in 1809 after Sweden's Finnish territory was lost to Russia. While the 1809 IG established that the executive power remained with the monarch, who is responsible for appointing his cabinet members, it granted the Riksdag the authority to oversee certain legislative and budgetary affairs (Board, 1970).

From 1809 to 1866, when the four-chambered Riksdag was transformed into a bicameral body, liberalization was the general political pattern in Sweden, as membership in the estates, excluding the nobility, was expanded to include more groups, such as industrialists and university professionals in the case of the town leaders and clerics' estates respectively⁹. Justice Minister and Chancellor, Baron Louis de Greer, who served under Karl XV, moreover, was a key political figure that helped transform the structure of the Riksdag in the middle of the 19th century, by managing to secure consensus in the four estates for the proposed reform¹⁰. The 1866 Riksdag Act provided for the First Chamber, indirectly elected through provincial councils and where membership was restricted by imposing property requirements. The Second Chamber,

⁸ Congleton (2011)

⁹ Congleton (2011)

¹⁰ Ibid

on the other hand, was directly elected; however, its voting eligibility criteria remained restrictive and only about 200,000 people were qualified to vote after the reform¹¹ (Board; 1970). Both Congleton (2011) and Board (1970) explain that the First Chamber represented the interests of the upper echelon of Swedish society at the time made of wealthier landowners and members of the bureaucracy whereas the Second Chamber preserved the interests of the farmers, who were to dominate it for the next few decades.

Concurrent with the Riksdag reforms and clearly ever since the introduction of the 1809 IG, the power of the monarchy had been slowly diminishing against the rising influence of the Riksdag. In 1876, the office of the Prime Minister was formally established, and up until parliamentary governance crystallized in 1917 when a majority in the Second Chamber had effectively become a requirement for a sustained ministry, the king gradually lost control and influence over the formation of his cabinet (Board, 1970; Petersson, 2015)¹².

As Sweden began its industrialization in the late 19th century, calls for universal suffrage and labor unionism intensified. It was during this time moreover, that the country's modern political parties materialized: The Riksdag's liberal groups merged into the Liberal party in 1899 and the conservative General Electoral Association was founded in 1904¹³. On the other hand, the birth of the Social Democratic Party (SAP) occurred concomitantly with the rise of the labor

¹¹ According to Sveriges Riksdag (2019), only men were eligible for office in the Second Chamber at this point, and voters were still faced with certain property and taxed income-related restrictions. Voting in the First Chamber through provincial councils and towns was also bound by strict tax and wealth criteria (Congleton, 2011).

¹² Interestingly, the introduction of parliamentarism in Sweden (in 1917) took place without any constitutional revisions, according to Petersson (2015), to the previously stated provision for sole monarchical rule within the IG of 1809, rendering "the first half-century of democracy...[to be] a 'constitution-less' period".

¹³ Congleton, 2011; Board, 1970

movement. “Supported by working men in Sweden who had become acutely aware of their collective political power” (p.174), the Social Democratic party was founded in 1889 and headed by Hjalmar Branting, a former employee at the Astronomical Observatory of Stockholm and then editor-in-chief of the newspaper *The Social Democrat* (Kent, 2008). Supported by the SAP, the labor union, Landsorganisationen (LO), was founded in 1898; its employer counterpart, Svenska Arbetsgivarforeningen (SAF), soon followed in 1902 (Congleton, 2011).

Sweden’s democratization process continued throughout the early years of the twentieth century under the leadership of Conservative Prime Minister Lindman who proposed a set of reforms that enabled the expansion of the electorate in the Second Chamber and a modification in the wealth-related membership requirements in the First Chamber in addition to proportional representation in both houses and in parliamentary committees¹⁴. In effect, reducing voting property requirements in the Second Chamber meant the breakthrough of universal male suffrage. Further elimination of voting and electoral restrictions took place between 1918 and 1920 although membership in the First Chamber remained bound to wealth criteria until 1933 (Congleton, 2011; as cited in Verney 1957, 2015). By 1921, women in Sweden gained the right to vote.

Based on the review above, it is clear that the political evolution in Sweden generally followed a gradual pattern. Characteristic of this development, moreover, is its peaceful nature; in the words of Board (1970), not only has the country in its modern history “neither participated in foreign war nor experienced domestic violence... [but Sweden] suffered no civil war or social revolution of the kinds which ripped other societies apart during the nineteenth and twentieth centuries” (p.21). Far from asserting that intense conflicts between different social and political

¹⁴ Ibid

groups never emerged, one cannot help but observe that consensus-seeking was the general tendency in Sweden's political scene.

The Worker-Farmer Alliance¹⁵

Ever since its creation in 1889, the SAP had been considerably influenced by radical socialist ideological thought¹⁶ and even though it received 39% of the vote in the 1917 elections, its programmatic agenda remained unclear throughout the minority governments of the 1920s. The turn towards pragmatism came about when in 1928, Per Albin Hansson, the party's chairman and future Prime Minister who were to remain in this position almost uninterruptedly from 1932 to 1946, gave a famous speech in which he referred to Sweden as the *Folkhemmet*, or the Peoples' Home; a place where "there is equality, compassion, cooperation, helpfulness." (Schall, 2016; p.37).

In the 1932 elections, the SAP won 42% of the vote and 104 seats in the Riksdag and given the turbulent economic situation of the period, it was well positioned against the bourgeois parties in terms of implementing its crisis package and social reforms. In the absence of a majority, the party was, nonetheless, confronted with the need to form an alliance with the nonsocialist block. Surprisingly, the latter was none other than the farmers: A party which at the time was a fervent opponent of the social democratic cause and, like its Norwegian counterpart, somewhat attracted to fascism. The alliance was struck in exchange for price support legislation (subsidies) for the agrarians. In the same decade, the historical compromise of the "Saltsjobaden

¹⁵ The following discussion is based on the work of Esping-Andersen (1985) unless otherwise cited.

¹⁶ Esping-Andersen (1985) explains in greater detail the characteristics of Swedish socialism in the first chapter of *Politics Against Markets* (p.22).

Agreement” between the labor and employer organizations was struck in 1938 after a long period of a mutually strained relationship. In addition to the 1935 pension reform (see Chapter. 3), the SAP passed an unemployment insurance law, which although was voluntary and contribution-based remained under the supervision of the government (Persson, 1949).

The farmer-worker alliance along with its labor-capital counterpart presided over the legislative and electoral successes of the SAP in the subsequent period all while weakening their leftist and bourgeois rivals. In Esping-Andersen’s (1985) eyes, it was due to “the [well-organized...politically articulate...and committed to democracy] character of the Nordic peasantry...that offers the most convincing explanation of why Scandinavian social democracy has succeeded to such an extent, why the Nordic countries pioneered model welfare states...” (p.88).

Given their complexity and in an effort to isolate and capture welfare state developments in Sweden, I chose to study social insurance; namely the old-age pension system. Another important factor behind this selection is the fact that it was within this welfare state sector that a profound ideological controversy unfolded throughout the 1950s between the SAP and nonsocialist camp. This was the period, as we shall see, when the Swedish social democracy entered the era of the wage-earner alliance following the break-up of its worker-farmer precedent, giving way to yet another political realignment (Esping-Andersen, 1985).

CHAPTER 3: THE DEVELOPMENT OF SWEDEN'S PENSION SYSTEM IN THE TWENTIETH CENTURY

The 1913 Pension Reform

Hagen (2013) explains that prior to the enactment of the 1913 pension system, a discussion concerning old-age insurance was very much present in the public discourse towards the end of the 19th century given the several demographic changes that the Swedish society had been undergoing during this time. First, there is the problem of an increasingly aging population, particularly in the rural areas in addition to a reduction in infant mortality and fertility rates following the industrialization breakthrough¹⁷. At the time, the responsibility for elderly care fell mostly on families and relatives while those who lacked any financial or family resources depended on the poor relief laws administered by local authorities. The latter grew financially pressurized, according to Hagen (2013), as the costs for their primary social responsibility; school provision, increased from the late 19th century into the early 20th century. Increased taxation was the main instrument municipalities pursued to raise revenue, but as economic inequalities between districts became problematic, shifting the responsibility of providing for poor relief and school services from local authorities to the national level became an apparent and a desirable solution (Hagen, 2013). Addressing poverty among the elderly was also a major catalyst towards enacting the 1913 pension reform as “it was argued that a pension system would.... provide the elderly with an opportunity to age with ‘dignity’...” (Hagen, 2013, p.17).

¹⁷ The other important demographic phenomenon that was problematic at the time, according to Hagen (2013), was the high emigration levels, particularly of young Swedes; approximately 670,000 people left the country between 1870 and 1900.

In 1907, the Old-Age Insurance Commission was created by the right-wing government to investigate various pension schemes and their viability within the Swedish society. After five years, the commission presented its final reform proposal comprised of three mandatory insurance system suggestions: A universal pension system model with flat-rate benefits, a Bismarckian model¹⁸, and a means tested model (Hagen, 2013). In 1913, the parliament unanimously decided on a hybrid system that combines features of both the Bismarckian and the means-tested models with a two-tiered benefit level scheme.

¹⁸ this simply refers to a contributory system based on the very first insurance laws introduced by Bismarck in the late nineteenth century. This pension design was not viable as it required excluding all non-working peoples in Sweden including the politically powerful agrarians and those living in rural areas, which at the time comprised most of the Swedish population. In addition, this model would be ineffective in addressing the pressing need to lift the elderly out of poverty and easing the fiscal burdens on the municipalities (Hagen, 2013).

Table 2: Developments of Sweden’s Public Pension System (the 1913 and 1935 reforms)

Historical Context	Policy Rationale	Policy Proposals/ Alternatives	Policy Implemented	Description
<p>Late 19th Century:</p> <ul style="list-style-type: none"> . Changing demographics: <ul style="list-style-type: none"> - Increasingly aging population - High emigration levels . Elderly poor relief fell mostly on relatives and local authorities, but the latter grew financially burdened with other responsibilities (school provision). 	<ul style="list-style-type: none"> . Lift the “worthy” elderly out of poverty . Retire with dignity 	<p>The Old-Age Insurance Commission formed in 1907 to investigate different policy designs and presented:</p> <ul style="list-style-type: none"> . Universal scheme with flat-rate benefits: Everyone is entitled to a basic pension amount. . Bismarckian system: strictly contributory; has a strong social insurance character. . Means-tested system: only those who meet eligibility criteria would benefit. 	<p>Universal old-age pension system (1913): contained elements from 2nd and 3rd alternatives</p>	<ul style="list-style-type: none"> . 1st tier- based on Bismarckian model: benefits were completely financed out of past contributions and can be claimed at age 67. Maximum pension is SEK199 for men and SEK159 for women per year. . 2nd tier- supplementary and means-tested: designed to support the elderly in need and is financed by current taxes: SEK150 for men and SEK140 for women.
<p>The 1913 pension system did not achieve its initial goals: Contributory benefits were meager and short-run poverty among the elderly was not addressed. Also, retirees mostly depended on the means-tested component for benefits</p> <ul style="list-style-type: none"> . During the 1930s, Sweden’s economy experienced a downturn and a high unemployment rate. . Beveridgean¹⁹ principles became highly influential in the social policy debate during the 1930s. . The Social Democrats ascent to power in 1932. 	<ul style="list-style-type: none"> . “Liberate workers, farmhands and small farmers from the risk of becoming a burden to the poor relief,” in the words of Minister of Health and Social Affairs Gustav Moller (Lundberg & Amark; 2001; p.162; as cited in Moller, 1935). 	<p>The Pension Insurance Commission of which Gustav Moller was a member formed in 1928 to investigate potential alterations made to the previous pension system:</p> <ul style="list-style-type: none"> . Should the new policy be more Bismarckian in nature, in line with Bourgeois parties’ ambitions? Or should it be more redistributive like the social democrats had hoped for? . How strong is the link between contributions and benefits? 	<p>The 1935 Reform was yet again a compromise between a strictly Bismarckian and redistributive models.</p>	<ul style="list-style-type: none"> . The financing of the new scheme departed from past contributions and became largely dependent on current taxes. . A basic pension of SEK100 in addition to 10% of lifetime contributions are to be paid out for men and women. . Supplementary benefits: SEK225 annually for men and SEK210 for women. . The amount of supplementary benefits also depended on the cost of living for where the pensioners lived (regional heterogeneity).

Source: Adapted from Hagen (2013; pp.15-32), Lundberg & Amark (2001; p.162).

¹⁹ Referring to the Beveridge Report of 1942, Hagan (2013) generally relates the term Beveridgean to the notions of universality, redistribution, flat-rate and/or means-tested benefits.

The 1935 Pension Reform

During the 1920s and the 1930s, the economic situation in Sweden, much like the rest of the Western world, had been characterized by a severe downturn with the unemployment rate reaching up to 30% (Hagen, 2013; as cited in Edebalk, 2003b). Also, poverty among the elderly was visible yet again; and the birth rate in Sweden had been continuing to fall considerably (Lundberg & Amark, 2001). The 1913 system indeed failed to lift the elderly out of poverty and to deliver on its previous promise of a dignified retirement. Not only were the pensions too low for retirees, but benefits could only be drawn after contributions had been accumulated for a long period of time (Hagen, 2013). The shortcomings of the 1913 scheme and how to go about fixing them were thus issues that were hotly debated between the socialist and Bourgeois parties. At the center of the debate lied the question of whether to strengthen the social insurance- Bismarckian character of the system, which favored a direct link between worker contributions and benefits at the expense of a more redistributive and tax-financed model. Evidently, the Bourgeois parties preferred the former alternative as they feared the implications of a large redistributive system on the then- future wellbeing of the Swedish economy; the left, on the other hand, favored the expansion of overall benefit levels (Hagen, 2013). The latter perspective dominated, as can be seen in Table 2, although a complete transition to a redistributive system had not yet materialized.

The 1946 Pension Reform (Folkpension):

Despite the relative generosity of the 1935 enacted pension scheme, poor relief was still an important supplementary source of benefits for pensioners, approximately 30% of whom were poor relief recipients between 1939 and 1947 (Harryson & Edebalk, 2010). This was the case

even when considering the cost-of-living indexation legislation that the Riksdag passed in 1937. In 1938, the Social Care Committee was created to investigate a wide range of welfare policy issues in Sweden (Harrysson & Edebalk, 2010; Hagen, 2013). Among the reports it had produced, one specifically tackled and proposed three pension reform alternatives, which the committee presented in 1945. The first and second alternatives both suggested a total benefit amount of SEK1000 and only differed in terms of how much was to be paid out as a basic pension and how much corresponded to a supplementary, means-tested amount. The third alternative, on the other hand, called for a flat-rate benefit amount of SEK1000 per year for all pensioners regardless of their incomes. What is important to note here is that all three pension proposals completely departed from any insurance-like Bismarckian character: Benefits were to be paid without regard to past contributions or income levels, and their funding was entirely tax-based²⁰. Although it had received considerable support from across the political spectrum, the implementation of the third alternative was by no means straightforward (Hagen, 2013). Ironically, it was within the Social-Democratic government that a conflict on how to go about financing the new scheme arose. While Moller, then Minister of Health and Social Affairs, who during this period was greatly inspired by the recently published Beveridge Report, asserted that the universal flat-rate pension system is necessary to improve the elderly's economic standing, Ernst Wigforss, then Minister of Finance, along with Per Albin Hansson, then Prime Minister, viewed its institution, in its existing form, as a potential drag on the state budget, calling for the incorporation of a means-tested component instead (Hagen, 2013). Nonetheless, the proposal

²⁰ As can be seen in Table 3, contributions (1% of taxable income) had still to be collected in the form of a "special tax" for psychological reasons (Hagen, 2013; p.31).

was voted on unanimously by the Riksdag in 1946 and was expected to go into effect in 1948. The 1946 Folkpension, according to Harryson and Edebalk (2010), was “the world’s first universal social insurance based on citizenship rights.” (p.2).

The General Supplementary Pension (Den Allmänna Tilläggspensionen; ATP) of 1959

The 1946 old-age pension system indeed succeeded in improving the living conditions of the elderly who no longer pursued poor relief as a source of support; however, benefits remained modest and represented only about 20% of an ordinary worker’s wage in the industrial sector (Lundberg & Amark, 2010; as cited in Palme, 1990). On one hand, retirees, particularly those who during their working years earned higher incomes worried that their living standards could not be sustained by the existing system (Hagen, 2013). Disparities in retirement income across labor market groups also emerged as problematic; especially in the light of the economic prosperity that Sweden had been enjoying in the late 1940s (Magnusson, 2000). While some labor market groups successfully sought to negotiate private occupational schemes with employers, others, notably blue-collar workers, were faced with the possibility of their living standards lowered during retirement against their presently rising wages (Hagen, 2013). As an initial attempt to tackle the need for a new earnings-related pension scheme, the Swedish Insurance Supervisory Authority set up by the parliament presented a proposal in 1950 in which it laid out its policy suggestions. The new system, the commission argued, ought to be

mandatory, actuarially neutral²¹, and funded by current revenues (Pay-as-you-go²²); (Hagen, 2013). The proposal was criticized for not taking into consideration the existing private occupational schemes and was therefore never implemented.

The General Pension Commission, which, unlike its precedent, was representative of various political parties and labor market groups initiated a second attempt to find a viable solution for the earnings-related pension question, but it, too, failed to reach a compromise on what became an ideologically-charged debate between the political parties (Hagen, 2013). In 1957, a national referendum was held in Sweden on the nature and design of the new earnings-related pension system, and voters were presented with three policy options, which were supported by different parties and labor market groups. The first policy alternative proposed that all employees should receive an earnings-related supplementary pension financed by employers and was supported by the social democrats, the communist party, and the LO (Hagen, 2013). The Agrarian party supported a second alternative that suggested that in addition to raising the Folkpension benefits, employees may voluntarily contribute into a supplementary earnings-related system with the government guaranteeing the real value of benefits (Hagen, 2013). A third option, supported by the Conservative and Liberal parties as well as the Employers' Confederation, called for a voluntary supplementary pension system that would be run by employers without the government guaranteeing the benefits' real value (Hagen, 2013). As the first alternative received 45.8% of the votes, short of a majority, against the 15% and 35.3% of

²¹Actuarial neutrality “requires that the present value of accrued pension benefits for working an additional year is the same as in the year before [...]; benefits increase only by the additional entitlement earned in that year.” (Queisser & Whitehouse, 2006; p.4).

²² PAYG systems are also referred to as unfunded. Benefits are financed by current revenues as opposed to fully funded arrangements which are financed out of contributions built up over time (Hagen, 2013).

votes that the second and third alternatives won respectively; the debate on the earnings-related design intensified along ideological lines. This resulted from the fact that the percentage of votes the social democrats and the Communist party received in the referendum was lower than the

Table 3: Developments of Sweden’s Public Pension System (the 1946 and 1959 reforms)

Historical Context	Policy Rationale	Policy Proposals/ Alternatives	Policy Implemented	Description
<p>. The Beveridge Report (UK) formally comes out in 1942, influencing the ideas of key political decision makers in Sweden; notably, Moller.</p> <p>. Poor relief was still an important source for benefits among the elderly (Harryson & Edebalk, 2010).</p>	<p>. Effectively address the poverty question among the elderly by guaranteeing pensioners a living income without further assistance from poor relief.</p>	<p>A new commission formed in 1938 to investigate a wide range of welfare policies. One commission report (1945) introduced three alternatives for a new pension reform:</p> <ul style="list-style-type: none"> . Basic pension and supplementary, means-tested benefits amounting to SEK200 and SEK800 respectively. . Basic pension and supplementary benefits of SEK600 and SEK400 respectively. . Universal pension amount of SEK1000 with means-tested housing benefits. 	<p>The 1946 Reform (<i>Folkpension</i>):</p> <p>Unanimous parliamentary vote for the third proposal. A pension amount of SEK1000 paid annually to all.</p>	<p>A complete transition into the Beveridgean model:</p> <ul style="list-style-type: none"> . All future benefits were to be financed by existing taxes. . Existing pension funds, including earned interest, are used to fund current payments. . Contribution rate is equal to 1% of taxable income. . Benefits can be claimed at 67. . Married couples are entitled to only 60% more in benefits than those claimed by single pensioners.
<p>. Sweden’s economy and consumption levels had been growing rapidly in the late 1940s (Magnusson,2000)</p> <p>. Wages and standards of living, especially those of industrial workers, increased.</p>	<p>. Sustain the living standards of workers into retirement.</p>	<p>. Mandatory supplementary earnings-related pension system for all wage earners funded by employers. The self-employed may participate in a voluntary pension plan.</p> <ul style="list-style-type: none"> . Voluntary plan that complements the Folkpension benefits (which were to be raised) funded by all employees and the self-employed. The government guarantees the real value of benefits. . Voluntary plan for all employees and the self-employed. Funding is set up and administrated by employers. The government does not guarantee real value of benefits. 	<p>The 1959 ATP Reform:</p> <p>A supplementary earnings-related scheme that operates separately from the Folkpension.</p>	<ul style="list-style-type: none"> . For the full ATP annual benefit, pensioners must have at least 30 years of reported earnings, and the size of ATP benefit is based on the top 15 income years (This will be referred to as the 15/30 rule in later sections). . ATP benefits are financed by payroll taxes on wages, paid by employers up to a ceiling. . Benefits are indexed to price levels. . Pension fees are collected in and administered from the National Pension Funds.

Source: Adapted from Hagan (2013, pp.29-46); Magnusson (2000; p.200), Harryson & Edebalk (2010; p.2)

the combined percentages of their seats in parliament, rendering the opposition parties to appear more successful²³. Showing no signs of compromise, the partisan and heated debate on this issue continued following the breakup of the social democratic-agrarian coalition in 1957 and the subsequent dissolution of the government by then Prime Minister, Tage Erlander. The ensuing social democratic minority government ultimately submitted its proposal but was also rejected by the Riksdag's Second Chamber. The situation became more problematic when the Second Chamber elections of 1958 resulted in an evenly distributed number of seats between the social democrats and the opposition parties²⁴.

Surprisingly, the fate of the ATP scheme was decided by Liberal member of Parliament, Ture Konigson, who declared that he would not partake in the parliamentary vote on the pension scheme claiming that "it was more important to get some supplementary pension system into place rather than a system according to his party lines" (Ibid; p.42). In 1959 and after a long period of relentless discussions, the ATP scheme, much in line with the proposals of the first policy option presented in the 1957 referendum, was passed by only one vote and was to go into effect in 1960. ATP, a landmark of the social democratic triumph in welfare state politics, according to Hagen (2013), "became a symbol for the social democrats' idealistic struggle against conservative forces, to which leading figures of the SAP repetitively and effectively appealed to during the following decades." (p.43; as cited in Lundberg, 2003).

²³ The referendum results looked especially favorable for the Agrarian party given its poor performance in the parliamentary elections during the 1950s (Hagen, 2013).

²⁴ In fact, the social democrats won one seat more than their opponents in the 1958 elections, but the social democratic speaker of parliament was legally unable to vote on the issue.

The Politics of the ATP Reform and a New Political Realignment²⁵

A discussion involving Esping-Andersen's (1985) principle of political realignment is required for a deeper understanding of the ATP controversy that unfolded in Sweden during the later years of the 1950s.

During the 1940s, the SAP had been under a bourgeois attack in parliament for pursuing unpopular economic controls leading to electoral losses in the 1948. The following decade was characterized by a stagnation for the SAP and an alliance with the Agrarians from 1953 to 1957 focused on the mutually agreeable educational reform. What is crucial to mention is that the farmers, the Agrarian party's class base, were decreasing rapidly in number, all while white-collar workers were on the rise. If the SAP succeeded in mobilizing this new center of party electorate, the new wage-earner alliance would have a decisive say in the future of Sweden's social democracy. Behind the LO's push for the new ATP supplementary pension during this period was their desire to "help accumulate vast savings in collective funds...and...equalize the pension status of all wage earners." (p.108). These pension funds, the LO argued, would have to be controlled publicly rather than through the private market and largely funded by employer contributions, effectively lessening the financial burden on the state and the workers. It was the public controlling of the funds, according to Esping-Andersen (1985), that triggered the bourgeois parties' resistance, arguing that this would be an exaggerated expansion of government power over free enterprise. The bourgeois parties also rejected the plan's compulsoriness requirement and claimed the new proposal to be "an insidious scheme for

²⁵ The following discussion is based on Esping-Andersen's (1985) account in *Politics Against Markets*.

creeping socialism.” (p.109). Following the breakdown of the SAP-Agrarian alliance, the ideological animosity across party blocs intensified. A key player that was instrumental in turning the course of events during this highly volatile political period was the trade union federation for white-collar workers (TCO), which during the 1958 election campaign decided to endorse the SAP. The Liberal party, which has been an notable receiver of the white-collar vote, had no choice but to “break ranks with the other two bourgeois parties and move closer to the social democrats...:The issue was now polarized in such a way that political lines corresponded to class lines...” (Esping-Andersen, 1985; p.162). Other than the bill passing parliament in 1959, by a one margin vote, the success of the ATP reform implied a significant victory for social democracy in Sweden: it had now been able to mobilize and forge a new wage-earner coalition that has the potential of strengthening the SAP’s future electoral fortunes, discrediting and weakening the standing of the bourgeois parties all without jeopardizing on the support of its traditional manual worker base.

CHAPTER 4: THE 1998 PENSION REFORM

The Challenges of the ATP System

The 1959 ATP scheme was indeed a historical landmark for Sweden's welfare policy generally and for the Social Democrats, who were responsible for its enactment, particularly. Pension benefits from ATP and the FP, according to Hagen (2013), accounted for an income replacement rate of approximately 65% for an average worker compared to the OECD average rate of 57% (as cited in Queisser and Whitehouse, 2005). However, leading up to the initial efforts of its reform in the early 1980s, the ATP plan had been faced with serious economic challenges that undermined its financial stability and called into question its long-term sustainability²⁶.

First, the benefit formula of ATP made the system very sensitive to changes in economic growth. Because claimed benefits were predetermined by the previous earnings of pensioners and indexed to price changes rather than wage growth, there was no link between the wages of the working population and the pensions of the retirees. In other words, rising or declining wages in the workforce had no effect on previously earned pension rights among the elderly; therefore, any changes in labor productivity or wage growth subjected the pension system to fluctuations in costs, given that the system operated in a PAYG framework.

The financial viability of the public pension system in Sweden was also threatened by changes in the demographic makeup of the country. As Hagen (2013) points out, there were twice as many

²⁶ This overview is largely drawn from the works of Hagen (2013), Konberg et al (2006), Schludi (2005), and Sunden (2000).

pensioners per single worker in 1994 as when ATP was implemented. By 2025, moreover, the percentage of the population aged 65 or older was projected in 1994 to make up 20% of the population (Konberg et al, 2006).

Another problem facing ATP that is of significance in this analysis is its adverse distributional effects. One of the most celebrated aspects of ATP at the time of its implementation was its attempt to redistribute income from high earners to lower wage workers through the 15/30 rule. The distributional impact sought from ATP, however, proved inaccurate. The 15/30 rule, in practice, rather distributed income from lower-wage workers who typically led longer working lives with flat-life cycle incomes to higher-wage earners with shorter working lives and rising incomes. Blue-collar workers, in particular, “with relatively flat-earning profiles and long working careers (contribution years), and especially blue-collar women, were the losers in the old system.” (Konberg et al, 2006; p.452).

A somewhat related problem to the adverse distributional outcome of ATP is the erosion of loss-of-earnings principle that had taken place leading up to the 1999 pension reform. ATP is designed to compensate pensioners based on their previous earnings up to a ceiling, which was indexed to price levels rather than wage growth, and so long that a large fraction of workers’ incomes stayed below this cutoff point, ATP fulfilled its loss-of-earnings guideline (Hagen, 2013; p.59). Yet, ever since it had been implemented in 1960, wage growth in Sweden’s economy meant that more and more workers earned higher wages, approaching the ATP’s ceiling beyond which no pension rights were earned. This resulted in the supplementary earnings-related ATP pension to operate similarly to a flat-rate benefit system (Sunden, 2000). Other important problems facing the old public pension system in Sweden were labor market

distortions and saving disincentives: Given the ATP's design, workers were not necessarily faced with lower pension benefits in case they chose to lower their supply in the labor market²⁷; furthermore, according to Hagen (2013) and Konberg et al (2006), household savings in Sweden, in fact, declined as a result of ATP over the years.

An Overview of The Reform Process²⁸

The reform process of Sweden's pension system initially started in 1984 during the reign of the Social Democratic minority government with the creation of the Pension Commission to investigate the above-mentioned problems facing ATP. The new commission was heterogenous in representation as it included members from all political parties, trade union, employer, and pension organizations as well as other government and academic experts. At this period, however, the political risk that lied in challenging the existence of ATP, especially for the SAP, and the disagreements that prevailed within the commission prevented the latter from reaching any fruitful results. The Pension Commission's final report published in 1990 proposed modest modifications to the existing system such as indexing benefits to wage growth and increasing the retirement age all while keeping its original framework intact. It is worth noting that, around this time, it was increasingly understood among the Swedish public that the existing system necessitated reform as their trust in it began to decline (Konberg et al.,2006).

²⁷ In addition to the 15/30 and the income ceiling rules that provided for the possibility that a worker who worked full-time for 15 years and part-time for another 15 could earn a pension comparable in size to that of someone who worked full-time for 45 years, the introduction of a special supplement pension in 1969 for those with low or no ATP, was also a likely factor in the reduction of labor participation among workers (Hagen, 2013).

²⁸ Both the review of the reform process and the characteristics of the new system rely on the works of Hagen (2013); Schludi (2005); Konberg et al. (2006); and Sunden (2000).

It was not until the Social Democratic government was replaced by the non-socialist Bourgeois coalition following its defeat in the 1991 elections that the pension reform took a more consequential trajectory. Soon after it had formed, the new Centre-Right coalition comprised of the Conservative, Liberal, Centre (formally known as Agrarian), and the Christian Democratic parties created the new Working Group on Pensions committee, led by then Liberal Minister of Health and Social Affairs, Bo Konberg. Unlike the Pension Commission, the Working Group was small and consisted exclusively of high-ranking members from the parties in the Riksdag²⁹ and other government experts without representation from any interest groups. This move, according to Hagen (2013), was “quite unique and contrasted sharply to the Swedish corporatist custom of formally incorporating labor market partners in social welfare reform processes.” (p.81). Moreover, the small number of the Working Group’s members and their high ranking status within their respective parliamentary parties in addition to the exclusion of labor and pension organizations highlighted the government’s commitment to reach a compromise regarding the pension reform rather quickly in an environment where more than a clash of interests unfolded (Konberg et al., 2006; Hagen, 2013).

Based on the previous report produced by the Pension Commission, the Working Group issued an initial report in 1992 outlining the economic guidelines upon which the new pension system would operate; notably: strengthening the link between contributions and benefits,

²⁹ All Seven parliamentary parties (Liberal, Conservative, Christian Democrats, Center, Left, SAP, New Democrats; a recently established right-wing populist party) had representation in the commission at this stage. The Left party and the New Democrats, however, were opposed to the reform suggestions laid out in the 1992 report and henceforth exited the Working Group (Schludi, 2005).

making the system more sensitive to economic growth, and adopting the life-income principle³⁰ in the benefit formula (Schludi, 2005; Hagen, 2013). Within the Group and especially between the non-socialist parties and the SAP, however, there were strong disagreements regarding the structure, design, and the potential for privatizing some components in the anticipated reform. In general, within the Bourgeois camp, the Conservatives hoped for a reduction in the Folkpension (FP) scheme while encouraging private savings through establishing individual financial accounts; the Liberals argued for strengthening the link between contributions and benefits; and the Centre party and the Christian Democrats were in favor of the flat-rate benefit of the FP. The SAP, on the other hand, were staunchly against a privatization that would diminish the public nature of the pension system and were, according to Hagen (2013; p.) “determined to safeguard traditional social democratic values and keep the bourgeois parties from implementing their ideal pension system.” (as cited in Lundberg, 2001; Sunden, 2000). Compelled by the government to reach a cross-party compromise, the members of the Working Group were nonetheless well-aware that the existing pension system could not be financially sustained and that a fundamental -rather than incremental- change was bound to take place (Konberg et al., 2006).

After much negotiation, the Working Group published its final report in January of 1994 where a more concrete and agreed-upon version of the new pension system was laid out. A proposal was submitted to parliament a few months later, and within the parliament, it enjoyed more than 85% of support (Sunden, 2000; Schludi, 2005). In June of 1994, the reformed pension legislation was formally adopted by the Riksdag, and in order to work out some remaining

³⁰ When pension rights are gained on all income earned in a lifetime, we speak of life-income principle as opposed to the loss-of-earnings principle, which in the case of the ATP scheme, corresponds to the 15/30 rule.

financing-related issues, an Implementation Group was created in the same year. During the subsequent SAP minority government and despite several drawbacks, the Implementation Group submitted in 1998 its final report to Parliament; the latter passed the reform bill with an overwhelming majority of support (Hagen, 2013) and was to go into effect the following year³¹.

The Characteristics of the New Pension System

The reformed pension system in Sweden is comprised of three components and is characterized by the following:

- The income pension: Constitutes the main component in the new system and is an earnings-related scheme that replaced ATP; but unlike ATP, in which benefits are calculated based on the top 15 income years (Loss-of-earnings principle), the income pension enables workers to earn pension rights on all earnings including social transfers such as those pertaining to unemployment or disability (Life-income principle). The financing of this component is a unique hybrid formula that is contribution-based but operates in a PAYG basis. In other words, contributions for each pensioner are recorded into an individual account and annual contributions are used to finance current outgoing payments. The contribution rate for the income pension is 16% and is paid by employees and employers.

³¹ Several technical and political issues, nonetheless, remained unresolved up to this point. It was not until 2001, according to Schludi (2005), that a complete and final pension reform legislation was adopted by Parliament.

- The premium reserve system (also referred to as a fully funded scheme): In fully funded insurance plans, contributions are set up into individual accounts, and these contributions are invested in market assets. Pension benefits, in this case, then depend entirely on accumulated contributions as well as the investment's rate of return (Hagen, 2013). The contribution rate for the premium pension, however, only amounts to 2.5% of earnings and it, too, is paid by employees and employers.
- Guaranteed pension: A means-tested basic guarantee for those with low or no pension. It serves as a replacement for both the *Folkpension* and the supplement pension. The latter was introduced in 1969 and was paid out to those with no or low ATP. The guarantee pension is completely tax-financed.
- The new pension system is linked to economic growth and demographic changes in the population.

What Can be Said about the New Pension System?

Based on the information above, the new Swedish pension reform clearly advocates for a tighter link between contributions and benefits. In the case of the fully funded component, in which individuals are free to choose whether to invest their money into a private or public fund (Schludi, 2005), this relationship is particularly strong. The guarantee pension, moreover, and unlike its FP precedent, has lost its universalistic quality and follows a rather selective policy application. If analyzed in light of Esping-Andersen's (1990) welfare state classifications, a worker's social rights in this instance are closely dependent upon his/her market participation.

Based on the stratified structure of the pension system, I am also compelled to argue that market inequalities are inherently going to replicate in terms of claimed pension benefits. It is due to these conditions that it is fair to conclude that the characteristics of the new pension system are more in line with the definitional properties of the liberal classification.

CONCLUSION AND FUTURE STUDIES

In regard to the 1998 pension reform and although it carries strong liberal features in Esping-Andersen's terms, as previously discussed, Sweden's classification as a social-democratic welfare state, however, did not change throughout the 1990s' neoliberal wave (Lindbom, 2001). In *Dismantling the Social Democratic Model? Has the Swedish Welfare State Lost its Defining Characteristics?* Lindbom (2001) explains that Sweden's economy has suffered a significant decline beginning in the early years of the 1990s, resulting in the Nordic country to lead a negative GDP growth rate between 1991 and 1993 and unemployment rates to reach 12.5% in 1993 from 1991's 2.1%. In 1998, however, Sweden's economic standing improved, and the country's budget deficit turned into a surplus. Given the decade's economic fluctuations, the author ponders whether Sweden's welfare state had retrenched into a liberal standing in light of two competing propositions: (1) the globalization thesis which posits that increased globalization, especially in the case of a small, open, and competitive economy such as Sweden's, should have restrained its government's ability to maintain heavy social expenditures and high tax rates; and (2) the welfare regime theory which argues that the popularity of social programs would prevent any potentially radical restructuring of the welfare state.

In his analysis, Lindbom (2001) points out that welfare retrenchment operationally takes place not when social spending is cut, but when a qualitative shift occurs in welfare schemes (i.e. privatization, or increased dependence on social assistance, for instance). Specifically, he adopts-

albeit modifies³²- Esping-Andersen's decommodification and stratification measures to first compute and then compare Sweden's regime standing in 1998 to its standing as well as the average standing of the 18 industrialized countries in 1980, as reported in *The Three Worlds of Welfare Capitalism* (1990). If Sweden's values change between 1980 and 1998, Lindbom (2001) then compares them to the 1980 scores of comparable countries³³.

Regarding replacement rates for all three systems, Sweden's 1998 was on one hand similar to its 1980 rate on average and on the other hand higher than the average value of the 18 countries in 1980. Concerning stratification, and even though Lindbom (2001) shows that welfare state liberalization indeed unfolded in Sweden in the 1990s in the form of increased means-tested programs and private pension and health expenditures compared to 1980, these values remained below the 1980 average for the 18 countries and universalism in pension, sickness, and unemployment benefits still dominated the Nordic country. It is in light of these findings that Lindbom (2001) concludes that the Swedish welfare remains closer to a social democratic type than to a liberal type.

The Swedish pension system, nonetheless, given that it has created a tight link between contributions and benefits, both in its income pension and premium reserve components³⁴, has

³² Instead of Esping-Andersen's decommodification score, Lindbom (2001) uses replacement rates for pensions, unemployment, and sickness cash benefits. Distinguishing between the social democratic and liberal regimes, stratification, on the other hand, is measured based on indicators like spending on means-tested benefits as a percentage of total public spending and private pension and health expenditures relative to each's total spending.

³³ In addition to social security programs, the author also includes social services in his analysis. This sector, however, is beyond the scope of this paper.

³⁴ The income pension in which contributions are recorded in non-financial (notional) accounts and finance current outgoing pensions in a PAYG fashion, is also structured such as these accounts are accredited with a government applied uniform rate of return that is linked to wage growth and demographic change (Capretta, 2018).

been not only shown to having survived financial turbulence as was the case during the 2008 Great Recession (Malito, 2019), but is also projected to remain in permanent balance (Capretta, 2018). According to The Local (2019), moreover, Sweden had received a rating of B, ranking 5th best in the world, by the Melbourne Mercer Global Pension Index in 2019, though the latter had stated that the country's pension system may be further improved by raising the state pension age and ensuring that employees are also contributing to their employers' sponsored schemes, to name a few suggestions. Currently, the retirement pension age is flexible, giving pensioners the option to withdraw their benefits between 61 and 67 years of age; however, under a new set of reform rules, retirement age will be fixed at 62 in 2023 and then raised again to 64 by 2026 (Malito, 2019).

Can We Infer General Conclusions from this Study of The Swedish Welfare State?

Some liberals in the United States would like to “import” Swedish institutions and implement them in this country. In light of the growing inequality and the generalization of economic insecurities in American life since the 1980s, the impulse is readily understandable. On the other hand, it should be understood that welfare state development in Sweden were the result of a rather unique configuration of interrelated factors, many of which were and are not present in the American context.

First, there is the ideological flexibility of the SAP manifested in the party's abandonment of a revolutionary and class-based political attitude and discourse to one that is pragmatic, reformist, and cooperative. Secondly, there is the willingness of the farmers in the 1930s to work with the SAP within a democratic and parliamentary framework, granting the

social democrats a favorable power position against the nonsocialist block, especially considering the economic hardship of the era and the spread of fascist ideology across Europe. The historical Swedish farmer-worker coalition, however, did not replicate in the case of the United States. According to Esping-Andersen (1990), while the New Deal reform “was premised on a similar coalition (forged by the Democratic Party) ...the importance difference [is] that the labor-intensive South blocked a truly universalist social security system and opposed further welfare-state developments.” (p.30). The peaceful and gradual nature dominating the development of political institutions in Sweden and the general tendency of its elites to engage in bargaining and consensual politics (See Chapter. 2) is also a key factor. This was evident in the evolution of Sweden’s public pension system as was previously demonstrated.

Also, it is worth noting, as Board (1970) pointed out in his *The Government and Politics of Sweden*, that the Nordic country was strikingly homogeneous during the last century. Religiously, this could be seen in terms of the Lutheran State Church of which, when he made this observation, more than 90% of Swedes were members (Ibid). In addition to religion, language and ethnic composition, as Board (1970) explained, were strikingly uniform and although “there are some sectional and social-economic differences, ... these for the most part are not a source of political conflict.” (p.10). Sweden’s historical demographic homogeneity during the years of welfare state building contrasts sharply with the racial and ethnic tensions pervasive in American politics, past and present. Many social scientists have noted how racial and ethnic diversity in America has undermined the social trust across groups necessary to build solidaristic institutions (Katznelson, 1981; Quadagno,1994; Goldfield, 1997).

It is notable that Swedish demographic homogeneity nonetheless has eroded in the recent past with the influx of many immigrants and that conservative forces are growing in reaction to these changes. In 2019, 2,634,967 residents out of the population of 10,327,589 in Sweden have a foreign background³⁵ (Statistik Data Basen; Sweden.se). Since 2014, moreover, Sweden Democrats, a far-right populist party had become the third largest party in parliament, and in the 2018 parliamentary elections, its seat count jumped to 62 compared to the SAP's 100 seats (Tomson, 2020). The Sweden Democrats have been rising in popularity, and according to Tomson (2020), their political narrative in recent years has been a warning against the increase in the number of asylum seekers which in 2015 amounted to 162,877, many of whom are of majority Muslim countries. While the solidarity embedded in the social democratic welfare state remains popular with many Swedes, it remains to be seen just how far the conservative forces can grow and the nature and extent of change they would bring to welfare state institutions if they were ever to gain control over the national government.

³⁵ Statistik Data Basen defines a resident with a foreign background as someone who is either foreign born or born in Sweden with foreign parents.

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