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# **Red Funds and Orange Envelopes**

Public Funds in the Swedish Pensions Debate 1957-2000

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# Table of Contents

<b>1 Pension Funds and Society</b> .....	3
1.1 Fund Socialism and Fund Capitalism .....	4
1.2 The Pension System and Capital Formation.....	6
1.3 Pensions and the Economy .....	7
<b>2 The Rise and Fall of Fund Socialism</b> .....	10
2.1 The Strong Society and Collective Ownership.....	10
2.2 The Dawn of Fund Socialism .....	12
2.3 The AP Fund in the Historical Compromise.....	14
2.4 Towards an Active Fund Socialism .....	16
2.5 The Great Battle over Fund Socialism.....	19
2.6 Towards Fund Capitalism .....	21
2.7 The 1990s Pension Agreement .....	26
2.8 The “Castration” of the AP fund.....	30
<b>3 From Red Fund to Orange Envelopes</b> .....	33
3.1 We’re All Risk Capitalists Now .....	33
3.2 Thrown to the Wolves?.....	34
3.3 It Doesn’t Matter Who Owns It Any More.....	36
<b>4 The Third Way and Fund Capitalism</b> .....	37
4.1 Collective Capital Formation and the Third Way.....	37
4.2 Traditionalist Challenge to the Third Way .....	38
4.3 The Winds of Change .....	39
4.4 Structures and Actors.....	40
4.5 The Pension Agreement – Pragmatism or Ideology? .....	41
4.6 The Future for Pension Fund Socialism.....	42
<b>5 Bibliography</b> .....	45
5.1 Sources.....	45
5.2 Literature.....	45

# 1 Pension Funds and Society

“I am sure that what we have done will not be popular 20 years down the road when those who retire then see what we have done”.<sup>1</sup>

Starting with the economic crisis of the mid-1970s and the emergence of Reaganomics and Thatcherism, there has been a massive turn of the tide in Western societies. The post-war ideology of the welfare state and a mixed economy was replaced by a different political and economic order. The understanding of this dramatic shift, with implications on almost every aspect of human activity, is one of the big tasks facing the discipline of Economic History.

This essay focuses on pensions in one of the countries of Western Europe where the ideas of the welfare state have been most influential - Sweden. In the pensions debate, the issue of welfare distribution meets the issue of capital formation and thereby also the long-term economic structure of society. There are few decisions with as long-term consequences as public obligations to citizens after retirement, and few with such wide-ranging structural implications. This makes pensions a good viewpoint of how actors view capital formation and the economy as a whole.

The advanced welfare state of the Scandinavian type means a collectivization of risks, and thereby also a collectivization of savings. The introduction of supplementary pensions, ATP, took place after a referendum and a new election and the result of the so-called ATP Struggle is seen as crucial for securing the unique position of the Swedish Social Democrats. This decision in the late 1950s was the basis for a development towards increased equality in economic and social conditions, as well as for a strategic alliance between blue- and white-collar workers around the principles of universal welfare. It also meant that a big part of the growth of capital in Sweden took place within the public pension fund – fund socialism was established. The pension system contributed to the country's savings quota with between 2.5 and 4.0 % of total disposable incomes during the period 1960-1990.<sup>2</sup>

The 1990s pension agreement meant vast changes in the Swedish society – politically, socially and economically. The reform took place through negotiations across the political left-right divide. The new pension system was never a big issue in the political debate as the dominant political parties all agreed. That makes the consequences of the reform unclear for many – something that the Swedish

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<sup>1</sup> Prime Minister Göran Persson at a visit in New Zealand 2005-02-18, published in *Dagens Industri* and *Expressen* 2005-02-19.

<sup>2</sup> Olsson & Ekdahl, p. 114-115, Stråth, p. 63-68 and Pensionsberedningen, p. 523.

Prime Minister Göran Persson describes in the quote above. The construction of the agreement means that no current pensioner is significantly affected by the new system and that the consequences will only be felt over time. Only those who were born in 1954 or later will receive their pensions entirely through the new system. They will have to face the fact that the state has drastically reduced its pensions promise to the citizens and react in some way to that. Therefore it is very likely that the debate on the pension agreement will develop gradually as more and more people receive their pensions through the new system.

## **1.1 Fund Socialism and Fund Capitalism**

“The old pension system: The pension system is like a giant ship with people. Earlier on it was decided that there would always be lifeboats for all these people. If more people entered the ship, more lifeboats were bought. This meant that the ticket price sometimes was a bit higher. But the main thing was that everyone has a lifeboat. This was a promise.

The new pension system: The pension system is still like a giant ship with people. Now it's decided that the ticket price will never exceed a certain sum. This means that we cannot afford lifeboats to everyone. The money is only enough for those swim-rings they sell at BR Leksaker for 39,90. And you have to blow them up yourself.

For the first class passengers none of this is a problem, as they have a huge motorboat called Patricia that always plays salsa music, that's waiting for them close by.”<sup>3</sup>

This is how the journalist Lena Sundström describes the pension agreement in a recently published debate book. In this essay, these differences between the systems will be discussed scientifically.

This essay uses two models to understand the effects of the pension funds on capital formation – fund socialism and fund capitalism<sup>4</sup>. These categories are separated on the basis of ownership, which is the classic divide between socialism and capitalism. Fund socialism means that the funds are part of the public sector or owned by trade unions, co-operatives or other forms of collective, non-profit organisations. Thereby a share of the savings in society is collectivised. Fund capitalism implies

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<sup>3</sup> Sundström, p. 101. BR Leksaker is a toy store.

<sup>4</sup> Fund socialism was originally a word used in the employers' propaganda campaign against the wage earner funds 1978-83 and it still works primarily as a negative term in the political language. In the debate before the euro referendum in 2003, Göran Persson openly said that his decision not to support the LO proposals on buffer funds to stabilize the economy if Sweden was to join the euro was due to his concern about a new debate on fund socialism. In this essay, fund socialism and its opposite fund capitalism are used as models as to better understand the political reasons behind different actors' support for different kinds of funds.

private ownership by individuals who make their own decisions on which fund they place their money in.

This essay also distinguishes between active and passive fund socialism. The active form of fund socialism is when the public or co-operative ownership is used to transform society by advancing goals such as high employment, sustainable development or regional balance. The original proposal for wage earner funds from the Meidner group and the LO (Landsorganisationen, the Trades Union Congress) Congress of 1976 represent active fund socialism, as they were proposals intended to change power relations in society and influence investment decisions.

Passive fund socialism is where the potential to use the funds for goals other than to maximise the yield is not utilised. This can be the case either because the collective owners do not want to do so or because investment criteria or institutional solutions make such use of collective economic strength difficult. In the ideal passive fund socialism, the funds have no other goals than to maximise profits for their collective owners. In this regard, passive fund socialism can be seen as simply a way of getting some milk from the capitalist cow. As we will see, the original AP fund from the ATP reform was quite close to the passive fund socialist model.

Fund capitalism is quite common in Swedish economic life, as private institutions have a large share in the ownership of Swedish companies. These funds have few limits on their investments; no one has any interest in preventing them from influencing the economy. The same is the case with the new PPM funds, which will be discussed later on in this essay.

Within the limits of fund capitalism, there are possibilities to influence the economy by consumerism. The individual saver can choose certain funds that avoids “unethical” companies that deals with weapons, child labour, prostitution etc. An example is the KPA pension fund – an “ethical” fund that can be chosen in the PPM system.

Another example of this PPM fund consumerism is the LO-Folksam pension fund, which is on the PPM fund market primarily to push down the cost for LO members but which also has some “ethical” restrictions on where to place their capital. But as the LO-Folksam funds are owned by the trade unions they can equally well be seen as a special case of passive fund socialism.

## **1.2 The Pension System and Capital Formation**

This essay's purpose is to examine how the Swedish Social Democrats dealt with capital formation during the 1990s pension agreement. This will be compared to how the Social Democrats looked at pension funds and capital formation during the period of the Strong Society in the 1950s, 60s and early 70s. This study aims to deepen the understanding of how the change from the 'Strong Society' ideology to the Third Way ideology affected the role of pension funds in Social Democratic thought.

In order to fulfil this purpose, the study tries to answer three questions that compare the 1950s and 1990s pension reforms:

- How did the Social Democratic view of the concept of risk change?
- How did the Social Democratic view of the concept of savings change?
- How did the Social Democratic view of the concept of ownership change?

The essay is based on a hypothesis that the shift towards a more market-oriented economic policy – the Third Way policy – led to a shift towards a more capitalist view of pension funds.

This essay starts by describing what we know from previous research about the role of pension funds during the Strong Society era. We follow the debate from the political struggle on the public supplementary pension system (ATP) during the 1950s when the AP fund (Allmänna Pensionsfonden, the Public Pension Fund) was formed, and then we look at the impact the AP fund had on Swedish society. As it is impossible to discuss the issue of funds in Swedish society without mentioning the debate on wage earner funds, the relations between these funds and the pension funds is covered. We will then follow how the debate on pension reform started in the middle of the 1980s when the Swedish Third Way was dominant in Social Democratic thought, and how the pension agreement took form during the 1990s.

There are two major studies done on the issues covered by this essay. Jonas Pontusson has described the role of pension funds in Swedish economic life in *Public Pension Funds and the Politics of Capital Formation in Sweden* and in *The Limits of Social Democracy*, and Urban Lundberg has examined the 1990s pension agreement in *Juvelen i kronan – Socialdemokraterna och den allmänna pensionen*. Pontusson's studies cover the issue of capital formation, but they halt before the 1990s pension agreement. Lundberg on the other hand gives an excellent description of the pension agreement, but he does not include the issue of capital formation.

Capital formation is a very important aspect of the 1990s pension agreement where the change from the structures and institutions of the previous era makes historical comparison well worth the effort. A lot of research in recent years has improved our understanding of the processes that triggered the Swedish Third Way policies of the 1980s and 90s, but none of these studies have looked specifically at capital formation. The existing literature on pensions during the Third Way era focuses heavily on the social policy and insurance aspects of the pension system, while this essay's purpose is to increase our knowledge on the role of funds and capital formation.

### ***1.3 Pensions and the Economy***

There are basically three motives for a person or a family to save money. One is the motive of saving for a rainy day – the need to have a capital to protect oneself in case of loss of income due to illness, unemployment, age etc. Another is to save in order to leave an inheritance to the next generation – often, at least partially, real estate. A third motive for savings is when real estate and capital goods are financed through loans that need to be paid off.<sup>5</sup>

Pensions play a very important part in the economic structure of a society<sup>6</sup>. In a modern society, where the average life expectancy is rising and the number of years in retirement is increasing, this importance is even more pronounced. The average life expectancy of a new-born child in Sweden during the years 1999-2003 was around 82 years<sup>7</sup>. This means that the average Swede lives for 17 years after turning 65, or that a fifth of the life lies beyond the normal retirement age. Excluding the first 20 living years, the time after retirement corresponds to more than a third of the time spent in work.

A pension system is a means to transfer resources from the working population to the retired population. Throughout most of human history, the most frequently used pension system was that the children would take care of their parents when they reached old age. The best guarantee for a secure retirement was to have many children who survived into working age. As modern banking evolved, those who could afford it started to save money to improve their living standard in retirement, but the majority of the population were still dependent on their children to provide for

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<sup>5</sup> Pensionsberedningen, p. 526.

<sup>6</sup> This discussion on pensions and the economy is a summary of many of the books seen in the bibliography in the end. The author has not seen any need to specify where the different ideas come from.

<sup>7</sup> Statistiska Centralbyrån (2005), p. 104. For women, the life expectancy was 84.89 years while it was 80.36 years for men.

them when they could not work any longer. This was the case until public pensions first appeared in the early 20<sup>th</sup> century.

When it comes to state based pension systems, the most direct form is a *distribution system* – fees and/or taxes on the population that are currently working are distributed to retired citizens. Often these distribution systems work as social insurances where the citizens know how much they will get when they retire due to long-term political decisions. The logic of this system is a more or less explicit inter-generational contract – we pay for those who are retired now and our children and grandchildren pay for us later on.

Another way of organising a state pension system is through a *premium reserve system* where the citizens that are currently working reserve a stake in future production through shares in funds that are built up for the purpose of paying pensions. At the same time, those currently working are paying for the retired generation through the profits of the companies they are working for and through rents on government bonds. You cannot save a loaf of bread for your pension – it is always the currently working generation that pays, in one form or another.

Some distribution systems – for example the ATP system – are constructed so that there is a buffer in the system to avoid quick shifts in the fees paid into the system. These funds are naturally an important part of the formation of capital in a modern society. The structure of the pension system plays an important part in the distribution of wealth and is crucial for the relationship between public and private ownership in society.

As the economy grows, a much larger part of the population is able to secure its provision for retirement without the help of state pensions, either through pension schemes in their companies, collective bargaining agreements or private pension insurance. The lower the level of the state pensions, the more individuals will increase their private savings. This will have significant implications for equality among the pensioners, as those who cannot afford private pension insurances and/or are lacking the competitive strength on the labour market to get good terms for company based pension schemes will be much worse off. A pension system that is dependent on the value of the stock market also leaves open the possibility that inequalities will be caused by the performance of the different funds in question.

If a larger share of the pensions is provided on the market, it will also mean a transfer of power from public to private. A part of the debate on globalisation is focused on the impact of pension funds in

the development of the so-called quarter capitalism and its very high demands to maximise profits. It has been said that the large, in particular American, pension funds and their hunt throughout the world for quick profits is increasing economic inequality, as even profitable production is forced to close down because the capital can make even higher profits elsewhere in the world.

The relative sizes of public and private pension savings are mainly dependent on *the level of the public pensions*. If individuals consider the benefits provided by the state pensions as enough for their needs after retirement, the level of private pension savings will be low. But *the structure of the public pensions* is also important. When the state pension system has an element of choice so that individuals can decide to use public pension money in private funds then this will also, of course, increase the proportion of private funds.

The most important change for citizens that took place with the new pension system was that a benefit-based system was replaced by a fee-based system. The state's promise to pay a certain amount of pension benefits was replaced by the state's promise not to charge the working citizens more than 18.5 per cent of their salaries. In order to secure this promise to keep fees down, a mechanism to automatically adjust the benefits to demographic and economic changes was introduced that would "last to the next ice age" according to the chair of the group that drafted the agreement, Bo Könberg. Another measure to cut the costs of the system was that the rules changed, so that future pensions were based on the income of all the working life, instead of on the best 15 out of 30 years.

Another important change was that the public AP fund was divided and drained and largely replaced when it comes to pension funding by private PPM funds that citizens are to choose between. While the AP fund is a buffer to make sure fees are not raised too much in bad times, the PPM funds are premium funds that are directly linked to the individual's pension benefits.

## 2 The Rise and Fall of Fund Socialism

### 2.1 *The Strong Society and Collective Ownership*

Historically, Swedish Social Democracy has differed from many of its sister parties in other European countries by not appearing to be very interested in nationalisation of private companies. The first Social Democratic government in 1920 appointed a Nationalisation Commission (Socialiseringsnämnden) but despite a lot of research the result was very plain. After the “Cossack Election” of 1928, when the political right succeeded in attacking the Social Democrat’s nationalisation agenda, the rhetoric of class struggle was replaced by rhetoric focused on “the People’s Home” (Folkhemmet).<sup>8</sup>

The People’s Home was an attempt to build a broad alliance of social groups supporting a progressive agenda. Social Democratic ideology was divided into three separate strands – political, social and economic democracy – that were to become the Social Democratic trinity. Now, it was said, focus should be placed on the social sphere. This meant that economic democracy was placed further down the road, in the future when the social problems of the era were dealt with. But while Swedish Social Democracy was less radical than many of its European sister parties in supporting nationalisation of industries and financial institutions, it developed its own strategy of achieving socialism through the means of an expanding Welfare State that would gradually reform society’s institutions.<sup>9</sup>

It is useful to look at the actors themselves and their thoughts on the relationship between Socialist ideology and Social Democrat practice. The idea of the welfare state as a means of achieving further and more strategic goals is often related to the leading Social Democrat politician and ideologist Ernst Wigforss. Wigforss, Minister of Finance for many years in the 1930s, 40s and early 50s, said that “welfare is not socialism [...] but it’s the necessary basis for a further advance forward”. The ideological thinking of Ernst Wigforss was building a bridge between theory and practice for the labour movement, and Wigforss heavily influenced even the “Golden Years” Prime Minister Tage Erlander. This theory is about going “through the welfare state to socialism” as Tim Tilton describes it in his book on Swedish Social Democracy. It is about embedding socialism in the welfare state.<sup>10</sup>

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<sup>8</sup> See for example Schüllerqvist.

<sup>9</sup> See for example Tilton’s *Through the Welfare State to Socialism*. An evaluation of the ideas of one of the leading ideologues of this time, Gustav Möller, can be seen in Gustavsson (1999).

In the 1950s, pension reform was central to the ideology of “the Strong Society”. This ideology – that can be seen as a “provisional utopia” in the language of Ernst Wigforss – was formed at the Prime Minister’s office by Tage Erlander and his Secretary of State Olof Palme. The Strong Society was a way for the Social Democrats to meet the debate introduced by the chief editor of the liberal newspaper *Dagens Nyheter* Herbert Tingsten on “the Death of Ideology”. Tingsten meant that in a society with strong economic growth and reduced social injustices the tensions between political ideologies were reduced and everybody evolved into middle-of-the-road Social Liberals. Erlander and Palme instead argued that this increase in economic resources lead to “the discontent of rising expectations”. As things got better, people started to demand more from society. Therefore, public spending and public welfare needed to expand in a growing economy, to respond to citizens’ expectations that the greater economic resources should be used to tackle old injustices.<sup>11</sup>

Embedded in the Strong Society’s ideology was the idea that social justice was not a cost but an asset. The reform measures to get rid of old inequalities were also efforts that benefited the economy as a whole. The idea of the Strong Society was also associated with the concept of “universal welfare” (generell välfärd) and of a public responsibility to ensure the citizens a “living standard security” (inkomstrygghet). This principle was established during the preparations for the ATP reform in the 1950s, as ATP guaranteed living standards for well-off white-collar workers as well as for the blue-collar workers who originally demanded the reform. The consequence of this was that the majority of Swedish pension capital was built up in public funds and not by private pension insurances.

The long-term perspective of the pensions issue makes it a very important area for structural change in a society. Speaking about pensions, the Prime Minister of 1946-69 Tage Erlander says, “You cannot draw a line between social policy and institutional change in society. There is no wall between reformism and socialism”<sup>12</sup>.

The construction of the Strong Society was a factor working in the opposite direction to the “rainy day”, or insurance, motive of saving money. Public housing programs offering high quality rented housing and the security net of social services and benefits reduced the need for private savings. Therefore, a natural part of the ideology of the Strong Society was the construction of public funds, to replace the reduced private savings with public saving.

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<sup>10</sup> Ernst Wigforss’ ideology is described in Tilton, p. 39-69.

<sup>11</sup> Tage Erlander and Olof Palme’s ideology is described in Tilton, p. 166-188.

## **2.2 The Dawn of Fund Socialism**

The idea of public ownership of pension funds in order to have a buffer in the pension system and increase savings appeared in the context of the Strong Society. The liberalisation of world markets and the fast pace of growth in the industrialised world saw Swedish exports increase very quickly during the 1950s and 1960s. In fact, the volume of exports went up 400 per cent in two decades. This inspired the ruling Social Democrats to expand social programmes but it also increased pressure to produce an economic policy that made this development sustainable.<sup>13</sup>

By the late 1950s, the ruling Social Democrats had accepted the model that combined full employment with low inflation developed by the trade union economists Gösta Rehn and Rudolf Meidner. One of the cornerstones in this policy was to save workers and not jobs, as one of the leading modern followers of the Rehn-Meidner concept, Ingemar Göransson, describes it<sup>14</sup>. The Rehn-Meidner model of the 1950s and early 1960s was based on a solidarity wage policy of “equal pay for equal work”, where all companies in a sector are forced to accept the relatively high salaries negotiated for the profitable companies. This inevitably leads to bankruptcies in the least profitable companies, but as long as the expanding companies can continue to expand this is seen as positive as it leads to a constant pressure for renewal throughout the economy.

Sweden became a country with high wages, and to sustain its position in the world market it had to constantly renew its industrial base to ensure high productivity in the export sector. The economic expansion was a strong incentive for investments. Inside the Labour Movement, leading figures like the LO chief economist Gösta Rehn and Minister of Finance Per-Edvin Sköld discussed how to combine the need for a larger amount of savings with a transfer of power to the employees. Prime Minister Tage Erlander feared that if the new capital was to be accumulated in the traditional banks and insurance companies, even more power would be concentrated with the old elite. He saw the creation of large public funds as a vital to the construction of the Strong Society.<sup>15</sup>

The need to solve the workers' pensions problems coincided with a need to expand the amount of capital in a fast growing economy. Therefore, the government appointed a new pensions committee led by the head of the Central Bank, Per Åsbrink, that was to find a model for how the savings in the

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<sup>12</sup> Erlander, p. 256.

<sup>13</sup> Schön, p. 381.

<sup>14</sup> The quote from Göransson come from speeches he has made with the writer of this essay in the audience.

<sup>15</sup> Schön, p. 382-386 and 412-414, Erlander, p. 258.

new pensions system should be designed. The fundamental question to solve was how the pensions reform could help and not disturb the economic expansion.<sup>16</sup>

This committee had two main reasons to propose funding in the ATP distribution system. The first reason was that a fund could “even out” the effect of large fluctuations in the fees that could otherwise occur with large demographic variations and trade conditions. The other was to influence the total amount of savings in society and to compensate for the downturn in private savings that was feared because of the introduction of the ATP system.<sup>17</sup>

It was the right wing parties who made pensions a conflict issue during the 1950s by demanding a referendum on supplementary pensions. The Social Democrats opposed this referendum but eventually succeeded in mobilising the whole labour movement for ATP. The Social Democrat-Farmers’ Union coalition government called a referendum in 1957 on the pensions issue. The Social Democrat/LO/TCO “Line 1” won the referendum, after having introduced a new political language where the state was seen as a guarantor for security and justice. This sparked a government crisis as the Farmers’ Union left the coalition. A bill on the introduction of ATP was proposed to Parliament and rejected by the right-wing majority, which resulted in the immediate calling of a new election to the second chamber for June 1<sup>st</sup> 1958. Following the election, the supporters of ATP now had 116 seats while its opponents held 115 seats, but as the speaker was not entitled to vote according to the Constitution the largest social reform would have had to be decided by the flip of a coin.<sup>18</sup>

The Social Democrats now tried to negotiate a deal on the pensions issue with the Liberals. The Liberals could accept a public pensions system after the 1957 referendum; but if they were to vote for the reform in Parliament they wanted a solution where the funds were administered by insurance companies and not by a public monopoly. This proposal was rejected by the Social Democrats, who were prepared to compromise on how the fund money should be used but not on the public funds in themselves. According to Tage Erlander, the main reason for the failure to negotiate a Social Democrat-Liberal compromise on ATP was the question of who controlled the pension funds. Finally, the Social Democrats proposed the ATP to Parliament without a deal with the Liberals, and won when a Liberal Member of Parliament, Ture Königsson, abstained in the final vote.<sup>19</sup>

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<sup>16</sup> Erlander, p. 188-189.

<sup>17</sup> Pensionsberedningen, p. 475 and the First AP fund website, [http://www.ap1.se/templates/API\\_Normal.asp?id=1974](http://www.ap1.se/templates/API_Normal.asp?id=1974) (2005-08-22)

<sup>18</sup> Stråth, p. 31-68 and Erlander, p. 183-237.

<sup>19</sup> Erlander, p. 245-261.

## **2.3 The AP Fund in the Historical Compromise**

The emergence of fund socialism did not initially mean that these funds were actively used in order to influence investments. In 1960, the AP fund was established. When discussing the role of the AP fund in the Swedish 60s and 70s economy, it is necessary to make a distinction between the potential of having large state funds and how the funds really acted in the economy. During the ATP struggle, the issue of fund socialism was clearly sub-ordinated in the labour movement's priorities to the aim of achieving equality in pension rights. Even though the Social Democrats never made a deal with the Liberals, they put restrictions on the opportunities for the AP fund to have influence on investments and other corporate decisions. The legal-institutional framework proposed by the 1957 pension committee was designed not to challenge the economic power in the Swedish society, so as to "ensure that the opposition forces did not unite behind a single alternative scheme, and 'pension fund socialism' was most likely to bring about such a unification"<sup>20</sup>.

The first restriction put into place was that the fund was divided into three separate AP fund boards. The importance of this can be questioned, as the fund was acting as a sole entity in front of the insured population, sharing executive director and administrative staff, but the declared purpose was to avoid concentration of power. The first AP fund board was to deal with the pensions money coming from employees in the public sector, the second board was responsible for the money coming from employees in larger private companies and the third board had the smaller private companies' employees' money. The boards were corporative in their structure, with representatives from unions, employers and the state.<sup>21</sup>

What was more crucial to the AP fund's ability to intervene in the economy were the restrictions in how credit could be supplied. Three means of credit supply were allowed. Corporations had the right to reborrow 50 per cent of their fees paid the previous year in "retroverse loans" – something that took up around 20 per cent of the AP fund's accumulated claims on the business sector by the end of 1982. The AP fund could engage in direct lending to public authorities, corporations owned by public authorities and intermediary credit institutions. Finally, the fund was free to purchase bonds. None of these ways of lending gave any direct opportunity to influence investment decisions or to have discretionary influence on corporate policies.<sup>22</sup>

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<sup>20</sup> Pontusson (1992), 93.

<sup>21</sup> Pontusson (1992), p. 81-82.

<sup>22</sup> Pontusson (1992), p. 82 and Pontusson (1984), p. 58 and 66-74.

The legislation surrounding the AP fund considered it as a private insurance company, which should not let economic and social policy influence its investment decisions. Pontusson points at the difficulty of distinguishing the “interests of the insured” from those of the general public for the AP fund, and takes that difference as an explanation of why the rules of the AP fund was in fact stricter than those for the private insurance companies. As the AP fund was not allowed to invest in equity shares or real estate, it was in fact very reliant on the bond market where the average yield is lower than for example on the stock market.<sup>23</sup>

When it comes to corporate finance, we have already seen how the arrangement with retroverse loans restricted the AP fund’s ability to influence investments. Within the restrictions given, a priority was given to industrial investments. But the actual decisions on which investments to support were not made in the AP fund boards, and not even by the executive director. The capital was channelled through corporate bonds and intermediary credit institutions. Pontusson argues that the appearance of the AP fund did not challenge the private character of investment decisions in Sweden. Even if the intermediary credit institutions tend to be semi-public in their ownership structure, their decisions have not been subject to public debate or political bargaining. The power of the commercial banks in the credit-based Swedish financial system remained unbroken.<sup>24</sup>

It seems that one of the most important effects of the AP fund was to help transferring money from business to housing and to the public sector. The investments that were made possible through the capital distributed via the AP fund were used for the vast governmental housing program in the 1960s and for investments in infrastructure such as roads, schools and hospitals. According to the ideology of the Strong Society, these were productive investments that contributed to economic development.<sup>25</sup>

The AP fund quickly became an integrated part in the historical compromise between labour and capital despite occasional debates in conservative newspapers and by right-wing politicians who saw an emerging threat to private enterprise in Sweden as the fund capital grew very quickly because of the rapid growth in the wider economy through the 1960s. The scare of the potentially red funds was triggered by the economic development of the day, when wages were increasing rapidly while the profit quota was decreasing. The AP fund grew quickly, while the private companies were short of capital. In 1973, the AP fund had 55 per cent of the capital market.<sup>26</sup>

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<sup>23</sup> Schön, p. 392 and Pontusson (1992), p. 83-84.

<sup>24</sup> Pontusson (1992), p. 87-92.

<sup>25</sup> Pontusson (1992), p. 85.

<sup>26</sup> Lewin, p. 411 and 479, Sjölander, p. 13 and Pontusson (1992), p. 94.

Pontusson points at how well the legal-institutional framework of the AP fund fit into the principles of the Rehn-Meidner model at the time. The AP fund made an increase in the savings quota possible without higher corporate profits, but the system that was put into place was by no means against the logic of the market. Quite to the contrary, Pontusson argues that the LO proposals made by Rudolf Meidner in the 1957 pension committee were in fact arguments made to increase the importance of markets in the allocation of capital. LO wanted one single fund and opposed the automatic right to reborrow pension fees – as to avoid steering capital to inefficient firms that should be phased out and replaced by more efficient companies in the Rehn-Meidner scheme.<sup>27</sup>

In his famous “Politics is to want something” speech for the 1964 SSU congress, Olof Palme explicitly argued that the AP fund had made a higher level of equality possible by delivering capital for investments without large differences in wealth<sup>28</sup>. As described above, the AP fund was an important brick in the construction of the Strong Society ideology. And as long as the labour movement’s one demand on big business was that they should continue the structural adjustments so as to make higher wages and more social reforms possible, the passive fund socialist shape of the AP fund was perfect for its needs.

## ***2.4 Towards an Active Fund Socialism***

The economic and political developments of the late 1960s and early 1970s triggered a debate on more active fund socialism in order to influence corporate decisions.

Pontusson says that the AP fund increased savings “without aggravating inequalities of wealth in the 1960s, but it gradually ceased to perform this function”<sup>29</sup>. The increase in real wages and in labour supply in the late 1960s and the early 1970s resulted in fast AP fund growth. In the early 1970s, the AP fund was 35 per cent of the total credit supply. The late 1970s increase in public debt meant that the AP fund capital was increasingly used to finance state borrowing. In the 1980s the Third Way policy of profit-led growth made the AP funds irrelevant for business as investments were financed through corporate profits.<sup>30</sup>

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<sup>27</sup> Pontusson (1992), p. 79-94.

<sup>28</sup> Palme, p. 18.

<sup>29</sup> Pontusson (1992), p. 112-113.

<sup>30</sup> Pontusson (1992).

The development of fund socialism should be understood in relation to the development of the labour movement's economic policy. The solidarity wage policy was introduced in the 1950s, followed by an active labour market policy intended to solve the problem that the high wages tended to out-compete less profitable companies. During the 1950s and at the beginning of the 1960s, the labour movement had a quite unproblematic view on structural adjustment – a view quite different to the view held by unions in most other countries. The unions accepted that jobs were lost as a result of technical and social development, but demanded that the state delivered “security during change” (trygghet i förändringen).

This endorsement of structural change became questioned when the economy took a new turn. The first factor to soften the labour movement's support was the unbalanced regional development. While the larger cities grew fast, big parts of the country lost its population. Jobs disappeared in areas with a low population density and the north of Sweden was especially affected. To handle the growing regional tensions, the labour movement called for a localisation policy to stop the worst consequences of the “removal van policy” (flyttlasspolitiken). Even so, these tensions between cities and low-populated areas became an important factor when the Farmers' Union transformed into the Centre Party and made important inroads into Social Democratic electoral support – a development which caused the 1976 shift to a Centre Party-led right-wing government.

As Japan and other countries in East Asia as well as in southern Europe moved to become industrial states the pressure on Sweden's industry to handle low-wage competition from abroad grew. This was especially the case with the textile and shipbuilding industries. Workers started to feel increasing pressure on their jobs. At the same time, the radicalisation of Swedish society in the late 1960s triggered a wave of illegal strikes for better working conditions and more influence for the workers on their workplaces. As the unions radicalised, their demands for an active investment policy to secure future employment became much more outspoken.

Pontusson points at four important changes in the economic context of reformism. First, new competition in the market for Sweden's raw materials-based basic industries made the Swedish economy more dependent on advanced industrial sectors, such as the engineering industry, with a higher import content and “a greater potential for multinationalisation”. Secondly, the increased rationalisation in the advanced sectors meant that new investments did not generate new employment. Third, concentration and internationalisation of capital harmed the link between profits and new investments. And fourth, world economic instability, higher interest rates and the growing

importance of research and development made Swedish business opt for equity capital rather than borrowed capital.<sup>31</sup>

According to Pontusson, the choice facing the labour movement at this stage was either to “accommodate a major increase of private profits or introduce reforms that involved collective ownership”<sup>32</sup>. The demand for active fund socialism was the Swedish trade unions’ first response to globalisation. As international competition grew and as Swedish capitalists became less faithful to the nation-state, the unions’ interest in taking responsibility for Swedish employment by themselves through collective capital formation increased. This also fitted well into the Social Democrats’ self-understanding, where the concept of the gradualist “People’s Home” strategy had always contained a “last brick” that should be put on top of political and social democracy – economic democracy.

Trade union opinion increasingly started to demand that the AP fund should be used as a tool to increase ~~the~~ public influence on investments. The issue was intensely debated at the 1965 Metal Industrial Workers Union congress and the 1966 LO Congress took stands for “an ATP involvement in new enterprise of considerable size, for example through separate holding companies founded for this purpose”. Rudolf Meidner, who presented the report at the LO Congress, argued that the AP fund money belongs to the employees and that it is not any stranger that the employees decide to use their capital than that the same thing is done with private capital. The LO leadership declared that it was not satisfied with a situation where private interests decided all by themselves how Swedish enterprise developed, while wage earner capital mostly was used to finance housing and society service.<sup>33</sup>

As the debate went on inside the Labour Movement and as pressure from outside increased, the LO started to stress the issue of a more active fund socialism more and more in discussions with the government. In December 1971, after an LO Congress that had had intense debates on profit sharing and collective capital formation, the LO chair Arne Geijer wrote a letter to the government saying that the market mechanism was not enough to ensure industrial development. Geijer argued that as the self-financing capacity of industry had declined, the AP fund should be allowed to purchase corporate shares to improve solidity without redistributing income from workers to private owners. Capital from the AP fund should be used as risk capital through an increased state planning of the pattern of investment. LO aspired to “real influence not only over the volume of investment, but also

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<sup>31</sup> Pontusson (1992), p. 121-122.

<sup>32</sup> Pontusson (1992), p. 122.

<sup>33</sup> Lewin, p. 498, Ekdahl, p. 196-99 and Johansson & Magnusson, p. 127-128.

over how, when and where investments are made”. Geijer’s letter proposed a merger of the AP fund boards to one single board with wage earner majority.<sup>34</sup>

As a response to the LO petition, the Fourth AP Fund was created in 1973. Scholars disagree on the importance of this step – while Tilton has described it as one of the major steps during the 1970s to realise economic democracy, Pontusson is careful not to use such terms to describe the fund. The Fourth AP Fund had a very limited share of the AP funds’ total assets and it was never used as a tool for investment planning in the way that LO initially intended it to.<sup>35</sup>

But even if its ownership in companies on the stock market was restricted to 10 per cent in 1979 by the right-wing government, its 6 per cent in Volvo made it the single strongest owner in terms of voting power. The fund had a strong wage earner representation on its board, and after a proposal from the Centre Party, the Fourth AP fund was obliged to hand over its voting rights to the trade unions at shareholders’ meetings. It also played an important role in unlisted companies by offering risk capital without demanding control on behalf of any of the power blocks in the business community.<sup>36</sup>

## ***2.5 The Great Battle over Fund Socialism***

As a result of the debate on active fund socialism and the failures of the solidarity wage policy, the LO introduced the proposal on wage earner funds (löntagarfonder). The debate on wage earner funds is deeply connected to the debate on pension funds. The outcome of the debate would affect the economic context that future political decisions would be taken in and also how the actors would look upon fund socialism for decades to come.

“The AP funds were being built up since the beginning of the 1960s, and great expectations were attached to the build-up of these funds within the trade union movement, both regarding their character as a mechanism of collective savings under the administration and control of wage earners and regarding their role as instruments of industrial policy. Many people within the trade union movement seem to have perceived the AP funds precisely as “wage earner funds”. [...] It would take a good decade before the trade union movement became clearly

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<sup>34</sup> Johansson & Magnusson, p. 134-136 and Pontusson (1992), p. 189. The text from Geijer’s letter is translated and quoted by Pontusson.

<sup>35</sup> Tilton, p. 5 and Pontusson (1992), p. 189-219.

conscious that the funds did not fulfil – and were not meant to fulfil – this function. But so long as the illusion existed, it was natural that one did not consider it urgent to build up wage earner funds with similar purposes.”<sup>37</sup>

This quote from the architect of the wage earner funds, the LO economist Rudolf Meidner, gives us a hint on the link between pension fund socialism and the fund socialism that would be intensely debated during the years following the release of the so-called Meidner Plan in 1975. Wage earner funds appeared after trade union decision makers had realized that the AP fund was merely a passive form of fund socialism.

Initiated by motions to the 1971 LO Congress, the proposal on wage earner funds was a way of making policy of the voices demanding that the labour movement should go “from words to practice” on economic democracy. The radical proposal from three researchers that had been adopted by the LO board was even more radicalised by the LO congress of 1976 and was to become the centre of the political debate for almost a decade. The proposal was to make larger companies pay an annual fee in shares in an amount decided by their profits. The shares are controlled by funds owned by the wage earners collectively. The funds would grow to become a major actor in Swedish economic life.

The wage earner fund discussion had its origins in the solidarity wage policy. The unions’ ambition to reduce the differences in salaries resulted in “excess profits” (övertvinster) in the most profitable companies. Ever since the 1950s there had been discussions on how to transfer these resources to other sectors, and proposals had been made on collective capital formation. But the committee proposing the funds also addressed the need to improve the financial solidity of industry without causing a concentration of wealth, as well as to give trade unions direct influence on corporate decisions.<sup>38</sup>

The post-war consensus was based on a compromise with Swedish industry that was interested in growth within the limits of the nation-state to sell their products. Increasing internationalisation and globalisation took away much of the basis for this, as the interest from Swedish big business in demand-driven growth decreased.

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<sup>36</sup> Wikander, Sten, “Har fjärde AP-fonden haft någon betydelse?”, in Andersson, Dan (ed), p. 92-109. The large ownership in Volvo was due to a directed share issue by the company in 1974 when the company was in need of risk capital. See also Pontusson (1992), p. 207.

<sup>37</sup> Written by Rudolf Meidner in *Löntagarfonder* (1975), translated and quoted by Pontusson (1992), p. 94.

<sup>38</sup> Pontusson (1992), p. 122 and 192, Stråth, p. 138 and Meidner (2005).

At the same time, Swedish employers saw the issue of wage earner funds as the final battle. The industrial democracy reforms of the early 1970s had weakened the employers' positions in the labour market, and the drift to the left in Swedish society in general was seen as an emerging threat. Wage earner funds in some form were something that was supported by both the Liberal Party and the white-collar trade union confederation TCO. In 1978, the employers' counter offensive began. In what took the form of an attempt to break out of a Swedish political climate leaning heavily to the left, the employers started to mobilise their forces against the wage earner funds. This battle was to become a symbolic battle against the LO and the SAP, influenced by the international right-wing wave at the time.

The labour movement started to back away from the original LO proposals from 1978 onwards, without successfully achieving a compromise. The loss in the 1979 general election and the loss in the large industrial conflict the year after put the labour movement on the defensive at the same time as Thatcher and Reagan had their successes abroad. The momentum for fund socialism was lost, as was the momentum for progressive reforms in general.<sup>39</sup>

In order to try to gain back support from the business community, the 1983 bill on wage earner funds was for five regional funds constituted quite similarly to the Fourth AP fund that had become accepted as an actor on the stock market. The funds were directly linked to the ATP system and the build-up of the funds was restricted to the years 1983-90.<sup>40</sup>

## ***2.6 Towards Fund Capitalism***

After the failure to introduce active fund socialism through wage earner funds, the labour movement stood without efficient proposals to face globalisation with measures other than those proposed by its political opponents.

The six years in opposition led the Social Democrats to reconsider many of their policies, in particular on the field of economics. The combined effect of the economic crisis, the international turn to the right, the failed attempt in France to pursue an expansionary economic policy, the defeat of LO in the large industrial conflict of 1980 and the employers' massive propaganda machine against the wage earner funds put the Social Democrats on the ideological defensive. The so-called

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<sup>39</sup> For a description of the campaigns and the eventual loss of the LO, see Stråth.

<sup>40</sup> Pontusson (1992), p. 194-198.

Economist Group, formed in 1980, became a think tank within the party for what was marketed as the Labour Movement's response to Freidmanite Monetarism. In practice, the policies recommended by the Economist Group meant that many of the Monetarist ideas were accepted and included into Social Democratic policies to "meet the crisis".<sup>41</sup>

As a result of the economic crisis, the Social Democrats chose to defend their former achievements rather than demanding new reforms. The wider implication of the "Third Way Economic Policy" sketched in the 1981 report *Framtid för Sverige* (Future for Sweden) was that Social Democracy had reached its historic apex. Corporate profits had to be allowed to increase without the wage earners demanding compensation in terms of higher wages, and public spending had to be kept in control.<sup>42</sup>

Andersson describes how the optimistic view of the benefits of technical development embedded in the concept of productive justice was questioned by the radical critique of the late 1960s that saw capitalism free of crises as impossible. During the 1970s this gradually evolved to a notion that security and solidarity costs – the ties connecting growth and security vanished. The 1980s Third Way policy was basically about saying that "we cannot afford security" – the social policy was too costly and must therefore be cut down. The Social Democratic policies of the 1980s and 90s have been about defending some of the parts of the Strong Society that were seen as especially important.<sup>43</sup>

The wage earner funds initially played an important part in the Social Democratic policy to counter the economic crisis. Olof Palme described this in a radio interview 1980:

"The idea is so utterly simple. We need to expand our industry. It has to be profitable, and compete on the global marketplace. We all have a common interest in that. We need to abstain to build up that industry. The wage earners have to accept that. But the counter demand they have the right to make is to have a share in the increase of wealth and to have a say in how to use the money. If you say to people that you need to reduce your real wage – abstain so that we can expand – and know that all this money goes to others – to enrich a few people who don't contribute too much – you will have a big reaction within the Swedish people."<sup>44</sup>

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<sup>41</sup> For a description of the Economist Group, see Andersson and Lundberg. For the role of the debate on wage earner funds, see Stråth. For an evaluation of the Mitterrand era, see Gustavsson (2005).

<sup>42</sup> Lundberg (2003), p. 75-110.

<sup>43</sup> Andersson (2003).

<sup>44</sup> Hempel. The quote is 15 minutes into the program.

In the 1982 general election, wage earner funds was an integrated part in the economic policy that would balance the increase in corporate profits by giving the wage earners a share of this growth in wealth. This gave the Third Way policies a Social Democratic profile that made it acceptable outside the Economist Group, and this also contributed to the macro economic stability as the inflationary pressures could be largely reduced if “wage earners could have a share in profits in collective forms”<sup>45</sup>.

The wage earner funds that were finally introduced were too small to in any way counter the increase in wealth differences. The Social Democrats opted for an economic policy focused on increasing private profits in order to increase investments. By doing so, the government came into conflict with the trade unions as their leaderships became increasingly unable to abstain from demanding real wage rises. “The War of the Roses” between LO on one side and the “chancellery right” (kanslihusögern) in the Department of Finance on the other came to undermine the economic policy and in the end it also undermined the Social Democratic government in the aftermath of the government’s “stop program” in 1990.<sup>46</sup>

The argument for all the pre-1990 Third Way measures was to preserve full employment. Kjell-Olof Feldt looked upon unemployment as the “wild beast” and saw full employment as the dividing line between the Social Democrats and the right-wing parties<sup>47</sup>. Pontusson argues that the 1980s policy failed because it was inconsistent. The government’s commitment to full employment made the equation troublesome – as long as there was a high demand on labour the unions would be successful in raising wages which made increased profits an impossibility without inflationary pressures<sup>48</sup>. To this could be added that this inflationary pressure could have been handled with a flexible currency rate, just like in the post-ERM economic policy after 1992, and that the deregulation of the credit market in 1985 contributed strongly in the construction of the late 1980s financial bubble<sup>49</sup>.

During the late 1970s, the role of the AP fund in the economy had radically shifted. The economic downturn slowed down the fund’s growth, and as public debt increased quickly, the AP fund capital

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<sup>45</sup> Socialdemokraterna, p. 65.

<sup>46</sup> Pontusson (1992), p. 122. For the War of the Roses, see for example Carlsson, Feldt or Malm.

<sup>47</sup> Josefsson.

<sup>48</sup> Pontusson (1992), p. 122-123.

<sup>49</sup> See Svensson for an analysis of the deregulation of the credit market in 1985 – the so-called November Revolution. For an English summary, see <http://www.statsvet.uu.se/publications/visapublikationer.aspx?PublId=1128&PubTypId=5> [2006-01-09].

was needed to finance state borrowing. When the Central Bank raised the AP fund's quota to be invested in priority bonds to 75 per cent, the fund boards made a joint statement saying that this was standing in the way of the need to finance productive investments in the corporate sector as to "assure future pension payments". But as the Third Way policy of profit-led growth made the companies less dependent on the credit market for financing investments, the AP funds became more and more irrelevant for corporate finance.<sup>50</sup>

In the rhetoric of the Third Way ideology, pensions had a privileged position. While discussing the requirement to question the need of every post in the public budget without prejudice Social Democrats promised to fully guarantee the value of the ATP pensions in the 1982 election campaign. Lundberg describes the role of the ATP in 1982 as the "bursting point" between the Social Democrat and right-wing crisis programmes. The ATP system was the jewel in the welfare state crown.<sup>51</sup>

But at the same time saving for future pensions was not prioritised in the Third Way policy. In 1982, more money was paid out from the pension system than was paid in as fees for the first time. Instead of raising the fees, the government relied on the yield of the AP funds to cover this financial shortfall. For every year this continued, the alarm bells ringing about ~~on~~ the future of the ATP system sounded louder. An on-going debate on the pensioners' compensation for the 1982 devaluation that caused a major dispute between the social minister Sten Andersson and the finance minister Kjell-Olof Feldt contributed to this feeling that the pension system was in trouble. As growth figures dropped, fear whether society would be able to pay for the future pensions began to emerge.<sup>52</sup>

Debate started on the need to either decrease pensions or increase fees to pay for the generation born in the 1940s. More specifically, more and more people reached the benefit ceiling where they were no longer entitled to 60 per cent of their former income as their salaries improved. If no reform were made, this would lead to a pension system that was gradually evolving to become more of a basic level security system similar to that proposed by the Farmers' Union in the 1950s pension struggle.<sup>53</sup>

The situation also triggered a new debate on the AP funds buying shares, but from a slightly new perspective. As the stock market exploded during the 1980s because of ~~the~~ higher corporate profits, the alternative cost of having the fund's money placed in state bonds instead of in the stock market

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<sup>50</sup> Pontusson (1992), p. 113.

<sup>51</sup> Lundberg (2003), p. 295.

<sup>52</sup> Lundberg (2003), s. 141-162.

<sup>53</sup> Lundberg (2003), s. 141-162.

increased. The question was asked why the AP funds were not invited to the party. As the dependence on the fund yield for future pensions grew, the focus started to shift to finding a way for the wage earners to get parts of the rising profits through the back door via the pension funds.

This was the environment in which the 1984 Pensions Drafting Committee (Pensionsberedningen) was appointed. This committee sat for six years and made a total overview of the pension system. The committee described three ways of solving the pension system's financial problems. The first possibility was to raise the fees. The second opportunity was a reduction or a freeze in pensioners' benefits. The third proposal was some sort of automatic index that resulted in a reduction or freeze of benefits if the growth figures fell. The political issue was partly how large a part of total production should be spent on pensions, but also how big the gap between what pensioners had been promised and what levels they would accept could be.<sup>54</sup>

The tension between the Third Way economic policy and the Strong Society promises of the ATP system became an even larger problem for the Social Democrats when they saw the advanced research made by the Pensions Drafting Committee. The Third Way's emphasis on an increase in private savings and on the need to reduce public spending was in conflict with the very costly promise to secure the purchasing power of future pensions. It became increasingly clear that, eventually, one of the principles had to be sacrificed.

It was also clear that some kind of reform was needed to avoid a gradual development into a semi basic pension, because of the benefit ceiling and because of the benefits that individual municipalities were allowing their poorest pensioners<sup>55</sup>. The Finance Department stated in the financial plan for 1991 that a change in the pension system was needed, a reform that, "is according to the overall direction of the economic policy". Among other things, the Finance Department wanted it to be considered whether it was possible to create "more individual and insurance based forms [of pension savings] than what now is the case in the AP funds".<sup>56</sup>

The new Social Democratic government that was installed after the governmental crisis in the spring of 1990 accelerated the speed of the Third Way policies. A lot of things were done during one and a half years to the 1991 elections. An under-financed tax reform was decided with the Liberal Party that cut direct taxes on people with high incomes drastically, increased VAT and abolished the subsidies on housing loans. An application to join the European Union was submitted. Fighting

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<sup>54</sup> Lundberg (2003), p. 159.

<sup>55</sup> Lundberg (2003), p. 163.

inflation was prioritised above full employment in the economic policy and the exchange rate of the Swedish krona was tied to the ecu.

At the same time, the Social Democrats made electoral politics of the investment regulation of the AP fund. The Finance Department proposed in 1991 that the AP fund should serve under the same rules as the private insurance companies – something that was later on backed up by the party leader Ingvar Carlsson in the election campaign. This resulted in hard criticism from right-wing party leaders who spoke of a “declaration of war” and a covert nationalisation of Swedish enterprises. If the AP fund would be able to buy more shares on the stock market, it could easily become an actor for active fund socialism simply by decisions in the AP fund board.<sup>57</sup>

In this way, the old fight on fund socialism was repeated – something that was convenient for a government under fire from the trade unions for abandoning Social Democratic core values.

## ***2.7 The 1990s Pension Agreement***

With the loss of power for the Social Democrats in the time of a major economic crisis, the momentum for a departure from fund socialism was growing.

The new right-wing government that came to power in October 1991 immediately appointed a Pensions Working Group (Pensionsarbetsgruppen) that was to make policy from the results of the Pensions Drafting Committee. Organised interests, such as the pensioners’ organisations and the trade unions, were excluded and only the political parties were entitled to take part in the Working Group. The goal of the Liberal chairman of the Working Group, Bo Könberg, was to force through a deal with the four right-wing parties and at least the Social Democrats as well. This was needed as the minority government needed either the rightwing populist New Democracy (Ny Demokrati) or the left opposition – the Social Democrats and/or the Left Party – behind them to carry a proposal through Parliament. It was also clear to the government that if they reformed the pension system without the Social Democrats a massive campaign would be launched against it which may well have led to the new government’s fall.<sup>58</sup>

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<sup>56</sup> The text from the financial plan of 1991 is quoted in Lundberg (2003), p. 164.

<sup>57</sup> Lundberg (2003), p. 164-165.

<sup>58</sup> Lundberg (2003), p. 167-171.

Meanwhile, the Social Democrat analysis following the 1991 election defeat was not very optimistic. The right-wing victory coincided with a massive turn of the tide, including things like the fall of the Berlin Wall and soon also of the Soviet Union, the increased speed of the European integration, the assumed death of both Marxism and Keynesianism, the former Finance Minister Kjell-Olof Feldt's self-critical memoirs on the failures of the Third Way and the debates on issues like individualism, globalisation, post modernism and civil society. The economic crisis created a sentiment that the country could not afford the welfare state any more. None of this gave encouraging signals that a quick Social Democratic return to power was likely. The Social Democrats had to adapt or die.<sup>59</sup>

The Social Democratic decision to take part in the Working Group was due to this feeling of being even more on the defence than in the early days of the Third Way ten years before, but also to an insight in the party leadership that the ATP pension promises were impossible to combine with the Third Way economic policy. In a way, the fact that a right-wing government had the main responsibility was an advantage for the Social Democratic leadership – steps away from the ATP could be defended with the weakened position of the Party. Apart from this, the Social Democrats were scared of being put aside from the decision process entirely but also feared the consequences of the economic crisis for Sweden's economy.<sup>60</sup>

The Social Democrats – besides a few people who were very close to the Working Group – never took part in the pension agreement with enthusiasm. The argument for taking part was entirely pragmatic.

The economic context of the early 1990s was one of economic crisis. The failures of the 1980s policies, in particular the credit explosion triggered by the deregulation of credits, were combined with a hard currency policy motivated by the need to press inflation out of the economy. In November 1992, Sweden de-coupled the krona from the European currency ecu after the post-war era full employment had long since been replaced by mass unemployment. In this new political landscape, the issue of reforming the pensions system became a part of the crisis policy.

The beginning of the 1990s saw historic low levels of growth in Sweden – in fact the Swedish GDP decreased by 5 per cent 1991-93. This led to a debate on whether it was possible to preserve many of the systems of universal welfare that were constructed during the era of the Strong Society. Many of the changes made during this period – both under the 1991-94 right-wing government and the first

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<sup>59</sup> This is a development of a discussion in Lundberg (2003), p. 167.

<sup>60</sup> Lundberg (2003), p. 171-173.

three years of the following Social Democratic government, can only be understood when considering the impact this “crisis consciousness” had on public opinion. The attempts that were made to mobilise pro-welfare opinions faced great difficulties as a massive coalition of leading politicians, media and most of the social science sphere described them as populist and irresponsible acts of special interest. The public responsibility in the pensions area shrunk, and the citizens’ lower expectations on society in a country paralysed by deep economic crisis made this possible.

Added to this “crisis consciousness” was the concept of a demographic bomb about to explode. The idea that the state should increase its responsibilities towards its citizens by promising income security at old age with a distribution system was embraced in practically every OECD country during the post-war era<sup>61</sup>. And no doubt, as people in the Western world get older and older, the pressure on public pension systems increases. However, as we have seen the ATP was constructed to handle demographic and conjuncture changes through the level of the fees and the buffer constituted by the AP fund. During periods with high pressure on the pension system, the idea was to raise the fees and use the AP fund buffer.

Lundberg’s description of the 1990s pension agreement is a description of a struggle between the party leadership and the party members. Several congresses and internal consultations were held on the pensions issue, and none of them accepted the principles of the pension agreement. The ghost of the ATP Struggle haunted the Social Democratic leadership, as the SAP became “their own electoral and policy gravediggers”<sup>62</sup>. But the party leadership eventually won by default, and the agreement was enforced without ever being an electoral issue.

The question facing a society with a pension system based on income security and an ageing population is a classic question of priorities. Which security is the most important – the security of the public finances or the security of the citizens? The Swedish pension agreement can be described as a transfer of risk from the state to the citizens. If demographic and economic conditions take a turn for the worse under the new system, retired citizens bear the cost by getting lower pensions.

To compensate for this, the citizens are expected to fill the security gap with premium pension funds, with pension schemes in the collective bargain treaties and with individual insurances. And as private insurances are paid out to a great bulk of older citizens, this has an effect on the economy quite similar to what would happen if the money had been paid through the state budget. Therefore,

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<sup>61</sup> Lindert, p. 194-195.

<sup>62</sup> Lundberg [2005], p. 37.

the question of how to construct the pension system for an ageing population is a discussion on to which extent the working population should pay for its parents and grandparents through fees and taxes and to what extent it should pay through the yield on pension funds – either public or private.

The 1990s pension agreement meant that the general and public nature of the pensions system was kept, but many of the most important characteristics of the old ATP system disappeared. There are four principal changes that differentiate the new pension system from ATP. Those changes are the shift from a benefit-based system into a fee-based system, the shift from pensions based on the years with the best income to a life income principle, the introduction of a flexible retirement age and the shift from fund socialism to fund capitalism.<sup>63</sup>

The shift from a benefit-based into a fee-based system meant that the citizens would no longer know the size of their pensions, as the benefit level would be related to what the economy can handle. The risks within the system were privatised through a change in the indexation rules, quotas that increase and reduce pensions levels automatically according to the average amount of remaining years in a person's life and the introduction of a "brake" that limited society's total pensions payments.

ATP's rule that the pensions were based on the salary during the best 15 years out of a working life of at least 30 years was connected to the idea of income security. The level of the public pensions should be enough for the citizen to retire without reducing the standard of living drastically. This was a tool to secure pension provision for workers, but also to get support for the system of universal welfare among high-salaried groups who would also have a quite good standard security through the public pensions and therefore would be quite moderate in private pension insurance savings. The introduction of the life income principle was motivated by economic reasons, and it also meant a reduction of pensions for everyone. The reduction was larger for those who had a life income with high salary-peaks and low income-valleys because of things like unemployment, education, parenthood and wage rises. But at the same time, everyone got a reduction as income during the 15 best years is inevitably better than the average income during the working life.

The flexible pension age finally, was an instrument to motivate people to continue working after 65 years of age. This made it possible for citizens to reach the old ATP level through working some more years. Instead of introducing a legislation saying that the retirement age should rise to, say, 67 years the Working Group proposed strong economic incitements to work extra years.

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<sup>63</sup> This summary of the changes is inspired by the five points in Lundberg (2003), p. 195, but slightly changed. The individualization of risks is here seen as a consequence of the shift towards a fee-based system.

The combined effect of the two first changes in particular was a reduction in the public responsibility for the citizens' provision after retirement. These changes also meant a privatisation of risk as the promise that was the cornerstone of ATP – the stable value of the pensions – was replaced by a promise of a stable fee of 18.5 per cent to the pension system. Instead of knowing their future standard of living, the citizens had to make their own savings if they wanted to secure a good pension.

## ***2.8 The “Castration” of the AP fund***

After having accepted the pension agreement, the Social Democrats themselves executed the final decisions of year 2000 that divided and drained the AP fund and replaced it with private premium funds. The pension agreement had serious consequences for the public pension fund. The AP fund that was rated at around 715 billion krona or 40 per cent of the Swedish GDP in the New Year 1997-1998 was forced to pay parts of its capital to the state budget and was split up into four separate funds<sup>64</sup>. At the same time, part of the public system was transformed into a premium reserve system based on individual choice of pension funds.

As said above, the fourth major change out of principal character was the shift from passive fund socialism to fund capitalism. The “red” AP fund was divided and drained of capital, while new private pension funds were established and their development was carefully described in orange envelopes coming to every citizen every year.

The pension agreement meant a partial transition of the pension system from a distribution system to a premium reserve system. A part of the pensions – 2.5 per cent of the total salary or about 13.5 per cent of the total provision to the public pension system – is placed in funds after the individual's choice. The individual's outcome from this part of the public pension system is solely dependent on the development for the premium reserve funds – PPM funds – that he or she has chosen. The premium reserve proposal was not popular among Social Democrats, but it got into the final compromise and the PPM's share of the income even expanded from 2 to 2.5 per cent as the Social Democrats traded to get rid of a proposed shift from employers' fees to employees' fees.

The negotiations on the AP fund ended with an agreement that the fund was to be allowed to place more of its capital in the stock market, but that they were to be what the Conservatives'

parliamentary leader Lars Tobisson called “eunuch funds”<sup>65</sup>. The use of references to male sexuality is very interesting. Obviously, the right-wing parties’ big fear was, as always, the “potency” of public funds. In order to accept the continuing existence of public funds in the pension system, the right-wing parties demanded that the AP fund should go through a process of castration.

But the AP fund had another important enemy – the Finance Department. As we have seen, one of the main problems in enforcing the Third Way was the long-term promise to secure the purchasing power of the pensions embedded in the ATP system. The AP fund was the buffer that made this promise possible to keep, but the Finance Department had other ideas on how to use the fund’s money.

Elmbrant describes how the architects of the Third Way thought that “in the long run” the stock market would always be more beneficial than other forms of savings. This theory came to good use as the long-term rise of the stock market could be a replacement for the government’s promise to ensure the pensioners’ welfare. Lennart Låftman, who had been asked to produce a report on what the PPM system could look like, proposed a state-owned insurance company where the citizens could decide between a few different alternatives. This was harshly criticised by the Finance Minister Erik Åsbrink with the words “it can never be the case that the state is to be the last guarantor”.<sup>66</sup>

The state’s partial withdrawal from the pensions territory created an environment where the argument for an AP fund of the size that had been built up during the era of the Strong Society became much weaker. As pension benefits would be adapted to the economic development anyway, the need for a buffer to adjust for demographic and conjuncture changes was gone. As the state no longer took responsibility for securing a certain level of pensions, and as the construction of the system would lead to an increase in private savings, the need for a buffer and a tool to increase the savings quota in the shape of the AP fund was sharply reduced.

As a consequence of the pension agreement, a government bill was proposed on the role of the AP fund in the new system in the beginning of year 2000<sup>67</sup>. The bill was a part of the five party

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<sup>64</sup> Finansdepartementet (1998), p. 11.

<sup>65</sup> Elmbrant (2005), p. 212.

<sup>66</sup> Elmbrant (2005), p. 210-211.

<sup>67</sup> The bill meant that the Third AP fund board was abolished and its capital transferred to the First AP fund, while the Fifth AP fund board changed names to the Third AP fund. The Sixth AP fund was not part of this bill, as it focuses on risk capital in small and medium sized companies – a reform of this fund is expected in the coming years. The construction of the Seventh AP fund had been agreed earlier on as the premium pension system was decided.

agreement, and on its first page it said that, “The AP fund has a buffer function in the new system of age pensions. The surplus of the fund is today judged to be larger than what can be justified due to this function”. Due to this, the bill meant a transfer of 155 billion krona from the AP fund to the state budget by January 1<sup>st</sup> 2001. The fund was split up into four totally separate funds that would have the same size and the same set of rules.<sup>68</sup>

Beside the Finance Department’s desire for the money to cut down the state gross debt, the right-wing parties had their old ideological resistance to fund socialism. The right-wing representatives in the Working Group proposed a system with PPM funds – a part of the pension system that worked according to the premium reserve principle and that was based on individual choice of private funds. Combined with the abolition of the AP fund, the right-wing parties saw for themselves how their final acceptance of a universal pension system would be a cheap price to pay to get rid of fund socialism and replace it with some of the ideas of “owner democracy” according to Conservative ideals from before the introduction of ATP in the 1950s. Every citizen would have his or her own pension fund with shares on the stock market that would make them much more aware of the problems facing business. Instead of working as a tool for socialism through the AP fund, the pension system could be an actor for more right-wing policies, because citizens would prioritise policies that increase the yield of their own premium pensions.

Ironically, the legislation on the ”eunuch” AP fund also included formulations that opened up a more ethical handling of resources. They should have a global portfolio that would “maximise long term yield” and the bill said, “Development policy aim or other aims of economic policy shall not be at hand”. But the bill also said that “concern for environment and ethics shall be taken in the investment activities without compromising the overall aim to yield a high return”.<sup>69</sup>

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<sup>68</sup> Finansdepartementet (1999b), p. 3.

<sup>69</sup> Finansdepartementet (1999b), p. 3 and the Government website, <http://www.regeringen.se/sb/d/2634/a/14442> (2005-08-10).

## 3 From Red Fund to Orange Envelopes

The study above has given a picture of the role of the AP fund in Swedish economy and the nature of the departure from fund socialism in the 1990s. We now have the tools reply the questions raised initially on how the Social Democrats dealt with capital formation during the 1990s pension agreement and how the Party's view on risks, savings and ownership changed.

### ***3.1 We're All Risk Capitalists Now***

The new pension system is based on another understanding of the state's obligations to its citizens than the ATP. The promise that benefits would be 60 per cent of the salary below the income ceiling during the best 15 out of 30 years and that this sum would be indexed so that the purchasing power would be maintained was the key to the ATP reform. The substance of this key in ATP is the idea of social insurances – the citizens go together in a common system where risks are spread. The citizens pay their share to the common system and the state promise to ensure their provision when they get old. This promise is valid no matter the economic or demographic situation.

Every political battle around pensions between 1960 and 1990 was about the key issue of where the risks should lie. Mostly the conflicts were centered on the issue of indexation, i.e. on whether the risk of price rises was to be taken by the state or the individuals. Lundberg has described the conflicts between the Social Democrats and the right-wing government on indexation 1981, as well as the conflict inside the Social Democratic government on the same issue later during the 1980s.

The pension agreement made the state budget much more stable, on the expense of the citizens. Instead of promising wage earners a certain level of pensions after retirement, the state is now promising wage earners that they will not have to pay higher fees. The advanced mathematical formulas that calculate each and every one's pensions because of lifetime income, age of retirement, assumed living age and size of the generation is a way of guaranteeing that. The same is the case with the "brake", which adjusts pension levels according to the financial situation of the pension system.

But of course this promise is based on the assumption that those who will loose because of the new system will not succeed in a political struggle later on to compensate for this. The construction of the PPM system, and the Finance Department's fight not to stand as a last guarantor for a certain level on the premium pensions, can be seen as a way to increase the opposition to these kinds of

compensations to pensioners who are worse off. The constructors of the pension agreement want people to think that pensioners with low pensions have played their cards bad and only have themselves to blame. This is a precondition of the promise to keep a fixed level of fees on 18.5 percent of the salary.

In a way, the pension agreement rests on the same principle as another system of the 1990s – the EMU. These systems both rest on a promise of non-solidarity. The countries taking part in the euro have promised each other to handle the pressures created when their economies do not converge with the euro or when an asymmetric shock appear through internal measures. They will follow the principles of the Growth and Stability Pact and they cannot get financial support through the EU budget.<sup>70</sup>

Both the EMU and the pension agreement are products that rest on the assumption that politics can be reduced to the management of systems made to be neutral to the effects of these systems. As shown by the quote on this essay's first page, this view is far from unquestionable. The coalitions set up to guard these agreements to not politicize questions as important as economic policy and pensions will always face tensions. When the coalitions start to tremble politics is back again, even if the next ice age is still far away.

### ***3.2 Thrown to the Wolves?***

When describing the situation for individual savers who are to make the choice on what pension fund to put his or her money in, Sundström describes the brokers on the stock market as “the wolves” and claims that the politicians were throwing the citizens to these wolves when the PPM was installed.<sup>71</sup>

The ATP system meant that the market economy was side-stepped not only on the area of pensions, but also on the area of capital formation. By promising to secure the citizens' provision after retirement, the state had taken away one of the main reasons for private savings. A risk might be that the ATP reform could lead to a shortage of capital. As we have seen, the main motive for the introduction of the AP fund was to counter this negative effect on savings.

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<sup>70</sup> For a description of this, see Gustavsson, Sverker.

<sup>71</sup> Sundström, p. 121.

Besides this, the ATP obligations gave the Strong Society a big task for the future. By constructing a pension system that promised such a high living standard after retirement, the Social Democrats had reserved large parts of the future rise in production for the ATP distribution system. This would be a restraint to private consumption.

The very size of the ATP reform changed the way that the Swedish economy functioned. Besides the immediate effect on the citizens' savings behaviour, a pensions system that promised such a high living standard after retirement meant that large parts of the future rise in production had been reserved for the ATP distribution system. The government's incitements for economic growth had grown, and the AP fund had given it a new tool to make this high growth possible. The debate after the ATP reform was focused on how to use this tool more actively to promote a high growth and other aims of the labour movement.

As we have seen, the economic development from the beginning of the 1970's onwards meant new challenges. More equity capital was needed in the companies at the same time as the globalisation process started to take speed. Many countries had started to accommodate this already by the late 1970's with increasing unemployment and cutbacks in the public sector. Sweden decided to take another route, together with a couple of other mostly Scandinavian, countries. Unemployment was held back, and the higher inflation rate than competing countries was handled through depreciation of the krona. In this context, the task for the AP fund increasingly became to finance public spending by becoming the largest buyer of state bonds.

During the 1980's, the AP fund quit being a contributor to savings in Sweden. Fees were kept at a level that was too low for the long-term needs of the system at the same time as the AP fund was obliged to buy state bonds at a low yield and the economic policy was concentrated on keeping wages and thereby payments to the pension system down. This triggered a debate on a future pensions crisis. The introduction of the wage earner funds meant a contribution to society's pension capital, but fees to the pension system weren't raised until 1990. This was despite constant discussions during the 1980's on the need for more savings.

A clear future research task when looking at the Third Way in relation to pensions is to see how 1980's Social Democracy viewed the issue of raising pension fees and to relate that to the measures taken to expand private savings. It could be suggested that the Third Way core, i.e. the "chancellery right" at the Finance Department, favoured private savings for ideological reasons but it would be

interesting to understand the process that took place before the party was convinced that it should prefer private savings over savings in the AP fund.

The 1990's pension agreement meant a drastic shift from public to private savings. Suddenly, it was up to each and every one to save for his or her pensions, in the PPM as well as in the main pension schemes connected to collective bargaining<sup>72</sup>. As the state's promise to guarantee a certain living standard after retirement was withdrawn, the one who could afford even more savings was expected to do that as well. And it was the actors in the marketplace who were to make sure that these savings were profitable.

### ***3.3 It Doesn't Matter Who Owns It Any More***

We have followed how the Social Democrats' position on ownership when it comes to pension funds has evolved since the ATP reform. The passive fund socialism that Tage Erlander fought to achieve in the 1950's came to be seen as unsatisfactory when facing the negative effects of the structural changes from the middle of the 1960's onwards. The labour movement's ambitions in its ownership policy increased as the focus shifted from avoiding concentration of wealth to direct involvement in investment policy. Active pension fund socialism was closely linked to the proposal on wage earner funds that was the labour movement's first answer to globalisation. As the big confrontation on fund socialism was lost, that way was closed and the Third Way took its place. In the context of the Third Way, ownership was no longer important in the labour movement's economic strategy.

When the pension system was reshaped during the 1990's, neither active nor passive fund socialism were of any major importance for the Social Democrats' policy. The party argued for a decrease in the state's pension promises to the citizens, thereby opening for an increase in private pension savings that would undoubtedly increase wealth concentration. The Social Democrats also accepted proposals to divide and drain the AP fund and to introduce private premium reserve funds as a part of the public pension system. The Social Democratic government proposed a new pension system that to a significant extent was built upon the principle of fund capitalism.

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<sup>72</sup> As this essay is concentrated on the public pensions, the shift towards individual choice within the pension schemes at the labour market are put aside. Since the late 1990's, workers in the LO collective are to choose how to invest an amount equal to 3.5 percent of their wages within the collective bargaining system.

## **4 The Third Way and Fund Capitalism**

This essay's hypothesis was that there was a turn towards a more capitalist view on funds in aspects as risks, savings and ownership within Social Democrat policy in the 1980s and 90s. This research shows clear signs that the hypothesis is correct. We are now to try to find ways to understand why this shift to fund capitalism happened.

In the previous chapters, we have encountered many different explanations of the events. When there are many factors underlying a development, researchers often tend to use all these explanations to describe why it occurred. But even if processes are complex and intertwined with each other, a researcher who fails to at least suggest the primary reasons behind the historical phenomenon that they describe has not fulfilled their task.

This concluding discussion is focused on the reasons for the change that has been described. First, the conclusions from the research above are put together in a theory for the Third Way and the ideological background for the Social Democrats' departure from fund socialism. After that, the factors working to preserve the previous fund socialist model are summarised. Finally, the reasons that fund capitalism gained momentum and that the change described took place are examined.

### ***4.1 Collective Capital Formation and the Third Way***

There are reasons to put a question mark over whether the Social Democrats that left government after the 1976 general election and the Social Democrats that came to office in 1982 were the same party. The period between these two periods of government is a period of transition between the Strong Society era and the Third Way. This transition goes over a period of radicalisation – the attempt to adapt to changing circumstances through active fund socialism. The Third Way was formulated when the active fund socialist strategy was abandoned under pressure from big business and the right wing parties.

According to Andersson, there are important differences between the Swedish Third Way of the 1980s and onwards and the policy with the same name formulated in the United Kingdom during the late 1990s. While the motive for the policy in Sweden was to defend what was worth defending of the labour movement's victories in the former era, Tony Blair's Third Way is highly influenced by the free market values that became entrenched in the Thatcher era. Sweden's Third Way was always

much more unclear in its aims and its set of values, as the motivation for the policies of restrictions and even cutbacks in public spending was to save full employment and the welfare state.<sup>73</sup>

The group that was enthusiastic for a radical implementation of the Swedish Third Way was never large. While the British Labour Party sees its past as a story of failure and lost opportunities, the Swedish Social Democrats' history is very closely linked to the success story of the Strong Society. Steps away from traditional Social Democratic policies could only be motivated by economic necessity.

The crisis program of 1981 and the following Third Way economic policy after the 1982 election victory were accepted as the lost struggle on the wage earner funds had put the trade unions on the defense. There was no way back to the historical compromise – the economic basis was changed and the hard-liners had won the initiative among the employers during the fund struggle.

The emerging globalisation resulted in direct competition for investments between countries. Unless Sweden could offer profit margins comparable to other countries, investment would move abroad on a large scale. The concept of building a new national capital based on fund socialism was dead and buried, and the ideas of the Third Way were the only ideas available within the movement on how to counter this challenge.

When the labour movement turned its back on increased collective capital formation, it also opted to adapt to the new economic world order. The successes of capital to increase its margins in the dominating Western countries therefore also forced Sweden to accept higher profits. The defeat of the fund socialist strategy therefore led the Social Democrats into the Third Way economic policy.

## ***4.2 Traditionalist Challenge to the Third Way***

For long time, the Third Way gave a free ticket to the ATP system. The “jewel in the crown” was not responding to the same tough economic considerations as other programmes of the welfare state, due to both ideological and electoral reasons. To even touch the pension system would have been too big a step from traditional Social Democracy for both members and voters during the 1980s.

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<sup>73</sup> Andersson (2005). For an illustration of this, see for example Kjell-Olof Feldt's book *Rädda välfärdsstaten* (Save the welfare state), Stockholm 1994.

The implementation of the Third Way led to constant internal fights in the labour movement. The struggle, described by the media as “the War of the Roses”, stood between those who stressed the continuity with the traditions of the Strong Society – the traditionalists (traditionalisterna) – and those who stressed what was seen as the demands of the new economic situation – the renewers (förnyarna). To some extent, the conflict in the labour movement was an unavoidable consequence of the nature of the Third Way – an attempt to defend the central achievements of the labour movement through a policy that was about making concessions to the traditional opponents of the Social Democrats.

The idea behind the Third Way was about dismantling parts of the Strong Society, but as we have seen there were strong traditionalist ideas embedded in the Third Way ideology and the support for the ATP system was very outspoken in the early 1980s version of the Third Way. The main force working against a change towards fund capitalism was the very force that had been the base of the Strong Society in the earlier era – the trade unions and the grassroots within the Social Democratic Party. Until the dismantling of the system of affiliating unions to the Party (kollektivanslutningen) in the late 1980s, these both groups were almost identical<sup>74</sup>.

Besides this, the promises that had been made within the ATP system worked as a restraint for anyone who wanted to dismantle the system. Just as in any Western society, social security was like the electric third rail between the train tracks in for example the Stockholm tube. Anyone who touches it will die. Lundberg describes this in Machiavellian terms as “the power of the old laws” – when the state takes back promises made to the citizens, this tends to foster revolt.

Within the 1980s context, traditionalism was too strong to make a step towards fund capitalism possible. The change was not possible until more changes in the context of reformism had taken place.

### ***4.3 The Winds of Change***

This essay’s primary research object – the pension agreement – appears after the 1990 collapse of the Social Democrats’ electoral support and the loss in the 1991 election. During the first stage of the Third Way – 1982-90 – pensions were protected from direct cuts even if savings for future pensions

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<sup>74</sup> Before the end of the system of affiliated unions, the number of members in the Social Democratic Party was about a million. In 1993, when this system was ended, the number of members was down to about 260 000. Now, a little more than ten years later, the number of members is about 150 000.

were scaled back. With the change of the Third Way towards a purer “renewal” interpretation, this view on pensions as a sacred cow disappeared. The Social Democrats started to negotiate the abolition of ATP with the right wing government.

The economic crisis of the early 1990s changed the context that the Third Way had to act within drastically. The changes on the world political scene at the same time had the same implications. The governmental crisis of 1990 led to the resignation of the leading symbol of the Third Way – Kjell Olof Feldt – but also to a qualitative change in the nature of the Third Way towards the renewers’ positions. The most important of all the large changes that took place during the short Carlsson II government 1990-91 was that full employment, which had been the main motivation for the Third Way policy in the first place, was now abandoned.

The economic crisis sharpened the conflicts in the labour movement. Open critique against the “Strong-Strong Society” and the fundamental principles of the Swedish Model was heard from within the labour movement. It was during this window of opportunity for a more market-oriented Sweden that important structural changes took place, such as entry to the European Union, the large cutbacks in the public sector and the social insurance system and the deregulation and part privatisation of the state sector. This was also the era of the pension agreement.

The structure of the Working Group that prepared the pension agreement gave the Social Democratic leadership an opportunity to make steps away from ATP that never would have been possible if the party would have been responsible for the proposals on its own. Unpopular proposals could always be blamed on the right-wing parties. Besides this, the complicated nature of the matter made it difficult to mobilise opinion against a proposal that was supported by all major political parties in Sweden. The pension agreement was deliberately made in a way that masked the underlying ideological choices behind technocratic calculations.

#### **4.4 Structures and Actors**

The results of the research in this essay hint at a combination of explanations related to structures and explanations related to actors. On one hand, it is easy to point at a number of economic and demographic changes that created the environment that made the agreement possible. But, as Lundberg says, “pension systems do not fall down from the sky”<sup>75</sup>. It is people who make decisions

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<sup>75</sup> Lundberg (2003), p. 284.

according to judgements based on their understanding of facts and what would achieve their specific aims.

In an analysis focused on structures, one can see how the new international economic environment made national taxation and regulation on capital much more difficult. The new industrial states and the increased freedom of capital to move across borders changed the power balance between labour and capital. Seen in this perspective, wage earner funds were not primarily an issue of increasing labour's power but simply to protect the status quo by making sure that there were major actors on the capital market who would invest in Sweden.

But this does not explain why the labour movement chose to dismantle the fund socialism that it had already achieved in the 1990s. To understand this, we need to take a closer look at how the actors behaved. We can see that the abolition of fund socialism was not a demand from the labour movement but from the right-wing parties. The labour movement chose not to make this issue a deal-breaker, quite the opposite of its actions in the 1950s.

A possible explanation of this lies with the ideology of the Third Way. According to this ideology of compliance, welfare is a cost that must be limited due to the conditions of the international markets. Vast obligations from the state to its citizens when it comes to pensions is an uncertainty impossible to handle in the long run, therefore pensions had to be cut. When the new system was installed, the need for a buffer in the system was drastically reduced and the *raison d'être* of the AP fund was gone. Without a rationale based on the economic need of the system, the Social Democrats were left with those arguments of influence and balance of power in the economic arena that were used and that lost during the wage earner funds debate.

#### ***4.5 The Pension Agreement – Pragmatism or Ideology?***

For people on the right, it is easy to find ideological motivations for the pension agreement. The limit in the state's pension promises to the citizens leads to a reduction in the public sector's share of the economy or at least to a limit to the state's expansion. The dividing and draining of the AP fund weakens fund socialism, and the PPM funds makes every Swede a shareholder with an interest in a the development of the stock market.

For the supporters of the pension agreement on the left, the arguments were of a more pragmatic nature. Through the agreement, Sweden got a pension system that is both financially and politically

robust – the citizens can trust the state’s pension promises no matter how the economy develops and who is in government. Of course, these promises are much smaller now than before the new pension system, but at least the state is not giving promises that it cannot keep. In order to make these statements consistent with the earlier Social Democratic support to its own creation ATP, it is said that the ATP promises were not economically sustainable. This re-interpretation of the ATP based on the very weak financial status of the Swedish state in the early 1990s is of course also an ideological statement, as it neglects ATP’s idea to adapt fees and fund capital to the demographic and economic situation.

During the debate on the pension agreement, economic decisions were moved from the sphere of ideology to the sphere of nature. Demographic and economic change was understood as natural forces, obliging the politicians to adapt and lower their expectations.

But behind the pragmatic position, there are ideological choices. The choice to go from a fixed level of pensions to a fixed level of fees was undoubtedly an ideological shift, as well as the choice to accept the change from AP fund socialism to PPM fund capitalism. The lack of an ideological position during the process before the decision on the pension agreement was in itself an ideological change from the previous period when these issues were seen as crucial for the future of the Social Democratic project. Possibly, the ideology of the Social Democratic participation in the pension agreement was an ideology of abdication – labour had lost and Social Democracy chose to adapt to this fact without a struggle.

## ***4.6 The Future for Pension Fund Socialism***

At the beginning of the 21<sup>st</sup> century, following the crash of the IT-boom and the idea of a crisis free “new economy” and following the defeat of the EMU project in the 2003 referendum, more and more signs have started to indicate a renaissance of the ideas of the Strong Society. The welfare state is not questioned in the public debate in the way it was during the 1990s, and much of the classic rhetoric is back in Social Democratic politics. The quote from Göran Persson in the first chapter of this essay also reveal an increasing awareness that politics is not about constructing technical solutions that will make automatic decisions with politicians simply as stewards. More and more the Third Way seems to have been a blind alley for Social Democracy.

After the pension agreement, the ghost of fund socialism has continued to haunt the labour movement. The LO-Folksam pension fund, owned by the unions, is one of the PPM funds and the

unions try to convince their members to choose that fund to build up a fund capital. The Canadian model of union-owned funds taking active investment decisions has been debated in several books. The Left Party has debated fund socialism intensely and “society funds” is a cornerstone in the party’s program *Vänstern, ägandet och makten* (The Left, Ownership and Power). In the debate on the future for the welfare state, the director of the Social Democrat think tank *Idé och Tendens* Anne-Marie Lindgren has proposed health care funds that would be built up to secure the future financing of health care.

Since the 1970s, Swedish industry has succeeded in delivering growth but failed in delivering jobs. The public and private service sector has taken its place as the net contributor of new jobs. Because of this, theories have evolved on lowering wages and reducing tax wedges in order to make more private service sector jobs profitable in what is seen as the American model of job creation. On the centre-left, most discussions on how to get more jobs has been concentrated on industry, even though this sector has hard enough times to keep the level of employment that it has<sup>76</sup>.

Debates on expanding the public sector to create more jobs tend to stop before they even start, even though it could be argued that the need for more public sector measures is high and that the cost to society of employing an unemployed person in the public sector is fairly low. The view expressed by the Economics Professor Bo Södersten that the public sector is a parasite on the private sector is still present, even though it can be sharply criticised not least from a gender perspective.

But it could be argued that as industry does not create as many jobs, politicians have a more direct responsibility to transform private sector growth into public sector jobs. In this process of transforming growth to jobs, high taxes secured by a universal welfare system are vital. Another important discussion is whether there are measures that can be made to increase public participation in corporate profits.

In this new situation, the main goal for fund socialism could well be to make sure that the internationally fixed rates of corporate profits are distributed to the state through direct ownership. The resources allocated to public pension funds from corporate profits could well be used to finance investment programs in education or infrastructure, just as AP fund resources was allocated to housing during the 1960s and 70s.

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<sup>76</sup> To some extent, industry’s stagnation is due to changes in corporate structures where a lot of industry related services have been transferred to the services column (see for example Mörtrvik, Hagman & Alm (2005)). But even seen this way, industry is still failing to deliver new jobs. Industry is only just maintaining to keep its share of Sweden’s total number of jobs.

Critical voices on the pension agreement have got louder over recent years, as the vast majority of the Swedish population lost money during the first years since the introduction of the PPM funds. The market was not so safe after all.

A public enquiry published in October 2005 proposed a sharp reduction in the funds in the premium reserve system. In December 21<sup>st</sup> 2005, the government appointed Hans-Eric Holmqvist to review the administration of the pension system. Two main alternatives exist for the future – either an authority that will handle the whole pension system may be created or the administration of premium pensions will be handed over to the National Insurance Agency (Försäkringskassan). Retaining the PPM Authority is not an option.<sup>77</sup>

It seems likely that Göran Persson is correct to forecast that the critique of the pension agreement will grow in strength as those who are completely within the new pension system get closer to their retirement age. At the time of writing, a debate has started on whether the pension system's brake will be activated shortly. The draining of the AP funds resulting from the pension agreement has made the buffer much smaller, and the effect of this on the level of the pensions could well be seen in the years ahead. The effect of this critique on pension levels and the construction of the buffer and premium reserve funds in the pension system is yet to be seen but it seems certain that pensions will return to the centre of Swedish political debate.

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<sup>77</sup> The public enquiry is called *SOU 2005:87: Svårnavigerat? Premiäpensionssparande på rätt kurs* and can be found at <http://www.regeringen.se/content/1/c6/05/19/48/93bcc1ce.pdf>. The appointment Holmqvist is found in a press release from the Social Department, "Vilken myndighet ska ta hand om pensionerna?", available at <http://www.regeringen.se/sb/d/6126/a/55498>.

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