

**From democratisation to marketisation:
A comparative historical study of the Swedish, German and British
pension systems and funds**

by

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Glossary and list of abbreviations

- ABI-** Association of British Insurers (EN)
- ABS-** Automatic balance Mechanism (SE)
- ACAS-** Advisory Conciliation and Arbitration Service (EN)
- Altersteilzeit-** Elderly part time work (DE)
- AMS-** Labour Market Board (SE)
- APP-** Approved Personal Pensions (EN)
- ASE-** Society of Engineers(EN)
- ASI-** Adam Smith Institute (EN)
- ASPF-** Association of Superannuation and Pension Funds (EN)
- ASU-** *Arbeitsgemeinschaft Selbständiger Unternehmer* - Working Group of Independent Entrepreneurs (DE)
- ATP-** National supplementary pensions scheme (SE)
- BDA-** Federal Organisation of German Employers (DE)
- BDI-** Federation of German Industry (DE)
- Beamte-** Civil servants (DE)
- BSP-** Basic State Pension (EN)
- Bundesbank-** Federal Bank of Germany
- CBI-** Confederation of British Industry
- CDU-** *Christian Demokratische Union-* Christian Democratic Union (DE)
- CPS-** Centre for Policy Studies (EN)
- DAB-** White collar employees' union (DE)
- DACO-** Central organisation of white collar employees in the private sector (SE)
- DB-** Defined benefit
- DC-** Defined contribution
- DIHT-** Employers chamber of commerce (DE)
- DGB-** German Trade Unions' Federation (DE)
- Einheitsgewerkschaft-** Peak Association based on the unity of unions (DE)
- EMU-** European Monetary Union
- FAS-** Financial Assistance Scheme (EN)
- FDC-** Private-investment reserve funds called also premium pension (SE)

FDP- *Freie Demokratische Partei*- Free (Liberal) Democratic Party of Germany (DE)
FFP- Fully funded pensions
FSB- Federation of Small Businesses (EN)
FP- - Universal flat-rate benefit (Swedish first pillar)
GP- Guaranteed Pension
IF- Investment Fund
IG Metall- Metal workers' Union (DE)
IMF- International Monetary Fund
IP- Income Pension (EN)
ITP- -White-collar employees earnings related scheme (SE)
KPD – German Communist Party (DE)
Länder- States of the Federal Republic of Deutschland (DE)
LO- Trade unions' confederation (SE)
METALL- Swedish Metalworkers Union (SE)
MIG-Minimum Income Guarantee
MFR- Minimum Funding Requirement (EN)
NDC- Notional defined contribution accounts
NEB- National Enterprise Board (EN)
NPAS- National Personal Accounts Scheme (EN)
OPRA- Occupational Pensions Regulatory Authority (EN)
PAYG- Pay As You Go
PPF- Pension Protection Fund (EN)
PPM- Premium Pension Board (SE)
PPS- Private Pension Scheme (EN)
Privatbeamte- White-collar employees in the private sector(DE)
RAC-Retirement Annuity Contracts Regulator (EN)
S2P- State Second Pension (EN)
SACO- Central organisation professional employees (SE)
SAF- - Industrial confederation (SE)
SAP- - Swedish Social-Democratic party
SEB- Skandinaviska-Enskilda Banken- Swedish bank (SE)
SEK- Swedish Krona (National Currency) (SE)
SERPS- State Earning-Related Pensions Scheme (EN)
SGS- State Graduated Scheme (EN)

SHB- Svenska handlesbanken- Swedish Bank (SE)
SI- Federation of Swedish Industry (SE)
SIF- Swedish Union of Clerical and technical Employees (SE)
SIP- Statement of Investment Principles (EN)
SME- Small and medium size firms
SN- Svenskt Näringsliv- Confederation of Swedish Enterprise (SE)
SNS- Centre for Business and Policy Studies (EN)
SPD- Sozial Demokratische Partei Deutschlands- Social Democratic Party of Germany
SPV- Municipality state employees earnings-related scheme (SE)
STP- -Blue Collar employees earning related scheme (SE)
SVAG- Sozialversicherungsanpassungsgezet (DE)
Tarifautonomie- Free collective bargaining between employers and employees (DE)
Tarifordnung- Collective bargaining (DE)
TCO- Tjänstemännens Centralorganisation- Public sector employees constituted (SE)
TUC- Trade Union Congress (EN)
VF- Verkstadsföreningen- Swedish Engineering Employers Association (SE)
VMU- *Verband Mittelständiger Unternehmer* - Association for Small and Medium-Sized Enterprises (DE)
ZAG – Zentralarbeitsgemeinschaft- Central Work Group Agreement (DE)

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Abstract

This thesis began by posing two sets of research questions. The first set had two main aims. The first aim of the analysis is to *uncover the role that power asymmetries play in institutional development* (innovation, reproduction, change) and the second aim is to *identify what accounts for institutional development, when and by whom*. In order to answer these questions, I adopt a three-dimensional power perspective along with the historical analysis of ‘institutional complementarity’ domains. In regard to this question, the thesis argues that the mobilisation of power resources at all three levels can be an important indicator for understanding the process as well as the direction of institutional change.

The second set of questions aims to clarify *why the three national pension systems followed different trajectories*, and whether these trajectories maintain their different routes or converge. The second aim is to explain *why the three national pension funds followed different investment strategies*, and whether these strategies continue to differ across the instituted actors. The thesis identifies that despite the original distinctive logics of the three pension systems, the recent pension reforms strongly promoted the *individualisation* of risk, the enhancement of *privately managed* funded schemes and the investment of the pension savings in *equities*. The rationale for diverting their investments as well as the logic of the pension system is essentially located in the ability of actors to collect pension savings and decide upon their investment. I argue that this power struggle was not merely a matter of redistribution but also over the control of financial capital and in principle over which logic dominated the investment of pension funds.

The thesis explores historically the development of pension rights and the role of pension funds within the national political economies. The findings of the thesis identify that there has been an important shift in terms of power relations among employers, unions, financiers and state actors and along with these changes, the empirical findings suggest an empowerment of market tools for governing pension systems and funds. The argument of the thesis holds that institutional legacies of pensions systems retain their importance in framing policy solutions and responses but at the same time recognises that paths alone cannot explain the process of institutional development. Instead, I argue that institutional legacies should not be understood as path dependent drivers that nurture inertia or stability but instead as actively reproducing power dynamics that either enable or constraint actors’ ability to mobilise resources and exercise power.

The thesis contributes to social policy and historical institutionalism literature in three ways. Methodologically the thesis contributes twofold to comparative social policy research. First, this research operationalises its holistic theoretical approach through the innovative application of ‘institutional complementarity’ as an analytical tool that examines neighbouring institutional domains of corporate governance, financial systems, political systems and industrial relations. Analytically, the diachronical approach and the explicit pursuit of ‘systemic process analysis’ are innovative attempts that posit time and sequence as part of the empirical reality and adopt an ‘open-ended’ understanding of causality. Finally, the thesis contributes empirically through the incorporation of the financial actors along with the other “usual suspects” (e.g. unions, employers, state actors) in triggering institutional change. It is interesting to note that despite the well documented literature on welfare state development, few studies explored historically and comparatively the role of financial actors.

Chapter 1: Introduction

This chapter provides an overview of the thesis and its core structure. The thesis is divided in eight chapters that include the literature review, the methodological approach, the empirical analysis, the comparative assessment and finally a conclusion. In this thesis I argue, first, that pension institutions do not merely represent benefits programmes but effectively create financial capital actors within the political economy, and second, research should focus on the importance of power and time for understanding and analysing change in pension institutions. I move on now to provide a brief summary of the chapters that follow.

Chapter 2 provides an overview of the existing welfare state literature and examines their ability to link power and institutional change. In this chapter I attempt to bring forward a Polanyian perspective that accounts for the process of marketisation and the development of the welfare state as part of two movements for organising socio-economic life. The chapter then continues with a presentation of the main theories for welfare state development and with a presentation of the three mainstream institutionalism approaches; rational choice, historical and sociological. The chapter then assesses their ability to capture institutional change and continues with an attempt to link welfare state approaches and institutional change from a power perspective.

Chapter 3 entails the analytical and methodological tools of this study's theoretical approach. In it, I discuss the available methodologies for the pursuit of causal assessment in historical comparison and I argue in favour of a more 'open' and 'dynamic' interpretation of causality. Methodologically the thesis contributes twofold in the comparative social policy research. First, this research operationalises its holistic theoretical approach through the innovative application of 'institutional complementarity' as an analytical tool that examines neighbouring institutional domains of corporate governance, financial systems, political systems and industrial relations. Second, this research renders 'time' not only as an analytical concept but as

an essential part of the empirical investigation. Then I move on to discuss how power and time can be deployed in a comparative qualitative study and present the different analytical approaches and strategies available for the exploration of institutional development.

In chapter 4, the thesis provides an innovative historical examination of the pension development and accesses the attempts of all relevant actors (unions, parties, employers, financiers) in framing the institutional path of the Swedish pension system. The Swedish case highlights the importance of unions' ability to create class alliances in party politics and reach compromises with employers in industrial relations for setting the foundations of a generous public basic pension system. No other pension reform has been politicised as the Swedish ATP reform in the late 1950s, epitomising the ability of unions to mobilise resources and exercise their power over the governance of the pension institutions. Interestingly, the early 1970s were a critical point for the future of the Swedish political economy since there were substantial changes in terms of actors' power asymmetries. Following the development in the complementary institutional domains of corporate governance, industrial policy making, financial systems and party politics, I show that the 2001 reform epitomised the changes in the balance of power over the governance of pension institutions in favour of employers and financiers and at the expense of unions.

The thesis continues with an exploration of the development of the German pension system in chapter 5. In it, I initially explore the transition from the authoritarian legacies to democratic institutions and how collective bargaining became decisive for the governing of pension institutions. Then the chapter discusses in the details the power dynamics over the governance of the main pension reform that took place in the late 1950s. Effectively the changes within the German pension system during the 1970s were linked with the demands for the renewal labour force. Since the early 1980s, several government attempts aim to consolidate the public budget and avoid substantial increases in terms of pension costs but no major reform took place. This continuity in the logic and the content of German pension institutions was however challenged with the 2001 and 2004 pension reforms.

Chapter 6 explores the development of the British pension system. It discusses the early development of the private occupational pension schemes in Britain and the importance of their institutional legacy over the development of Beveridge proposals in 1946. The chapter continues with the post-Beveridge developments in the pension system and the attempts of key actors to institutionalise their distinct proposals over the introduction of the earnings-related pension schemes. The chapter continues to explore how the coming of the Conservatives in power during the 80s contested the role of unions and the importance of collective bargaining and enhanced personal freedom to choose within a market of pensions. And finally the chapter assesses the New Labour government attempts to address the challenges of the British pension system through the consolidation of privately controlled pension schemes and strengthening the role market mechanisms for the governance of the pension system.

The thesis continues with a comparative assessment of pension development and the importance of power asymmetries for the direction of institutional change as well as shaping the content and the logic of the pension institutions. Chapter 7 identifies differences and similarities that could provide causal explanations with regard to the variety of historical developments of the three pension systems and place the findings of the diachronical analysis in a comparative perspective. In it, I analytically compare the changes within the institutional complementary domains and provide the key similarities among the recent pension reforms.

Chapter 8 concludes the thesis, both summarising its empirical findings and also discussing its contributions for comparative social policy literature. The chapter presents the main theoretical, methodological, analytical and empirical contributions of this thesis. The chapter concludes with the limitations of this thesis and suggestions for future policy research.

Chapter 2: Beyond ‘Old Power’ and ‘New Politics’: A conceptual framework of analysis

2.1 Introduction

In the following chapter, I provide the theoretical framework of the thesis. In section 2.2 of the chapter I attempt to bring forward a Polanyian perspective that accounts for the process of marketisation and the development of the welfare state as part of a double movement for organising socio-economic life. The first movement attempts to institutionalise the principles of the market economy as a tool for consolidating pro-liberal market actors’ power over shaping socio-economic conditions and the second (counter) movement attempts to protect society from the operation of the market forces through collective organisations and the establishment of social programmes. The chapter then continues with a presentation of the main theories for welfare state development. Section 2.3 contains eight subsections on theoretical approaches such as the power resources approach, welfare regimes, ‘new’ politics of welfare state, post-industrialism thesis, varieties of capitalism, employers’ and political economy perspectives. In the subsections I discuss in detail the ability of the aforementioned approaches to theorise power and its importance for the development of welfare institutions.

Section 2.4 provides a presentation of the three mainstream institutionalism approaches; rational choice, historical and sociological. The chapter then assesses their ability to capture institutional change and continues with an attempt to link welfare state approaches and institutional change from a power perspective. At the end of this chapter in section 2.5, there is an innovative attempt to bring together welfare state theories, the process of institutional change and the role of power under a new theoretical framework. The theoretical framework places the examination of power at the heart of welfare institutional innovations, reproduction, and reform.

2.2 Markets, institutions and counter-movements

“Labour and land are no other than the human beings themselves of which every society consists and the natural surrounding in which it exists; to include labour and land in the market mechanism means to subordinate the substance of society itself to the laws of the market” (Polanyi 2001[1944]: 75)

For Polanyi, the political construction of the market economy and the consolidation of labour, land and money markets have been under the constant struggle of key actors such as organised labour, farmers, state and capital actors. The struggle is taking place in the form of various movements that stress the role of the market in organising socioeconomic life and the counter-movements that aim to protect society from the discrepancies that the market mechanism brings to well being¹. The first movement was inspired by the writings of liberal economists such as Ricardo and Smith that celebrated the idea of a free ‘self-adjusting’ market (*laissez-faire*); a market that becomes more efficient in organising socioeconomic life when it operates based on its own laws (of supply and demand) and (price) mechanisms, with minimum state or political intervention.

In contrast with the liberal tradition for organising socioeconomic life, Polanyi showed that state intervention was not kept at a minimum role in establishing markets but rather underlined the importance of the state in removing trade barriers, workers protections and establishing disciplinary institutions to enforce the market principle. Economic institutions therefore cannot be isolated from their social and political counterparts and any attempt to institutionalise free-adjusting markets for the ‘fictitious’ commodities of labour, land and money are nothing less than a ‘stark utopia’(Polanyi 2001 [1944]: 3). The counter-movements that were organised on behalf of those that were affected by the market forces and the exposure to the price mechanism included a variety of societal actors such as farmers, workers, industrialists, financiers as well as landowners. So for Polanyi, struggle took the form of movements and counter movements that followed two different logics; one that adhered to the market principle and one that defended the substance of society and economy from being subordinated to the laws of the market. The struggle of the

¹ Well being’ in this thesis refers to the rather general use of the term. Notable advances for its theoretical and analytical implication for policy research is available in Gough and McAllister (eds) (2007), *Well-being in Developing Countries: From Theory to Research*, Cambridge: CUP

various movements was not realised in a functionalist way but it could produce 'institutional stalemates' or 'innovations' based on the power dynamics of various actors (Block 2005, Block and Evans 2005).

The construction of labour markets is based on the fallacy that labour power can be determined by the price mechanism. The indeterminacy of this fiction is based on the fact that market economy treats labour power and workers as if they were real commodities for buying and selling, neglecting among other issues that labour power is inseparable from workers, it cannot be stored or accumulated, it needs to be reproduced, and therefore workers need to be protected from the forces of the market (Papadopoulos 2006).

Polanyi insightfully demonstrated that the creation of markets is politically planned and its social construction depends on the power relations of various actors; therefore resisting the market is also a political act that aims to protect, among others, wage-labourers through the organisations of trade unions and friendly societies. The attempt of workers to be collectively represented in the labour market and enhance their well-being through unions or societies, was initially declared as illegal by the state and it was only after prolonged struggles that unions were recognised as labour market actors (Thompson 1963). In order to address the incompatibilities of the labour commodity fiction, these labour organisations soon obtained a capacity to provide benefits in order to protect the predominantly male workers in times of physical incompetence due to accidents, illnesses and ageing with the supply of unemployment, health and pensions benefits.

The competing logics over organising socioeconomic life continue to exist and are even more apparent in the creation and development of social programmes. Polanyi was among the pioneers of highlighting the importance of multi-levels of governance exploring how local, national, regional and international spaces and actions were linked. For Polanyi agreements at the international level of governance can prove quite unstable since they depend on the global balance of power. Taking an example from his writings, Polanyi saw that the consensus and instability at the international level quickly succeeded one another, giving rise to various responses to institutional stalemates such as world wars and the rise of authoritarianism (Fotopoulos 1997).

Polanyi's *opus magnum* 'The Great Transformation' was a plea towards the taming of the market forces and the restoration of protective trade and labour policies. The introduction of the 'Bretton Woods' agreements in 1945 restored international consensus and paved the way for the establishment of welfare state institutions, since nation governments were able to increase their autonomy in policy-making and respond to the demands of their citizens.

2.3 Theories of welfare state development

The variety of responses that European welfare states have adopted in meeting the demands and needs of their citizens were initially captured according to public and social expenditure levels. The 'industrialisation' argument claimed that the modern welfare state is apparent only in advanced economic countries and can be explained in terms of economic growth (Wilensky 1975). With certain elements of functionalism in their arsenal, the argument suggested that industrialisation was causing social risks (change in demographic structures, urbanisation) and the ability of nation states to deal with them depended on the process of industrialisation itself. The logic of industrialism argues that the size of social expenditure as the percentage of GDP became the dependent variable indicating "the welfare state effort". For the proponents of this approach, it was a matter of time for national economies that were 'lagging behind' in terms of economic growth, to 'catch-up' with the social expenditure levels of the leading welfare states (Castles 1996). The 'industrialisation' thesis was teleological in its prediction, neglecting the role of actors in exercising political pressures for welfare states development.

The state-centric approach highlighted the role of state bureaucrats (Hecló 1974), the importance of state capacity and policy legacies (Skocpol 1988, Orloff 1993) in explaining welfare state development. The proponents of this approach argued that welfare state expansion could be realised as a result of the dispersion of power among state officials, the existence of veto points and the importance of policy legacies as the logic that welfare states represented in their conception. The problems identified here is that most of the work of the scholars focused on the role of the state and its officials as independent of the social world. In contrast with both these approaches, a group of scholars argued that 'politics matter' for the development of welfare state

programmes (Korpi 1983,2000, Castles 1982, Stephens and Stephens 1979, Huber and Stephens 2001). In this school of thought, the approach of the Swedish academic Walter Korpi attempted to link power, politics and welfare state development. It is to this approach that we now turn.

2.3.1 The power resources approach and its variants

The ‘power resources’ approach highlighted the role of power and politics for the welfare state development and placed organised labour and associated left-wing parties at the centre of its research questions. Korpi (1978) argued that organised labour by default was disadvantaged in the distribution of economic resources in capitalism but through democratic institutions it could achieve political power resources. For Korpi (1983), the success of the working class in establishing a generous and advanced welfare state system in Sweden was due to its ability to exemplify high membership rates and tight links with a dominant left-wing party. By default, power resources are not equally shared in a capitalist society, with employers enjoying far more economic power (i.e. management prerogative and property rights) than organised labour. Korpi studied the development of the Swedish welfare state and suggested that the ability of organised labour to achieve high membership rates and elect the Social Democrats into government was responsible for the Swedish welfare state generosity.

The cornerstone for organised labour to increase its power resources was the achievement and the maintaining of full employment rates; it discouraged segmentation among workers and enhanced participation in unions. These power resources were then channelled through collective bargaining and elections as the main political power of organised labour in the capitalist society, and especially in the development of the welfare state. This approach makes a step further to suggest that the extended coverage of the Swedish welfare state and the expansion of social rights should not be seen just as an outcome of the democratic class struggle but as a ‘power resource’ in itself. Welfare states can facilitate the necessary conditions for wage-earners to maintain their unity as a collective actor and also enhances egalitarianism as the logic of social programmes. Korpi was a pioneer insofar as realising the

importance of welfare state as a re-distributor of 'power resources' and having an impact in the shaping of class formation.

The main contributions of this approach are at least twofold; it brings class mobilisation to the centre of our research and highlights that welfare states are not simple outcomes of economic growth. However, this conceptualisation did have its shortcomings. The common critique for the 'class mobilisation' approach was its 'Swedo-centrism'. For Korpi, the 'class mobilisation' thesis was not just another contribution to the theoretical debates but also had clear political implications for the domination of the Social democratic party, which at the time of his writing (1979) was losing its political appeal. However, by Swedo-centrism, scholars also meant that it was not clear whether the 'power resources approach' could explain the development of other welfare states since its necessary conditions seemed distant in other countries compared to Scandinavian ones. A strong labour movement and a strong left-wing party were conditions that were met in Great Britain and Germany; still, the unity of organised labour and employers, and the structure of political system differed significantly among the three countries.

The class mobilisation approach placed power in welfare theory. However, the conceptualisation of power and the difference from power resources is not always clear since Korpi identifies power as what can be measured, such as membership rates and votes. He suggests that each actor is able to act based upon his collection of power resources and that unions along with left-wing parties in government are able to create social programmes that themselves represent power resources. 'Power' acquires a rather thin and linear course that is not distorted by others actors or conditions. The 'class mobilisation' approach does not fully discuss the role of employers or banks in shaping (opposing/ applauding) the expansion of social programmes, neglecting thus the role of capital actors. Decision-making takes place in formal institutions and actors, through an instrumentalist control of the state and its apparatuses, are able to pursue their strategic interests, neglecting the various structures (e.g. growth regimes) that are in operation.

2.3.2 From power resources to welfare regimes

As a collaborator of Walter Korpi and fellow Scandinavian, Gøsta Esping-Andersen (1985) attempted to advance the class mobilisation thesis and its conception of power based on the findings of institutional theory (Moore 1965, Skocpol 1985). Esping-Andersen developed the argument that the ability of blue-collar workers to shape coalitions, with other social groups, was the main determinant for the differences among Scandinavian welfare states. Whether blue-collar workers were able to forge alliances with farmers and white-collar workers alliances or follow a 'ghetto approach' proved influential for the shaping different power constellations and welfare states. Where class alliances were created, the universalistic character of the welfare state was consolidated (e.g. Sweden). The contribution of Esping-Andersen's (1985) *Politics against Markets* is that he applies the power resources approach in comparative research and is able to control for the variation within the Swedish and neighbouring welfare states. Thus, his work is a response to Swedo-centrism criticism for the power mobilisation thesis but still does not provide a discussion for the role of corporatist institutions and the role of employers (see Swenson 2002) or banks in the shaping of Scandinavian welfare states.

The concept of power in the work of Esping-Andersen is more elaborated and he moves beyond the linearity that the original class mobilisation argument adopted. For Esping-Andersen the interplay between the ability of organised labour to mobilise its power resources, its ability to shape class alliances and their duration through time could account for the development of advanced welfare states. Based on these three causal configurations Esping-Andersen (1990) was able to propose the creation of three distinct 'welfare regimes' in the capitalist economy (see table 2.1). By welfare regimes, Esping-Andersen is linking the class mobilisation thesis and its ability to institutionalise its power with the development of the welfare state. The 'Social Democratic' welfare regime is characterised by strong unions, dominant left-wing parties and a commitment to full employment. The 'Corporatist' power regime is distinguished by the dominant role of Christian Democracy and the principles of Social Catholicism for political parties and organised labour. In the 'Liberal' regime, unions were weak and neither social nor Christian democracy flourished. The impact

of those power regimes for the development of the modern welfare state is linked with the formation of accordingly determined 'welfare systems'.

By welfare systems, Esping–Andersen refers to the institutional arrangements of welfare provision, entitlement conditions and benefits structures and following the work of Richard Titmuss (1974), he distinguishes between the universalist, corporatist and residual welfare systems. The social democratic regime corresponds with a universal welfare system that provides coverage to all its citizens based on the extension of social rights and egalitarian principles. The conservative regime corresponds with a corporatist welfare system that aims in maintaining status and income differentials of the labour market during retirement, segmenting thus the welfare recipients across occupational lines. The liberal regime corresponds with the residual welfare system that provides basic benefits to the needy, while individuals remain responsible for their own welfare. The pioneering exercise of Esping-Andersen thus links power constellations with specific welfare systems that are able to explain the development of the various welfare states.

The three worlds of welfare capitalism are an outcome of class struggle, class alliances and their ability to institutionalise their power through time. The outcome is that welfare states can be grouped around three ideal clusters that share common principles and power constellations. In a sense the ideal types are constructed not upon a historical study that provides causalities but rather in a descriptive account that could be summarised in abstract level and provides us with ideal types. What is interesting is that Esping-Andersen does not actually present a historical account of these alliances, for example he does not focus his research on class alliances of all the 18 OECD countries that are under his research but actually prefers to evaluate the performance of the welfare regimes according to his own standards.

Table 2.1: Esping-Andersen's welfare regimes

<i>Regimes/ System</i>	Liberal/Residual	Conservative/ Corporatist	Social Democratic/ Universalistic
De-commodification	Low	Medium	High
Social rights	Need based	Employment– related	Universal
Welfare provision	Mixed services	Transfer payments	Public services
Benefits	Flat benefits	Contribution related	Redistributive
Typical examples	USA, UK	Germany	Sweden

Adopted from Ebbinghaus and Manow 2001

This evaluation is based on the three main criteria: (1) the level of de-commodification, (2) systems of stratification and (3) the state-market-family. Drawing on the work of Claus Offe (1984), Esping-Andersen defines de-commodification as ‘the extent to which individuals and families can maintain a normal and socially acceptable standard of living regardless of their market performance’ (Esping-Andersen 1987b). When a welfare service is provided as a right, irrespectively of their participation in the labour market, then decommodification fulfils its aim to protect citizens from the forces of the market. The systems of stratification refer to the importance of social solidarity among social groups and whether risk pooling is organised along occupational or solidaristic lines (Baldwin 1990). The study of welfare mix proves crucial thus for the institutionalist argument since if people are sufficiently covered by public schemes, private alternatives will not flourish and vice versa. For example, if social rights are provided but only at a minimum benefit level, then citizens might be looking for alternative protection not necessarily through the state but through the market.

Esping-Andersen is setting an interesting intellectual adventure (perhaps the most popular of its time) and he constructs three different clusters of welfare states and then he creates his own typology and social indicators to evaluate them. Despite his pioneering methodological contributions, the classification of welfare states attracted some criticism on their validity and reliability since his social indicators were questioned either on the logic of their construction (Fawcett and Papadopoulos 1997) or that he did not publicise the database he used (Allen and Scruggs 2004). Despite the problems of the indicators and their possible implication for welfare state classification, Esping-Andersen's claim of a new theory of welfare state development is even more problematic when we try to understand the future of welfare state development.

His work is based on empirical abstraction and descriptions (welfare regime-systems) and he attempts to validate his ideal types through a classification of evaluating criteria. Ideal types thus are tested to see whether they actually match real-types (Arts and Gelissen 2002). Discovering patterns of welfare state development and linking them with power constellations is significant step towards a better understanding of the role of power relations in the formation of socio-economic institutions. However, what happens if the power relations change? Esping-Andersen argued that the middle classes that are receiving welfare state benefits either in Social-Democratic and Conservative welfare regimes will retain their support and therefore 'the class coalitions in which the three welfare states regime-types were founded, explain not only their past evolution but also their future prospects' (Esping-Andersen 1990: 33). Therefore, welfare states represent both an outcome of power and class mobilisation but also an institution that enhances the dynamics of the class mobilisation that created this institution in the first place through stratification structures.

Esping-Andersen thus assumes a similar linearity to Korpi's schema, neglecting changes in labour relations and economic structures but most importantly assuming that institutions once established cannot be challenged by actors. The conceptual problems of this thesis is a tautological or rather functional approach that suggests that once something is institutionalised, it serves the purposes of the actors that implemented it. As Goodin et al (1999) showed, welfare states do not just serve the interests and the logic of those that implemented them but they also exhibit

unintended consequences. So if we accept that welfare states can exhibit unintended effects, the assumption of Esping-Andersen that welfare states will retain their path becomes even less convincing. For example, how increasing unemployment levels might effect class alliances? And more importantly, what happens if employers –who are strikingly absent from his analytical radar - shift their orientations towards a different growth strategy? Will organised labour even with Social democratic parties in government still be able to pursue their solidaristic policies? The problem identified here is that Esping-Andersen fails to provide a sufficient account of what actually explains welfare state development. After all welfare regimes and stratification structures cannot be taken for granted, neither can we afford to neglect that they might produce both intended and unintended consequences.

The concept of power therefore assumes an important role in shaping the political conditions and outcomes of power struggle that are responsible for the development of welfare systems. The latter in their turn tend to create the necessary condition for the reproduction of power constellations. Social stratification is thus especially important since it affects both class formation and interests through welfare mechanisms. However, despite the originality of his argument neither he nor his commentators (for a notable exception see Kemeny 1995) explored the dynamics of the relation between welfare regimes and welfare systems. Rather than attributing the importance of creating a welfare system as both an outcome and facilitator of power constellations, the literature was evolved towards the creation of additional welfare regimes (Ferrera 1996), alternative welfare states classifications (Castles 1993, Leibfried 1991, Bonoli 1997) and most importantly critiques from feminists for the male-dominated conceptualisation and analysis of decommodification (Orloff 1993b, Knijn and Ostner 2003, O'Connor et al 1998). Interestingly, the power resources model remains compatible with the various feminist approaches, since they are explaining gender equity and welfare outcomes in term of women (though not class) mobilisation and the links with incumbent left-wing parties (Stephens and Huber 2005, see O'Connor et al 1998).

Despite the interplay between market, state and family the 'class mobilisation' approach both in Korpi's and Esping-Andersen's work neglected the role that women played in maintaining the family structures that were necessary for the men to

participate in labour market or trade unions in the first place. The concept of 'class' therefore becomes problematic since it neglects that all men's dependents are subject to market pressures, regardless of their participation in the labour market. For example, unpaid housework was not discussed theoretically; neither was analytically captured by Esping-Andersen worlds of welfare capitalism. The typology offered by Jane Lewis (1992, 1997) discusses whether women have to rely on their husbands to receive benefits and highlights the role of the family as the main provider of welfare services. Other scholars have argued that women should be able to enter in the labour market as a way to establish their autonomy (Lister 1998) and their ability to setup their own household (Orloff 1993). Therefore participation in the labour market could be regarded as a form of emancipation from the 'male breadwinner model' but not necessarily from the market (Papadopoulos 2006).

The intellectual heritage of the 'class mobilisation' thesis remains important, even in its simplest conception. The power resources approach showed that in Sweden, welfare state expansion was a specific target of a strong organised labour and a left wing party, neither an outcome of economic growth nor as an attempt to legitimise capitalist accumulation (O'Connor 1973, Gough 1979, Offe 1984). In fact, the welfare state could be regarded as a power resource in itself, and could be used by organised labour to pursue its demands in what Esping-Andersen (1990) called 'welfare capitalism'. The relational approach of power resources as part of a democratic struggle that takes place in elections, underplayed the role of the main opponent; that is employers and their role in shaping welfare state development. If full employment was the main aim of organised labour, it would not be possible to fully understand how this could be achieved without an understanding of employers' strategies and aims. By not highlighting the importance of employers or growth and production structures, the power resources approach can not address how a change in the strategies of capital actors can affect the welfare state development, even the Swedish one. More importantly neglecting shifts in production structures and economic growth regimes hinders the examination of organised labour responses to the challenges that employers pose.

2.3.3 The politics of retrenchment

The class mobilisation thesis was able to demonstrate that during the era of welfare expansion, the ability of organised labour to shape social and political alliances could account for the variations of welfare state development. However, if the linear understanding of power was reversed, i.e. if organised labour membership rates decreased and Social democratic parties were out of government, then would this immediately trigger a series of retrenchment in social programmes, or would the institutions of the welfare state defend established commitments towards welfare services' recipients? Schematically, if power matters for the establishment welfare state institutions, will a change in power relations reflect change in the logic of institutions? Paul Pierson's offered an answer to this question both in reference to politics and policy development.

For Pierson, during the era of expanding social rights politicians were competing for credit-claiming policies, while in the era of welfare state retrenchment politicians are trying to avoid blame for any cutbacks on welfare provision and thus maintain their popularity with the electorate. By 'retrenchment' Pierson described the "policy changes that either cut social expenditure, restructure welfare state programs to conform more closely to the residual welfare state model, or alter the political environment in ways that enhance the probability of such outcomes in the future" (Pierson 1994, 17).

As Esping-Andersen had already acknowledged, welfare states shape class formation, and provide both normative and material resources that render some political coalitions more possible than others (Skocpol 1987). Pierson highlighted this feedback mechanism and suggested that what has been so far regarded as the effect, i.e. the construction of welfare state, has become the cause (Pierson 1993). Politics retain their importance but new actors, others than class, appear on the stage. Pierson argues that once welfare states are institutionalised, they exhibit a policy feedback towards its beneficiaries that formulate interest groups. Welfare state has created a group of beneficiaries that would punish or reward politicians depending whether they pursue retrenchment or expansion policies. This policy feedback mechanism rendered

the efforts of the Thatcher and Reagan administrations in UK and USA respectively, unable to pursue their agenda of rolling back the welfare state, not due to the power of organised labour but for political (electoral) reasons.

In order to avoid blame, governments are employing various strategies to implement cutbacks to delay the effects of the reforms in the years to come (e.g. obfuscation), avoiding thus blame concentration. The framework of the new politics of the welfare state has been taken up and elaborated to identify different strategies for governments to implement retrenchment policies such as strategies that 'justify' cutbacks (Green-Pedersen, 2001), 'blame sharing' i.e. governments and opposition parties coming in agreement over reform and 'blame buffering', i.e. government making agreements with the interests groups that would be affected (Immergut and Anderson 2007).

Following the work of economic institutionalists (North 1990), Pierson argues that the continuity of policy programmes create 'lock-in' effects and policy legacies for policy-makers, politicians and market actors, framing thus their decision and rendering some policy paths more popular than others. At the same time the electorate frames its expectations from the welfare programmes and prefers thus the continuation of the status quo to any retrenchment. The implications of this argument is twofold; either policy shifts are difficult to achieve (e.g. transaction and setup costs) or too costly for politicians to pursue. After all, institutions do matter and policy legacies are taken seriously.

The new politics approach links power and welfare states not as mechanism that redistribute power resources but rather create groups of beneficiaries who would be able to punish through election those politicians that attempt unpopular reforms. In recent studies, the argument of Pierson that politics are an expression of interests' representation with partisanship losing its analytical explanatory power was confirmed (Stephens et al 1999). In contrast with the class mobilisation thesis, politics are not expressed as a class power that is able to shape the path of welfare reform but rather as the ability of a group of people that share similar interests to block policy change. Class actors such as employers and trade unions are conceptualised as interest groups, two among many. Pierson shifts towards an approach that narrows its conceptual framework towards personal ambitions with the concept of power

dispersed between the electorate, interests groups and politicians that attempt to maximise their vote percentage.

Pierson criticises the 'class mobilisation thesis' on the grounds that while organised labour percentages in UK and USA have decreased dramatically, welfare state programmes have not been significantly retrenched. The understanding of the politics of blame avoidance were thus deemed as necessary in order to understand how unpopular reforms could be achieved and whether welfare state institutions would remain intact. Pierson thus offers us a collection of 'blame avoidance' strategies that governments are employing to pursue their retrenchment policies while at the same time he suggests that welfare states retain their primacy. Therefore while actual change takes place (through more or less successive political action), this does not come with the collapse or replacement of welfare institutions. This insight can be really useful in understanding the changes that are taking place within welfare institutions and suggests that researchers should be aware of the changes that take some time to play out their effects (Pierson 2004). However, the implications of these changes within welfare institutions are blurred with the emphasis given on the continuity of formal institutions. Indicative is his concluding remark that "the fundamental structure of social policy remains comparatively stable" (Pierson 1994, 182). Any distinction between substantive and formal institutional change is avoided in favour of explaining institutional continuity. In fact, Hacker (2004,ft3) suggests that Pierson underestimated the retrenchment that occurred in Britain during the Thatcher administration.

In 1990, Ramesh Mishra starting from a different understanding of the welfare state, published a short examination of retrenchment policies and their outcomes in the UK and USA. The results are strikingly different. By exploring the changes in taxation policies, Mishra identified a significant increase of income inequalities and redistribution of wealth that favoured the British elites. In his concluding chapter, Pierson (1994) leaves some space for retrenchment and suggests that some social programmes were under low, moderate or extensive retrenchment. However, he fails to provide us with the criteria of this evaluation. This theoretical schema is keener to explain institutional stability and less interested in analysing the process of change in the institutional logic of welfare reforms. The narrow conceptualisation of the new

politics of the welfare state limits his analytical insight to election costs and program cutbacks, neglecting other aspects of well being² such as tax policies and wealth redistribution. These changes in socioeconomic policies might not only affect policy programmes but also shape interests' formation.

The role of power in welfare state retrenchment is either neglected or isolated to election costs. First, Pierson did not examine countries with a long-term and institutionalised role in corporatist structures and political parties such as Germany and Sweden. The experience and power of organised labour renders these countries as ideal cases to challenge the power resources argument. Additionally, if we accept Mishra's finding, retrenchment did occur in Britain at the same time that organised labour was under attack. Is that an effect of welfare state retrenchment, a cause or perhaps a strategic decision to attack both the foundations of public social programmes and organised labour's power? If so, could welfare retrenchment be seen as a mirror image of the power resources approach? Pierson cannot answer these questions since he is more interested in the interplay of (narrowly conceived) politics and policy change rather than power and welfare state change.

2.3.4 The “objective pressures” problem

It was only later that Pierson attempted to overcome these shortcomings and produced a theory that addressed welfare state change. Maintaining his argument that we moved into a different era in the development of the welfare state, he attempts to discuss whether the emergence of globalisation is meant to exercise pressure on welfare states and public budgets. For Pierson, pressures do not stem from globalisation per se but rather from the rise of post-industrial pressures and the maturation of welfare states. The changes in labour markets and the emergence of the service sector, the shifts in household structures and the projection of unfavourable demographics for financing welfare provision are posited as the main pressures that strangle welfare states, placing them under permanent austerity (Pierson 2001b). The ‘service trilemma’ that post-industrial change poses, renders the goals of employment growth, wage equality and budgetary constraint less compatible and governments have to choose two out of

² See ft1

the three (Iversen and Wren 1998). The response of these pressures to welfare states would not lead towards a convergence but according to Pierson it is expected to exhibit a path dependent development with some institutional restructurings taking place. These, in his later work, he identified as: recommodification, cost-containment and recalibration (Pierson 2001b) with those strategies, not exclusively, prioritised by liberal, social democratic and conservative welfare regimes respectively.

What are the possible implications of this approach for addressing welfare state change? Neither prediction nor answers are clear and definite; they depend upon political institutions, government's ability to employ blame avoidance strategies and interests groups ability to raise 'veto' points for future reforms (see Immergut and Anderson 2007, Bonoli 2000,2001). The main contributions of his theoretical work remain his ability to place 'path dependency' in the centre of analytical tools and theoretical conceptualisations. Based on the findings from institutional economics and behavioural studies, Pierson attempts to advance further the importance of policy legacies, lock-in effects, and institutional paths for the framing of future policy change. However, the concept of path dependency becomes increasingly problematic whether it means stability (status quo) or continuity (similar logic). In the former case stability means that welfare institutions might fail to catch up with emerging needs and demands (Clayton and Pontusson 1998, Hacker 2004), and in the latter that institutional change in the logic of welfare systems is deemed almost impossible.

Several authors following the new politics of the welfare state approaches and the post-industrialisation thesis have concluded that welfare states are under demographic and budgetary pressures that would remain unavoidable even if financial liberalisation did not occur. Therefore modern welfare states are facing what came to be known as 'objective' pressures', i.e. pressures that would be inescapable to any welfare state and regardless of the international conditions. For this reason, this approach argues that if we want to understand welfare state change and pension reforms, we should be focusing on domestic actors with political parties and electoral systems retaining their analytical primacy (Immergut and Anderson 2007, Anderson 2001).

This approach helps us understand the politics of the pension reforms and how power is mediated through the formal political arena. What is however striking is that this

approach does not reflect on the role of socioeconomic structures and their shifting nature (the shift towards the service economy and lower productivity growth). In fact the shift to the service economy is taken as given and uncontested. If low productivity growth is meant to be the problem and the shift to the service economy regarded as natural, then an examination of investment strategies on behalf of employers and an assessment of employers' role is deemed as necessary. A reflection upon the role of employers and the formulation of their interests and their implications' in terms of power relations are not entertained, neither are the strategies that trade unions adopt to shifting demands discussed. Do all interest groups share the same responsibility or more importantly power over the determination of socioeconomic structures? Essentially, both the new politics of welfare state and its policy-related theorem treats interests groups as holding more or less equal power, neglecting the importance of socio economic structures. As it can be easily understood, unions and employers do not hold the same power over framing welfare systems or labour relations. Employers' have been given the opportunity to shift across countries even within and across the regional (EU) borders. Whether firms have been moving abroad and the possible implications are addressed by theories that highlight the importance of employer perspectives for welfare state development.

2.3.5 Employers' perspectives: Varieties of Capitalism

The argument of Paul Pierson highlights the importance of endogenous changes in the welfare state, rejecting thus that globalisation per se is the causal factor behind welfare state retrenchment or restructuring. Neo-liberal globalisation through the liberalisation of financial capital is meant to exercise pressures on governments to decrease their taxation and wage contributions to social security or insurance schemes in order to provide cheaper labour wages and attract more foreign capital investment (Cerny 2001). These pressures placed on national governments are meant to limit political manoeuvring in state intervention and expose nations to more competition. However countries like Germany and Sweden with long standing export-oriented economies developed a generous welfare state that was compatible with trade openness. Finding no relation between export sector employment performance, taxations and social security contributions', Scharpf (2001) found no support for the thesis 'that generous welfare states' are incompatible with competitive industries.

Huber and Stephens (2005) argued that while there is no empirical support for the neo-liberal globalisation thesis, there is a substantial drive to welfare retrenchment caused by attacks either ideologically-driven (e.g. during Thatcher in Britain) or unemployment- driven. For Huber and Stephens (2005), globalisation is meant to exercise its effects on the ability of governments to stimulate full employment rates due to the loss of control of domestic capital markets and investment practices on behalf of (social democratic) national governments.

More emphasis on the role of the globalisation and its effects on welfare state development were discussed in the work of Duane Swank (2005) that posited that the effects of capital mobility are mediated by political institutions, and therefore domestic political autonomy has not been undermined by international financial actors. Kitschelt et al (1999) maintain that globalisation effects are resisted by countries that maintain their corporatism structures, collective interest representation and universal welfare states. Expanding this perspective, and directing our attention towards the role of capital and more specifically firms, the “Varieties of Capitalism” (‘VoC’) literature recently sparked academic discussions with the construction of two distinctive ideal types of market economies that nurture accordingly determined business behaviour: the Coordinated Market Economies (CMEs) and the Liberal Market Economies (LMEs) (Hall and Soskice 2001).

CMEs are identified by coordination in wage and labour costs, the existence of training schemes, the dense relation of enterprises with banks and ‘patient’ capital while LMEs are exemplified by decentralised bargaining, flexible labour contracts and short-term profitability oriented financial institutions. The VoC literature is based on two key assumptions. First both CMEs and LMEs exemplify an institutional complementarity³ between functionally distinct domains that reinforces and exhibits the advantages of each ideal type, rendering thus these combinations efficient (Longstreth 2006). The second key underlying assumption is that this institutional complementarity reinforces the functions of each type and thus is resistant to change. The VoC approach adheres to the idea of welfare state sustainability and slow, path dependent incremental changes. CMEs with more generous welfare systems and

³ For a discussion on the notion of institutional complementarity see Socio-Economic review (2005), 3, Ebbinghaus and Manow (eds) 2001 and next chapter

benefits are able to compete with the LMEs in terms of skill formation, high-quality training and long-term relationships with employees (and banks). Firms in CMEs are willing to maintain a loyal labour force since it is through their high skills that value is added to the economy (Ebbinghaus and Manow 2001).

The VoC approach brings to the fore the role employers, the financial sector, corporate governance, industrial relations as an institutional ensemble that is able to complement each other and allow coordinated economies to resist the pressures of financial liberalisation and sustain their welfare state standards. Whereas LMEs will be more 'subject to change' due to the pressures from financial liberalisation, the CMEs will be more 'able to resist' and thus exhibit an incremental change that does not provoke institutional transformations but leads to the creation of hybrids (Vitols 2004). The scholars within this tradition argue that maintaining a generous welfare state and a coordinated economy is viable through the existence of competitive advantages (Soskice 1999, Stephens et al 1999, Steinmo 2003). In this way, CME face *less* pressure for institutional change while LME face *more* pressure for institutional change.

The argument of the VoC literature has paved the way for a richer and more substantial understanding of the role of employers and generally capital actors. The theoretical contributions of the VoC literature is that economies that maintain a highly coordinated production regime are not necessarily hostile to a generous welfare expansion, but in fact the latter are a precondition for firms and their investment in a high-skilled labour force (Mares 2003). Drawing on institutional theory, the VoC scholars therefore extend the argument of Paul Pierson that welfare states maintain their path dependence not only due to election costs but also through an interrelated ensemble of institutions that render generous welfare states as complementary to the political economy of each nation state. In a sense, the VoC literature shows that where coordination among employers and employees was institutionalised, change will be blocked not only due to organised labour but also employers. Therefore welfare states and especially pensions are embedded within broader social and economic institutions as part of an 'interlocking complementarity of institutional ensembles' (Lane 2005: 82).

The VoC literature draws from the notion of path dependency and retains that institutional stability or reproduction is more likely than any radical institutional change in the logic of the political economy of each nation. A policy change thus in a pension system is less likely when it does not follow the logic of the political economy of each nation state (Immergut and Anderson 2007: 14) while at the same time other scholars argue that a minor change might display significant ‘spillover’ effects to the production regime (Lane 2005, Thelen 2003). The discussions regarding the role of employers and institutional change has been taken under further elaboration from scholars such Thelen (2003) and Hacker (2004) that argue that Pierson’s notion of path dependency and the institutional path dependence of the VoCs should be reconsider in relation to power relations that are able to trigger institutional change or prevent welfare institutions adapting to emerging needs (various contributions in Streeck and Thelen 2005, Hall and Thelen 2005).

Following the path dependency argument there is a danger we end with a structural determinism that regards the ability of institutions in framing employers’ strategies and thus neglecting the role of discourse and how employers managed to shift the logic of existing institutions through the struggle of ideas (Blyth 2003). The problem with the VoC institutional framework is that the pace of change is incremental and path dependent, neglecting thus that the same institutions could serve different purposes. For example, a shift in the logic of pension system from collective-redistributive to performance-related for individuals, will affect the formation of actors’ interests and therefore their actions. Will this change in the logic of the pension systems be an outcome or a precondition of and for changes in collective bargaining and labour relations? Rather than assuming functional explanations such the notion of complementarity and hybridisation, attention should be drawn to the ability of actors to pursue their strategies and their attempts to shift the role of ideas and the logic of the institutions.

2.3.6 Employers’ perspectives: Capitalists against markets

In examining the ability of employers to shape welfare state development in two different institutional contexts in time, Peter Swenson challenged the class

mobilisation and the institutionalism arguments by focusing his research on role of employers in shaping welfare state development. As an example, Swedish Social Democratic governments had achieved only modest welfare state expansion prior to the encouragement that employers offered while the political institutions remained stable. For Swenson, employers can follow a series of strategies in wage bargaining depending on the function of different worlds of welfare capitalism, business cycles and especially the supply of labour power. Focusing his research on the different responses of American and Swedish employers after the Great Depression and onwards, Swenson argues that the Swedish capitalists followed a strategy that was against the common sense. By supporting the centralisation of unions, collective bargaining among peak associations and public welfare state provision they were able to enhance wage-restraint policies. While for most of their western counterparts, such an attempt will mean the strengthening of unions, he argues that Swedish export-oriented employers were able to implement a wage-setting that allowed them to avoid high wages during times of high productivity growth and labour scarcity.

In striking contrast with mainstream economic theories, Swenson (2002) showed that employers may play a substantial role in welfare state development, especially if this allows them to maintain their profitability, lower wages and contribution rates. Depending on the welfare cycle, employers are able to choose different strategies to enhance their profit-making (either by promoting solidarism in Sweden or segmentalism and cartels in USA) despite the continuation of same political institutions. Therefore employers' stance in welfare state development could not be identified in the existence of political institutions but rather on the realisation of different strategies that were compatible with different welfare and production regimes. However, his argument and his historical account flirts with an over-deterministic explanation that prescribes to employers' a rigid control and knowledge over the various policy reforms, since employers are presented to be successful in achieving their (intended) aims and also benefit from the unintended consequences of their actions.

Shifting thus the analytical focus from workers to employers and their ability to unite and discipline their members is major contribution in the literature of welfare state development. This approach focuses on employers' structural power over the labour

market and the formation of market rules. Realising market as instituted process, allows us to understand that employers were able to use their structural power over the formation of labour market according to their interests, and at that time employers aimed to protect labour wages from competition. However, Swenson downplays the contestation of employers' structural power, neglecting as Korpi (2006) argues that unless organised labour was so well organised, employers would have opted for a different strategy. More than this relational account, the ability of the Swedish unions to pursue full employment as the cornerstone of their socioeconomic development, rendered labour scarcity as one of the threats for wage competition. This has implications not only at relational level but also transforms labour relations and the ideas of actors for evaluating and understanding their institutional context. Assuming that employers always manage to get things their own way, and are able to reap the fruits no matter what the unintended consequences are, endangers a functionalist conception of power that might hide more than it reveals.

2.3.7 A political economy perspective

The common point of the aforementioned approaches is that welfare state development was regarded as an outcome that depended upon economic growth (Wilensky 1975), the ability of organised labour (Korpi 1983), political parties (Castles 1983), employers (Swenson 2002) and state officials (Skocpol 1985) to shape and determine the paths that welfare states would follow. Therefore, welfare state development was realised through the logic that for every effect there should be a cause. Paul Pierson reversed this theoretical insight and argued that the welfare state is responsible for framing its beneficiaries' interests and public policy making. In his own words, 'the effect has become the cause' (Pierson 1993). Therefore based on this relationship between dependent and independent variables, academic interests has been shifted to whether the causes that accounted for welfare state development can hold for welfare state retrenchment (Scarborough 2000) or whether we need new theoretical and analytical insights to understand attempts for social programme cutbacks. Whether this could be captured by retrenchment and its politics (Pierson 1994, Bonoli 2000), social expenditure (Castles 2005) on the importance of social rights (Palme 1990, Kangas 1991), the main welfare state literature still holds this

causal-effect relationship as responsible to understand the recent changes in welfare provision.

Rather than attributing some actors or institutions causal power over welfare state development, Bob Jessop links welfare state development with the role of the state in preserving social reproduction and dealing with the contradictions that are inherited in capitalism. Stemming from political economy of the state approach, Jessop argues that capital is incapable of reproducing itself, using the logic of commodification (land, money, knowledge and labour) and the state plays an important role in securing the capitalist mode of production and capital accumulation. For Jessop (1999) the development of the welfare state is inexorably linked with the hegemonic mode of production, and therefore Keynesian Welfare National State (KWNS) was a mechanism for the organisation of the capitalist economic and social reproduction that helped to overcome the indeterminacies of the Fordist production and conception norms.

The work of Jessop does not deal with the welfare state as a provider of benefits but rather links with an analysis of the empirical-historical manifestations of capitalism. The analytical tools are linking welfare state development with particular 'accumulations strategies', i.e. a strategy that advances a particular economic ideology, a 'hegemonic paradigm', i.e. how general interests of society are realised and embedded in the state institutions, and a 'growth model' that concretises the capitalist mode of production. In criticising the work of Esping-Andersen, Jessop is right to argue that the three worlds of welfare capitalism followed a narrow interpretation of social policy and there is a need towards a more holistic approach in order to link welfare state development with modes of economic growth; that is to bring together again social and economic policy at the centre of our analytical focus. The critical moment for the development of the welfare state is inexorably linked with the crisis of capital accumulation, and whether the crisis is realised as a crisis *in* or *of* the welfare state. Therefore, crises in models of economic growth are identified through contradictions and conflicts inherent in capitalism that question existing institutional configurations. The power of various actors thus depends on their context, their ability to act and the discursive interpretation of the crisis.

For Jessop, the KWNS has been emergently replaced by a new type of state, the Schumpeterian Post-national Workfare Regime (SWPR) that reflects the shift towards a different kind of economic growth (Post-Fordism). In sharp contrast with the previous models of economic growth, economic policy is not aiming in keeping full employment but full *employability*, and with state promoting competition and enterprise innovation through new forms of governance that transcends the nation state's territorial authority. Welfare policies have been replaced with workfare policies and the 'discourse has shifted from entitlements to obligations' (Jessop 2002a: 155).

As Jessop argues, the welfare state should be examined in terms of the economic and social priorities that it has, as a result of structural changes in the balance of economic and political forces. This prioritisation of economic and political structures has been commonly criticised for its under-theorisation of agency and its implication for the downplaying of class struggle itself. This conceptualisation stresses the importance of economic priorities for welfare state development but neglects the ability of actors to shift the constraints of their context, e.g. attempt to change the range or entitlements of welfare state generosity. While Jessop calls for a political economy approach, his analysis brings together economic and social policies but the latter are always at the expense of the former. In fact he neglects the ability of actors to use the welfare state programmes as tools for the shift in distribution of their power resources, this is not just benefits but also control over programmes and their funds (e.g. unemployment, pension).

2.3.8 Institutional (re)turns: the class mobilisation approach

In a reply to the various critiques to the power resources approach, Walter Korpi (various publications after 2000) returned with a series of articles, either alone or in collaboration with Palme (1998,2003), and revisited his own work in order to defend the neo-liberal attack on the Swedish welfare state⁴. With Pierson arguing that old power was giving way to the new politics of the welfare state, and that class struggle

⁴ For more information on the debate on 'Swedosclerosis', see the exchange between Korpi and economist Assar Lindbeck (Korpi 2000b,2000c).

was giving away its analytical importance to the formation of interests groups and blame avoidance tactics, Korpi revised some of his work and argued that blame avoidance politics was not something new e.g. increasing taxation in order to sustain the welfare state was possible in Sweden and Denmark. Class struggle retained its importance, however in contrast with his early writings, organised labour membership rates and density rates did not enjoy their principle analytical role; their outcomes did. Korpi strengthened the importance of institutions and their legacy by showing that welfare institutions are mediators of policy causes and outcomes, affecting thus socioeconomic stratification and the pooling of risk among the citizenry. In contrast with Esping-Andersen and Pierson, Korpi and Palme adopt a less linear and narrowly-conceived path dependent approach and argue that policy feedbacks differ across institutional structures of the welfare state, shifting thus the levels of support of the electorate.

Korpi and Palme (2003) shifted the levels of analysis of the power resources approach to the meso-level, constructing a typology of five ideal typical models of social insurance institutions based on eligibility, principles for benefit levels and governance of the schemes. They distinguish between the state corporatist model that resembles the Bismarckian type of occupational segmented schemes, the basic security model that resembles the Beveridgian principles of coverage for all but with low benefits and the encompassing model that combines the earning-related with universal schemes⁵. In terms of social stratification the basic security model due to the low benefit levels generates a split of interests between working and middle classes with the latter opting out for private schemes to maintain their well being. The state corporatist and the encompassing model provide higher benefit levels, crowding out thus the private alternatives. However in the state corporatist model, working and middle classes are divided across occupational lines, with each group participating in the governance of schemes with its employers. In the encompassing model, basic security provides coverage for all citizens with medium benefit levels, placing thus middle classes at the crossroad and political parties taking the decision to institutionalise public or private schemes.

⁵ Korpi and Palme distinguish two more ideal types that are not less important but attract less empirical support; the targeted and the voluntary state-supported model.

In their study, Korpi and Palme, control for economic, political and social factors and their impact on unemployment, work accident and sickness insurance and they find that the basic security models (e.g. Britain, Denmark) are facing the largest cuts, a finding that is in clear contrast with the argument of the 'growth to the limits' of welfare states (Flora 1986). The state corporatist model (e.g. Germany) with the exception of unemployment benefits, maintain the institutional structures of their welfare state provision due to their ability to form a homogeneous group and the forms of governance of their schemes are able to mobilise to its defence. The encompassing model brings together middle and working classes allowing heterogeneous interest formation, rendering thus encompassing models less resistant to cutback efforts and more dependable on the role of left-right political party governments.

Both Korpi and Palme and the work of Kangas (2005) that draws from this typology, is also re-affirming that basic security schemes have reduced their benefit provision, state corporatist countries retained their stability while encompassing models faced changes that brings Nordic countries closer to Central European states welfare state models. All recent studies that are addressing the evaluation of welfare outcomes, suggest that the Social democratic welfare institutions achieve lower poverty rates and income inequality with fewer single mothers in poverty (Goodin et al 1999, Huber et 2001). The construction of this meso-level typology therefore attributes the importance of stratification for the institutional continuation or change of welfare programmes. However will that mean the basic security schemes will continue to be retrenched in the future or that corporatist countries would be able to maintain their institutional path? The question therefore is how can we identify causality in welfare state change and who are the actors that are successful to trigger institutional change in basic universal schemes and unsuccessful to challenge welfare state institutions in corporatist countries. To deal with these questions, it is essential to clarify the importance of power and institutions for the understanding welfare state development.

2.4 Power in institutional theory

Institutions have gained momentum in explaining welfare state development with most of the recent theoretical approaches highlighting the importance of institutional configurations amalgamated in three main streams: rational, historical and sociological institutionalism. The emergent literature of new institutionalism is becoming itself a major paradigm within sociological and political theory (Hay and Wincott 1998, Hall and Taylor 1998). Therefore the chapter continues with a brief account on the origins and change of contentious welfare state institutions.

2.4.1 Examining the role of power in institutional contexts

In contrast with the old-institutionalism approaches, the recent literature expands the notion of institutions and conceptualises them not merely as material structures but more importantly as retaining their own autonomy in politics (Lecours 2005). Rather than being attributed as an outcome, the emergent literature treats institutions either as the independent (Pierson 1993) or as a mediating variable (Korpi 2001). Within the 'new institutionalism' approach there are various approaches, with scholars numbering seven approaches (Peters 2000) that share their interest and analytical point of departure in institutions but differ in terms of realising the debate between agency and structure, power relations and more importantly institutional change. Most relevant to this study are the historical, rational choice and sociological institutionalism.

Historical institutionalism stems from the tradition of historical sociology (Skocpol 1979, Moore 1967) and stresses the role of path dependence, a concept that refers "to the long-term developmental pathway of an institution, or complex institutional arrangement, shaped by and then further adapted by collective actors. Actors are rarely in a situation in which they can ignore the past and decide *de novo*; their decisions are bound by past and current institutions" (Ebbinghaus 2005b: 13). Institutions once established reach a level of autonomy that is enhanced through their ability to create their own feedback mechanisms either in terms of policy development or interest groups formation. Therefore institutions provoke both intended and unintended consequences that do not always reflect the power asymmetries of their inception. Time and

sequence are taken seriously and these approaches necessitate an analytical focus on temporalities and spaces in which social events occur (Pierson 2004, Pierson and Skocpol 2002). Institutional change seems plausible only through external factors such as international economic crisis. Once a path has been chosen, policy preferences are constrained while at the same time actors' preferences are linked with the function of the existing institutional configurations, rendering thus any undermining of institutions from internal factors unlikely either due to high 'transaction' or 'setup' costs.

For rational choice institutionalism, institutions are realised as the 'rules of the game' that shape and constrain the possibility of actors to choose their strategies. Therefore, institutions are usually captured with the example of the 'prisoners' dilemma'; an example that places actors within certain constraints and attempts to predict their reactions based on their rational assumptions. Rational choice institutionalism is not so much interested in "what institutions are but what they represent; an equilibrium" that provides a context upon which actors "calculate their action based on expectations about the actions that others will take" (Lecours 2005: 18). Institutions therefore are not realised as autonomous, neither do they exert unintended consequences since they represent the context within which rational actors are meant to be calculating their actions, framing their strategies and preferences. Rational choice institutionalism essentially remains unable to explain change since their analysis remains essentially a-temporal, as it focuses on a particulate moment in time.

Sociological institutionalism has been closely identified with the work of organisational theory (Powell and DiMaggio 1991) and it stems from the sociological tradition that stresses the role of normative functions of institutions. Institutions are here realised as the 'dominant system of interrelated informal and formal elements – custom, shared beliefs, conventions, norms and rules- which actors orient their actions to when they pursue their interests' (Nee 2005: 55). Agents' preferences are not shaped by rational calculation for maximising their utility but rather are shaped by the power of norms, ideas and culture. Institutional change occurs when institutions are not any more compatible with the social and cultural norms of their societal context. Power is here internalised in actors in term of cognitions and ideas and it is not realised as an attempt to make strategic choices.

All three new institutionalism approaches share a common interest in the role of institutions, with some scholars arguing that in fact these differences are narrowing (Thelen 1999). However, the three approaches differ in their perception of institutions, and the relation between power and agency-structure for their development (see table 2.2). Within the rational choice institutionalism approach, actors are realised to hold equal positions and information while power asymmetries are not taken into analytical consideration. For advocates of sociological institutionalism power is entrenched within the norms and beliefs of actors that are reflected in their normative and cognitive properties. The historical institutionalism approach emphasises the role of politics in time and the importance sequence and feedback processes. Power asymmetries are taken into consideration and the analysis focused on the interplay of actors and institutions.

For the early advocates of historical institutionalism change remains external to their analytical schema and actors are only able to provoke slow moving, incremental change that would have to be triggered through times of crisis or critical junctures (Pierson 2000, Ebbinghaus 2005b). Rather than focusing on institutional continuity (Pierson and Skocpol 2002), the late historical institutionalism focuses on the issue of institutional change with authors such as Hacker (2004), Thelen and Streeck (2005) attempting to provide a theoretical framework that allows the explanation of institutional change that is neither restricted to external pressures or slow-moving.

The conceptualisation of institutional change and the role of power differs according to the analytical tools of new institutionalism approaches. While in the micro-simulations of rational choice institutionalism everyone shares equal position and information, it is clear that in the context of socioeconomic development, capital and labour do not share equal power and neither are ideas and norms neutral or can be taken as given. For historical and sociological institutionalists, the focus is on explaining the process of institutionalisation and normalisation respectively. Their emphasis in explaining institutional continuity has not provided yet the necessary analytical tools to capture institutional change and especially in the early historical institutionalism, change appears as exogenous to the analytical schema. Therefore, the

de-stabilising factor that provokes institutional change remains outside of theorisation, neither can it be predicted.

While not dismissing the effects of exogenous pressure, the late historical institutionalism literature highlighted that change could also be provoked internally through actors' political contestation. Instead of highlighting actors and structures as independent from each other, Streeck and Thelen (2005: 19) argue that actors' conduct is conditioned by the institutional framework but at the same time they seek ways to circumvent or subvert the institutional rules according to their interests. Therefore existing institutional settings can receive additional components ('layering'), be redirected to new purposes ('conversion'), fail to catch up with emerging needs ('drift') and breakdown gradually ('exhaustion'). This typology therefore proposes an agenda for advancing further the theorisation of institutional change and the pressures for liberalisation of welfare and labour institutions. This approach is still in its infancy since some important questions remain to be answered such as why some actors are more successful than others in achieving change, or perhaps why change is possible in one policy area or country rather than another? More importantly, as Beland (2007: 23) suggests 'what factors explain the direction that these forms of institutional change take'? For example, is it possible for organised labour, farmers or employers to trigger this institutional change and do they share equal power resource to achieve this? Thelen and Streeck therefore have contributed to the theorisation of institutional change but their approach lacks an examination of the importance of power asymmetries among key actors in their ability to trigger welfare institutional change. The chapter now turns to explore the importance of power and welfare institutions.

Table 2.2: Examining the role of power in institutional contexts

	Historical institutionalism (early)	Historical institutionalism (late)	Rational choice institutionalism	Sociological institutionalism
<i>How is institutional change possible</i>	Exogenous pressures	Internal pressures	Internal pressures	Incompatibility
<i>What triggers change?</i>	Crises (e.g. financial, political, social)	Political contestation	(change is atemporal)	Actors' ideas and cognitions
<i>What shapes actors conduct</i>	Policy legacies (time)	Interests	Actors as utility maximisers	Cognitive frameworks

2.4.2 Linking welfare state approaches and institutions: a power perspective

I believe it becomes crucial here to distinguish between the formal operation of an institution and its logic. While many scholars refer to institutional reproduction and change, they usually conflate logic and formal operation. The continuation of an institution (formal operation) does not necessarily mean the continuation of the same logic at the time of its inception. Therefore what we need to focus on is the importance of power relations for institutional development either in terms of the creation of new institutions (innovation), reproduction or a change in the logic of an existing one. The analysis focuses on the importance of power relations and the institutions for the development of welfare state programmes and more specifically pensions.

Politically, the introduction of formal social programmes aimed in taming the radicalisation of organised labour (e.g. Bismarck). The power differentiations within the labour movement itself and among other key actors such as governments, parties and employers shaped the variety of path and logic that modern welfare states' followed (Korpi 1978, Esping-Andersen 1985). For example, in Germany the social insurance principle aimed in the protection of the workers across occupational segregation lines, segmenting thus the interests of organised labour. In Denmark and in the UK, the first social programmes aimed in reducing poverty rates among the older workers. Poverty prevention thus remains a different logic than 'status recognition', with elements of these logics being manifested even today, across European welfare states. The difference in the logics for the coverage and entitlement to benefits constituted from early on significant aspects of welfare state protection.

It is essential therefore to provide a short summary of how the dominant approaches of welfare state development attribute the question behind institutional change and whether they are able to grasp the importance of both the formal and operational logic of institution. Advocates of rational choice institutionalism identify change as internal to their analytical schema, since institutions provide constraints to the rules of the game (Korpi 2001). For historical institutionalism, change remains largely external and actors are not able to exercise any power in changing institutions. For the

advocates of historical institutionalism, institutions retain their autonomy even when the changes in power relations would necessitate retrenchment in the welfare state (Pierson 1994). Here institutions are prior to power relations and change takes place only externally, for example due to international economic crises (Skocpol 1987) or regional authorities (EU- see Leibfried and Pierson 1995).

In terms of welfare state theory, the class mobilisation approach discusses the ability of actors to collect and mobilise power resources and in the politics of welfare retrenchment in the ability of interest groups to raise veto points (Bonoli 2000, Immergut and Anderson 2007) or provoke electoral punishment (Pierson 1994, Green-Pedersen 2002). On the employers' side, Swenson argues that capitalists hold significant power over determining the institutionalisation of social programmes depending on their needs while the VoC literature lack a significant discussion over politics (Shalev 2001, Ebbinghaus and Manow 2001) and power for their importance in socioeconomic making (Papadopoulos and Roumpakis 2009).

Table 2.3: Power, time & pace of institutional change in welfare state theories

Examining the role of power and time in welfare state institutional change	Development of welfare state perspectives	Employer – centred perspectives	State-centred perspectives
Power over institutions (change is rapidly unfolding)	Power resources approach, organised labour and political parties (Korpi 2001)	Economic cycles, structural power of employers (Swenson 2002)	Economic policies, capital actors and modes of economic growth (Jessop 2002)
Institutions over power (change is incremental)	The politics of welfare state (Pierson 2001), Skocpol (1985)	Varieties of Capitalism (Hall and Soskice, Soskice et al 1999)	Policy legacies, policy actors (Skocpol 1992, Heclø 1985)

The theoretical approaches share some common principles regarding the possibility of institutional change with their discussion of power. The VoC and the NPW approach highlight the importance of path dependence and how institutions matter in framing context, strategies of actors, ideas and therefore argue that institutions matter over power asymmetries. Institutions reflect the power asymmetries of their inception but once established they provide feedback effects that are independent from the shifting power relation in societies and therefore institutional change is possible through external pressures (such as economic crises). Institutions cannot be simply taken-up by any actor as policy instruments, since the former retain their autonomy and their ability to shape path of policy and welfare state development.

The power resources and Swenson's approach argue that power is more important over institutions and that the power asymmetries between labour and capital shape as well as triggers institutional change. Institutions are defined as strategic constraints, where actors are able through a rational (augmented or not) approach to trigger institutional change. The two state perspectives subscribe different priorities in the relation between power, time and institutions with Skocpol and Hecló highlighting the dispersion of power among state officials and the importance of the policy legacy in framing future policy development while Jessop prioritises the changes within the economic structures and thus the shifting power relations among capital and labour as crucial in setting welfare state priorities. The schema provided here summarises the role of power, time and institutions in the existing theoretical approaches and provides an innovating attempt to categorise welfare theories according to their ability to exercise power and institutional change. The theories either prioritise how institutions constraint actors' strategies or the ability of actors to shape the future of institutions.

While power is not always explicitly discussed within these approaches, in his recent work Korpi (2001) attempts to link welfare programmes, power and institutional change. He argues in favour of an augmented rational choice institutionalism where the actors' do not necessarily share equal power, acknowledging thus the imbalances in power relations and placing contentious institutions at the centre of his theory on welfare state institutions.

2.4.3 The role of power in ‘augmented’ rational choice institutionalism

The most recent publications of the class mobilisation approach for welfare state development are established within the theoretical latitude of rational choice institutionalism and discuss the ability of actors to exercise power depending on their power resources. In order to understand better the argument we need a distinction between power and power resources since the latter tend to be conflated with the former. While for class mobilisation, the ability of organised labour to extend its coverage in the working force (both blue and white-collar workers or social groups) and also mobilise their resources is an indicator of their power, the actual use of ‘power’ is related mostly with the election of affiliated political parties in government or through ability of unions to mobilise resources in greater numbers than employers.

As Korpi has argued, the formation of the welfare state as an institution is a ‘power resource itself’, meaning that organised labour’s attempts to institutionalise a public universal welfare programme could be seen not only as an outcome of formal application of their power but as having an indirect effect, that is shaping norms of the electorate in supporting the extension of social rights and pre-empting the ability of other actors to trigger institutional change. The resource approach that Korpi advocates therefore focuses on the ability of actors to collect resources (violence, economic resources, labour power) and utilise (e.g. liquidise) those resources. Korpi therefore explored the ability of actors to reduce their costs in translating their power resources (through mobilisation and liquidity of these resources) into formal power that would be able to punish or reward actors. Therefore the importance of institutions is not only an outcome of the exercise of formal power but also as institution that indirectly enhances the pooling of resources (through high membership rates) and reduces the costs of action (through popular support). Based on these criteria, organised labour’s attempt to channel their power resources into formal power are expressed with the election of affiliated political parties and union control over institutions.

For Korpi (2001: 8) institutions are realised as ‘structurations of power and as residues of conflict’. Competing actors share asymmetrical power resources. If the

degree of asymmetry is widened, then the possibility of the weaker actor to resist remains low and if this wide asymmetry 'remains relative stable, distributive institutions may therefore tend to become structuration of power, with distributive outcomes reflecting the balance of power among actors' (Korpi 2001: 11). If the asymmetry is closing, the weaker party is becoming stronger and therefore conflict is likely to result in the change or the creation of new institutions, the distributive effects of which will reflect the power asymmetries at the time of its creation. Taking what he calls 'augmented rational actor-approach', Korpi challenges the rational choice institutionalism argument that neglects the existence of power imbalances among social groups and shows that institutions themselves are reflections of power asymmetries that change through 'shifting relations of power' (ibid,12). Therefore, power struggles determine the distribution effects of institutions and every conflict around institutional restructuring reflects a shift in the power asymmetries. The decisions or non-decisions that are taken or omitted as well as the formation of cognitions, norms and ideas that affect the distribution of power resources 'reflect the prevailing balances of power'. While Korpi presents a schema that takes into consideration the basic elements of the three new institutionalisms in a synthesis that is based in rational choice institutionalism and elaborates on the importance of power asymmetries as central to our understanding of institutional reproduction and change, the approach that he advocates becomes problematic once realised that for every shifting power imbalance among actors, there will subsequently be an institutional change.

Taking into account the importance of power asymmetries and conflict for the creation of institutions, Korpi fails to empirically identify how the process of contestation is unfolded. To put it simply, how do actors realise that the power asymmetry gap is closing and why do they have to wait until that time to enter the conflict. Is there a danger of fatalism that every action of contestation is condemned to fail unless the power asymmetries gap closes? The answer to this question has to be referred to Korpi ontological assumptions' that actors are well informed and are fully aware of both their intended (and unintended) consequences.

Welfare programmes themselves are an outcome of power struggle but also an institution that distributes power resources. The ability to explain institutional change

is meant to reflect shifting power asymmetries that are observable only within their effect (change). The argument of Korpi here is in contrast with the mainstream historical institutionalism assumption that institutions are able to exercise their own autonomy and do not necessarily reflect the power relations of their inception time but neither necessarily reflect always the current power imbalances. For Korpi, change takes place internally and that is through the ability of actors to pool resources, mobilise and enter the conflict. Institutional change is observed in the conflict and the outcome of the struggle can be identified in the institutions. The latter shape and determine the distribution of power resources. Again there is a linear and almost functionalist account that places actors within certain constraints and depending on their power resources asymmetries, are able to play the game. Questioning of the game itself does not appear as plausible or desirable since by default that would mean high 'transaction' costs.

Contrary to the Pierson's and the historical institutionalism argument, institutions do not enjoy any autonomy but represent mere reflections of power asymmetries. If that is the case, then institutions acquire a purely instrumental use and the quest to explain adequately institutional change is reduced to explaining actors' shifting power asymmetries. The schema of the augmented rational choice institutionalism allows for unequal power positions in the game but endangers a functionalist argumentation since institutions as an end-result is meant to explain the shifting power asymmetries.

I now move to suggest a different realisation of institutions and power, not only as results of instituted processes but also as a process of institution making that is able to prioritise certain logic over others and thus shape the context of actors' actions.

2.5 Embedding power in welfare state theory

Having drawn a table that places the various approaches for the development of the welfare state in an institutional power perspective, this chapter moves on to conclude with the theoretical approach adopted in this research. The research is based on the importance of institutions, the latter defined as ‘residues of conflict and structurations of power’ (Korpi 2001: 8). In this way, institutions represent both the outcomes of power struggle but also shape the power asymmetries among the various actors. Therefore institutional change is at the heart of the power struggle among the various competing actors and the thesis will attempt to provide a fresh understanding of how power and institutions can be linked in order to explain welfare state development.

Building on historical institutionalism, the approach adopted in the thesis suggests that both time and history matter. The attempts to bridge power and historical institutionalism are still at their infancy with few scholars so far attempting to provide a power perspective on the historical development of institutions (for notable exceptions see Blyth 2003, Thelen 2003, Hacker 2004). Adopting Korpi’s definition of institutions as a point of departure, the theoretical effort here is to explore how power asymmetries among various actors shape the development of welfare state institutions. It is argued that institutions are able to maintain a contested autonomy that is an outcome of strategies that actors employ according to their power asymmetries. Power here is distinguished from power resources, a conflation that occurs commonly in Korpi’s work and stems from his pluralist understanding of power as something that can be realised predominantly when it is measured. Power can be more than an outcome, an end in itself; it is more importantly mediating actors’ discourse and vision of reality of what is possible and thus frames actors’ ability to relationally and structurally challenge the rules of the game.

Adopting a Polanyian perspective, the thesis follows a historical and holistic perspective for the development of welfare state institutions, prescribing actors the ability to strategically seek to alter, reproduce or establish new institutional arrangements that aim to protect welfare recipients from the forces of the market and the price mechanism. The battle over the control of institutions is determined by the

ability of two movements within the market society; one that aims in exposing the wage-earners, farmers and even employers to the forces of the market as the most efficient way for organising socio-economic life and another movement that seeks to protect itself from the forces of the market. These movements are expressed through various alliances among social groups and as Polanyi writes “the ‘challenge’ is to society as a whole; the ‘response’ comes through groups, sections, and classes” (Polanyi 2001 [1944]: 160). Therefore the aims and the means of the counter-movement remain contingent upon space and time with differentiations among societal groups defining the ability of the movement to defend or promote its interests.

The ability of each movement to establish its interests and its logic on institutions is always accommodated by a significant role on behalf of the state and its disciplining power. The argument that it is highly desirable to 'liberate' the 'spontaneous' economic behaviour of the market from the constraints of state regulation is incomprehensible given how much the state is involved in constituting the conditions that allow national markets to come to existence and function (Block 2001, Bourdieu 2005). Indeed it is impossible to imagine how national markets could have ever been constructed and maintained without the ability of states to exercise political and territorial coercion (Wood 2004), which is precisely what Polanyi has shown both in TGT and his later works. *Markets apart from being politically constructed they are also socially instituted processes* and the creation of a national market economy was “the product of deliberate state action [...that involved...] “a conscious and often violent intervention on the part of the government” (Polanyi, p.250).

The struggle between the two movements in society therefore is taking place within the market society over the embeddedness of socio-economic institutions. ‘Embeddedness’ is a contested concept and has recently provoked an academic debate. As it will be suggested the debate is actually not whether the economy is ‘always embedded’ (Block 2001) or ‘dis-embedded’ (Levitt 2005) but rather the primacy of the markets as the ‘instituting rationale’ for socio-economic relations. While for Block, even ‘dis-embedded’ markets are still socially instituted processes that are immersed by the power dynamics between social agents, for Morgan (2003) the ‘dis-embedded’ markets can be seen not only as attempts to ‘economise’ social spaces but crucially to make competition (if you prefer ‘economisation’) the dominant

mode of *social instituting* of that space (Papadopoulos and Roumpakis 2009). The market in this way imprisons society (Lindblom 1982) and ‘closes’ the possibilities for action: relationally, structurally and discursively.

Approached as instituted processes, markets can not be seen separately from the context that regulates the conduct within them (a context which itself cannot be marketised) and as such, markets are continuously constituted by a dynamic between market conduct and the regulation of this conduct. Indeed, it is the power dynamic of this relation that actually determines the type of ‘embeddedness’ of socio-economic relations in societies that have markets (Block and Evans 2005) and especially in market *societies*, i.e. those societies in which the market principle becomes the dominant mode of *social instituting*.

The battle over welfare institutions therefore is not only the outcome of the struggle expressed as an instituted process, an outcome that can be seen and be regarded as formal (pension system) but more importantly regards the principle of that action. Social instituting refers to the ability of actors to relationally, structurally and discursively dominate the very principles of socio-economic life; e.g. the prioritisation of religion as the basic principle of the archaic societies comes in clear contrast with the recent attempts to prioritise competition and profits for organising socio-economic life in the modern market societies. The thesis explores the way pension systems have been created and focuses on the attempts of various actors to render the market logic as the social instituting principle for the pension systems.

2.6 Conclusion

This chapter provided an overview of the existing welfare state literature and examined their ability to link power and institutional change. Rather than realising the development of the welfare state within the ‘dependent variable problem’, I argue in favour of a historical and power theoretical approach that examines welfare institutions both as instituted processes but also as instituting the principles of social action (e.g. redistributions, competition). Essentially, the welfare institutions should be realised as outcomes of power struggles that enable and restrain future paths but by no means foreclose the possibility of institutional change.

Welfare programmes themselves are an outcome of power struggle but also an institution that distributes power resources. Therefore both the importance of actors' power over the development of pension institutions and also how the institutionalisation of the latter reproduces power dynamics are essential in this research. In order to capture this process I argue for a holistic and historical analytical approach that allows us to capture the struggles over the governance of pension institutions. The next chapter presents the methodological approach of the thesis, it sets the research questions and discusses in detail the analytical tools undertaken.

Chapter 3: Framing the comparative analysis: Power, institutions and time as analytical tools

3.1 Introduction

This chapter entails the analytical and methodological tools of this study's theoretical approach. In it, I explain the reasons for selecting a comparative qualitative research strategy and its ability to infer causal explanations for the development of welfare state institutions. In section 3.2, I discuss the available methodologies for the pursuit of causal assessment in historical comparison and I argue in favour of a more 'open' and 'dynamic' interpretation of causality.

In section 3.3, I frame the research question of this thesis, the logic of the comparative enquiry and the reasoning behind the selection of the case studies. I move on to discuss the key institutional characteristics of pension systems and the way to identify change at the policy level but also of the welfare state as a whole.

Methodologically the thesis contributes twofold to comparative social policy research. First, this research operationalises its holistic theoretical approach through the innovative application of 'institutional complementarity' as an analytical tool that examines neighbouring institutional domains of corporate governance, financial systems, political systems and industrial relations. Second, this research renders 'time' not only as an analytical concept but as an essential part of the empirical investigation.

I go on to discuss how power and time can be deployed in a comparative qualitative study and present the different analytical approaches and strategies available for the exploration of institutional development. In this section (3.4), I briefly critique the existing analytical accounts of power and their ontological premises and suggest an alternative analytical approach; a three-dimensional power perspective. The chapter continues with the rationale for adopting what several scholars call 'systemic process analysis' (Hall 2003) or 'diachronic analysis' (Hay 2001) and concludes in section 3.5

with the research strategies available for drawing conclusions from a comparative qualitative study.

3.2 The comparative logic of causal assessment

The logic of the comparison borrows from the work of contemporary comparative historical sociologists and political scientists. The aims of natural sciences is the identification of causality as a universal law that would be applicable in all contexts and times for explaining reality. While the ontological premises of this research reject this aim on the basis that social reality is contingent, unpredictable and the context we operate is an outcome of social agents' conduct, this is not to suggest that social sciences are incapable of grasping the causes of socio-economic transformations. The discovery of causal similarities and differences have always been a task of the most prominent historical sociology studies and the research for causal inferences and effects has been much influenced by the work of John Stuart Mill (1961), who proposed two methods of identifying a causal relation between the cause and effect (see table 3.1). In case an effect is common across several cases (e.g. social revolution or the legislation of universal basic pension scheme), then the researcher has to identify an antecedent common cause across all the cases (e.g. social unrest, left-wing parties in government), in order to establish the 'causal similarity' that is responsible for the effect. The method of difference is in fact a more exquisite method of agreement, since here the consequent effect is not similar but most of the causes are. In a sense, the task of the researcher is to identify the 'causal difference' that explains why between two cases that bare many similarities (political upheaval, social unrest), the outcome is different (revolution, non-revolution).

As Skocpol (1984: 274) argues the main effort of the researcher is "to assume causal regularities - at least regularities of limited scope" and move back and forth of these historical cases would provide sufficient evidence in the identification of these regularities. The aim of this strategy is to provide either a crucial similarity or a crucial difference in a isolated context (Skocpol 1979, Moore 1967) and through a combination of these methods of causal inference to discover patterns of invariance. However, despite the innovative applications of the methods of difference and agreement (see Mahoney 2003, Hall 2003, Mahoney and Rueschemeyer 2003) the

application of these methods has been criticised on its ontological premises, the levels of analysis and as I argue its static interpretation of causality.

Table 3.1: John Stuart Mill’s method of agreement and difference

The method of agreement			The method of difference	
Case 1	Case 2	Case n	Positive Case(s)	Negative Case(s)
A	D	G		
B	E	H	A	A
C	F	I	B	B
			C	C
X	X	X		
			X	Non-X
Y	Y	Y		
			Y	Non-Y

Table adopted from Skocpol 1984

As Ragin (1987) shows, Mills neglected the possibility that for a certain outcome, there might be more than just one cause and suggested a new Boolean approach that allows to discover ‘multiple conjunctural causation’. At the same time, the narrow conceptualisation of causation ‘from cause to effect’ does not allow us to explain the causal process itself and neglects that the process from cause to effect might be also important for the empirical research. More importantly, the methods of agreement neglected the linear process of causation and hardly attributed how actors’ strategies might have been shaped by the context within they operate and the realm of ideas that shape actors’ preferences (Hay 2001, Jessop 2008). In a sense, the methods of agreement and difference are used in theoretically informed schemas to explain causality. The identification of this causality though remains quite static since it does not control for actors’ strategies, their context and ideas as a dynamic relation that is evolving in time and is subject to change upon actors’ conduct.

As mentioned earlier, the distinction between formal institutions and their logic resembles this problem since the methods of agreement and difference have been taken up to show the development of formal institutions (e.g. legislation of a basic universal pension scheme) but completely neglected the importance of the logic of institution (e.g. replacement levels, redistribution, administration) that actors strategies aimed in shaping. By incorporating actors' strategies and conduct as part of the empirical research, the thesis displaces 'causation' from a 'closed system' (see Kurki 2008) that attributes cause X effect Y (e.g. $X \rightarrow Y$) into an understanding of causation as part of actors' power to strategically act within the institutional context they operate. The differentiation with rational causal assumptions is that here actors are realised as historical, reflective on their ideas and history ('habitus' in Bourdieu's terms), receiving asymmetrical information and with their conduct exercising both intended and unintended consequences within the institutional context. Causation therefore is not only to be found on the appearance of variables but also as part of actors' strategies to shape the institutional context within they operate.

The methods of agreement and difference have received some criticism from the emerging ontological and epistemological assumptions that question the possibility of creating a deterministic causal law based on Mills's methods (see Hall 2003, Ragin 1987, Kurki 2008). Moore in his innovative application of the methods of agreement and difference warned that the causal laws he identified, could be visualised as 'maps' for the exploration of a territory that is useful for a pilot that travels on that certain territory but is of practically no use if the pilot travels across other territories. In this way, Moore suggested that the researchers would have to be careful about stating general causal laws based on the methods of agreement and differences. However, what is at stake is not simple the place or the number of case studies that are necessary to generalise but also the importance of time, since causal laws cannot be suggested to be universal or eternal.

Hall (2003) argues that the available methodologies for the pursuit of causal assessment in historical comparison have been outrun by emerging ontological and epistemological premises that reject the possibility of a universal, one-size fits all, causal law for the assessment of social processes. Among the several methods that have been advocated in order to overcome these problems, is shifting the levels of

analysis. Instead of focusing on macro-phenomena, the effort of the researchers is shifting to lower level of analysis that also shapes the outcome (see Tilly 1995). Mahoney (2003) provides examples of these research strategies (discussed later in this chapter) to shift levels of measurement (nominal, ordinal, interval) and levels of aggregation (aggregated, within-case analysis). The contingent and complex process of the social world render the dis-aggregation of level of analysis as important tool towards the better understanding of context-depended causal process within the cases themselves. Towards a similar direction, the work of Charles Ragin (1987, Ragin and Becker 1992), allows the analysis through categorical values (e.g. the presence or not of a strong labour movement) and continuous values (e.g. how strong was that labour movement) with the Boolean and fuzzy sets analysis respectively.

The application of the Boolean approach allows the identification of ‘multiple conjunctural causation’ and differentiates between *necessary* and *sufficient* causes (Ragin 1987: 99), a distinction that ‘is meaningful only in the context of theoretical perspectives’. The sufficient cause is always apparent when the outcome is present while the necessary cause is always absent when the outcome is absent. Therefore while the sufficient cause (e.g. presence of a strong organised labour) can be apparent when the outcome is (e.g. basic universal pension system), this means that it has not been alone responsible for the appearance of the outcome itself (e.g. popular left-wing political parties might be another cause).

The application of the method of agreement can be used to eliminate necessary causes for the presence of an outcome while the method of difference can be used to eliminate sufficient causes (Mahoney and Rueschemeyer 2003). For example in the application of the method of agreement, the outcome of interest is common for our cases (e.g. basic universal pension schemes) rendering therefore any potential cause that is not shared in all our cases (e.g. significant left-wing political parties), a non-necessary cause for explaining the future outcome. The method of difference assumes that the outcome of interest varies among the cases and therefore any causal factor that is similar across the cases (e.g. well organised labour) cannot be rendered as sufficient for the appearance of the outcome. Only when a cause is both sufficient and necessary can we suggest that by itself can produce the outcome. By eliminating therefore possible necessary and sufficient causes the researcher can control for

theoretically derived causal factors but also provide some matching patterns that could provide the initial basis for new theoretical perspectives (see Skocpol and Somers 1994, ch.3).

3.3 Research questions, selection of cases and the analytical approach

The point of departure of this analysis is to examine whether and how power asymmetries matter for the institutional development of pension systems in three selected cases. The national pension systems that are under examination here are based on the “logic of most similar systems” (Przeworski and Teune 1970) in the sense that all three cases satisfy the basic criteria of the power resources approach, that is countries that historically had strong labour movements that were linked with dominant left-wing parties, i.e. Sweden, Germany and the United Kingdom. The aim of this research therefore is to identify the causally significant differences for the development of the pension systems in the examined cases. These causally significant differences are not isolated in the ability of organised labour to raise power resources but controls for all actors involved for pension policy making as well as the institutional context within these specific actors operated.

The analytical approach here prioritises the role of power in shaping, reproducing and altering welfare state institutions and the importance of time and history. Therefore the research questions that this thesis is dealing with are to explain *why the three national pension systems have followed different paths* in three selected countries despite their similarities in terms of the strong presence of organised labour and significant left-wing parties. These differences are also apparent in terms of the organisation and the role of pension funds in their economies, posing thus the question *why the three national pension funds have followed different investment strategies*. Here the aim is, where applicable, to identify the causes behind the development of different routes for the development and the role of each pension system and pension funds respectively in the national economies. Apart from identifying causal historical conjunctions, the thesis aims to *uncover the role that power asymmetries play for institutional development* (innovation, reproduction, change) and *identify what accounts for institutional development, when and by whom*. Here the aim is to pace time and sequence a key role towards the unfolding of events.

The comparison within the first set of questions is across the cases selected while for the second set of questions the thesis follows a diachronical analysis that will enable us to control for the peculiarities, the contingencies and the power asymmetries of actors within each pension system.

The approach taken in the thesis emphasises the role of power in shaping or altering welfare state institutions and the importance of time and history for addressing these changes. In order to understand and provide an explanation of how institutional change occurs in welfare state development, the thesis moves to examine the development of pension systems through time in order to identify causal processes and mechanisms. The aim is to not establish a predictive theory but a theory that will account for the complexity and the contingency of social reality by prescribing actors asymmetrical power dynamics. It is a “*dialogue*” with history and its actors with the aim of identifying causal regularities rather than a simple application of a general theory or an effort to develop an interpretation of history (Skocpol 1984,2003). Instead of addressing welfare state development through the discovery of a universal law, e.g. the levels of economic growth, the analysis address the issue of change and temporality as a contingent, an open-ended empirical matter that does not rest on the analytical convenience of numbers and rational assumptions.

Power asymmetries are thus realised as vital for the determination of the institutional feature of the pension schemes and therefore their ability to shape class interests, enhance redistribution, solidarity or competition among the citizenry. Savings channelled towards pension schemes represent a substantial capital that allow funds to become an important actor within the economy and therefore any power asymmetries could affect the way the funds’ participants could prioritise their logic of instituting socio-economic reality. While welfare state theories address the creation of pension funds as part of the development of the pension system, these literatures have not taken onboard that pension funds represent important actors within the national political economy as well an important channel of power for the funds’ participants to prioritise their *mode of instituting* (and vision of reality) for socio-economic institutions. By realising pension systems as *instituted processes*, the approach taken here contributes to the welfare state theory by highlighting how important is the channelling of savings and who gets to control this accumulated capital. The power

asymmetries among key actors' therefore become important in order to understand the control as well as the logic of funds' investment and shaping future socio-economic development.

The examination of institutional characteristics of the pension systems as well as the power asymmetries of the key actors can provide an analytical framework that will be able to examine the instituted *content* and the instituting *logic* of pension systems. Following a country-specific case study, it provides a temporal comparison within country-specific pension system using a historical institutional approach in order to analyse the development of pensions systems and funds not as a static but as a dynamic process driven by social actors and shaped by institutional configurations. The focus rests on the role of 'institutions'; the latter realised as "structurations of power and as residues of conflict" (Korpi 2001:8) and also as 'instituted actors'. Korpi's definition therefore should be complemented by the realisation that the creation of the pension funds should be also realised as an instituted process that depends on the power struggle among key actors.

The development of pension systems is a dynamic process of political struggle. Pension systems once created establish their own institutional legacy that are able to condition future paths, distribution of resources and affect power relations between fractions of labour, capital and the state. Power asymmetries among labour and capital shape and determine the institutionalisation of pensions as a social right and the role of occupational pension funds in the market economy. Therefore, the object of the analysis is institutional change, understood here as institutional development in three pension systems. The analysis is focused on the institutional innovations or changes for the pension system through the examination of the introduction, reproduction and reform of pension programmes.

3.3.1 Conceptualisation - Institutional characteristics of old-age pension systems

The research for the development of the pension systems is not anymore isolated in academia or public administration but has rather attracted much attention by the

international organisations (IMF, World Bank, OECD) and the media⁶. Although all this popularity might be a fine reason to explore how the development of pension systems evolve, the starting point of this research locates pension systems at the centre of welfare and production regimes, since pensions represent by far the most important social policy programme in all European welfare states. The establishment of pension programmes was early and their development has shifted in time, providing thus a fruitful research area to explore how institutions evolve and how have power asymmetries among key actors shaped, reproduced or shifted the form and the logic of welfare institutions.

Before we move on to explore the development of the pension systems in the three selected countries, it is necessary to provide a definition of pensions, with latter realised as ‘an exchange of people *contributions* and/or *savings* in order to establish a claim for a future benefit’. The logic of the pension systems and their objectives differs across countries but also within pension systems themselves. The two most common objectives are poverty alleviation and income maintenance. Another aim of pension programmes is to insure against contingencies (e.g. work accident, widow pensions)⁷.

These objectives can hardly be found in isolation from each other but still some pension systems clearly prioritise one objective over another. The public objectives of the pension systems can be distinguished between social solidarity and horizontal equity aims. For example in corporatist welfare regimes the pooling of risk is grouped within certain occupational groups (occupational solidarity) while for Social-Democratic regimes the pooling of risk takes place across all citizens (universal solidarity), affecting thus the social groups formation that supports the welfare state. Horizontal equity thus refers to equal access to income support but not necessarily equal chances to build a claim in the labour market (on gender see Ginn 2005).

⁶ For example, running a search on the Financial times website for ‘pensions’, there are at least 33000 links within the last 5 years (2003-8).

⁷ Although, disability or incapacity pensions are not part of this research focus per se, these schemes have played an important role in providing ‘exit’ to early retirement and meeting social policy targets (e.g. early retirement schemes Germany and disability pensions in Sweden). The thesis opts not to focus on the development of disability pensions *vis a vis* old-age pensions for at least two reasons. First the thesis focuses on old-age pension and not early retirement policies per se and second it would require an extension of groups (e.g. medical professions) involved over the governance of disability pensions, adding further complexity to the analytical schema.

Table 3.2 Types of pension models and their institutional features

	Assistance	Citizenship	Employment	Employment	Occupational	Private	Private
Eligibility	Proof of need	Citizenship	Individual employment	Individual employment	Occupational employment	Occupational employment	Contract
Funding	Taxation	Taxation	Contributions	Contributions	Contributions	Contributions	Wealth
Payment	Income-related	Defined Benefit (DB)	DB	Defined contribution (DC)	DB	DC	DC
Risk	State	State	Employer	Employee	Employers	Employee	Pensioner
Administration	State	State, social partners	Social partners, managers	Social partners, managers	Social partners, managers	Social partners, managers	Insurance companies

The research focuses on key institutional characteristics of the pension systems and explores how eligibility criteria for participating in the programmes, replacement rates, funding as well as the payment alternatives for the schemes and the administration of the programmes can be linked with power asymmetries and market performance (see table 3.2). There are at least seven pension models that operate with different logics and institutional characteristics. These models can be clearly distinguished by their eligibility rules, with the social assistance model based on the proof of need, the basic security model based on citizenship, the employment and occupational pension programmes linked with the performance of the labour market and occupational status respectively and last private personal pension that are based on contract. The type of pension model is not only important in terms of coverage but also as mean of stratifying the redistribution of savings among social groups.

Apart from the eligibility rates and replacement rates, pension systems can be distinguished on their funding and payment alternatives. The most popular funding alternatives are the Pay-As-You-Go (PAYG) funding where the current contributions of employees, employers or the state (either as taxation or contributions) are used for financing current benefits. The other funding alternative are organised with the principle of funded schemes where contributions are saved (usually into an investment fund) and then are used to pay benefits for the people who originally contributed. The former funding necessitates solidarity between different generations since the young contribute their savings to pay the old and part of the cost is also covered by the public budget (taxation). In the latter type, schemes refer to the pooling of resources of a similar generation and do not pay any contributions towards the old with the state providing tax incentives to the pension members. These two principles are not necessarily cancelling out each other but in fact may coexist in a variety of pension schemes within the same pension system.

The payment alternatives refer to the formula that the benefits are paid out to the beneficiaries. The defined benefit (DB) or final salary payments are determined by a formula based on the number annual contributions and the average yearly contributions or annual income. If a pensioner knows how much savings have been contributed on her account, she is able to calculate how much she will receive as a benefit. Instead, schemes that are organised with the defined contribution (DC)

principle cannot predict the amount of the benefit that will be received but what is known is the 'contribution rate'. An important difference between the DB and DC schemes is that in the former it is usually up to the actor that collects the savings (state, employer or employers in occupational schemes) to meet these demands. In DC schemes the risk lays with the employee since s/he is not able to determine the amount of the pension benefit and in this case, employers' responsibility ends with the contribution (usually lower than DB) to the scheme. In personal pension schemes, the risk lays with the pensioner since the benefits depend upon financial markets.

Funding and payment alternatives are closely interlinked, with the several authors highlighting that institutional barriers are quite important in any attempt to shift from one funding principle to another due to the what Myles and Pierson (2001) famously suggested as the 'double payment problem'; whereby one generation is asked to pay both for the PAYG old-age recipients and also for their own funded schemes. The solution for this policy problem stemmed from the Swedish experience and the creation of notional defined contribution (NDC) schemes where the schemes are organised similar to DC with the difference that the accounts are virtually saved for each personal account and in reality are covering the demands of the PAYG scheme. The NDC accounts offer a solution to the 'double payment problem' but effectively shift the risk away from employers and the state to future pensioners.

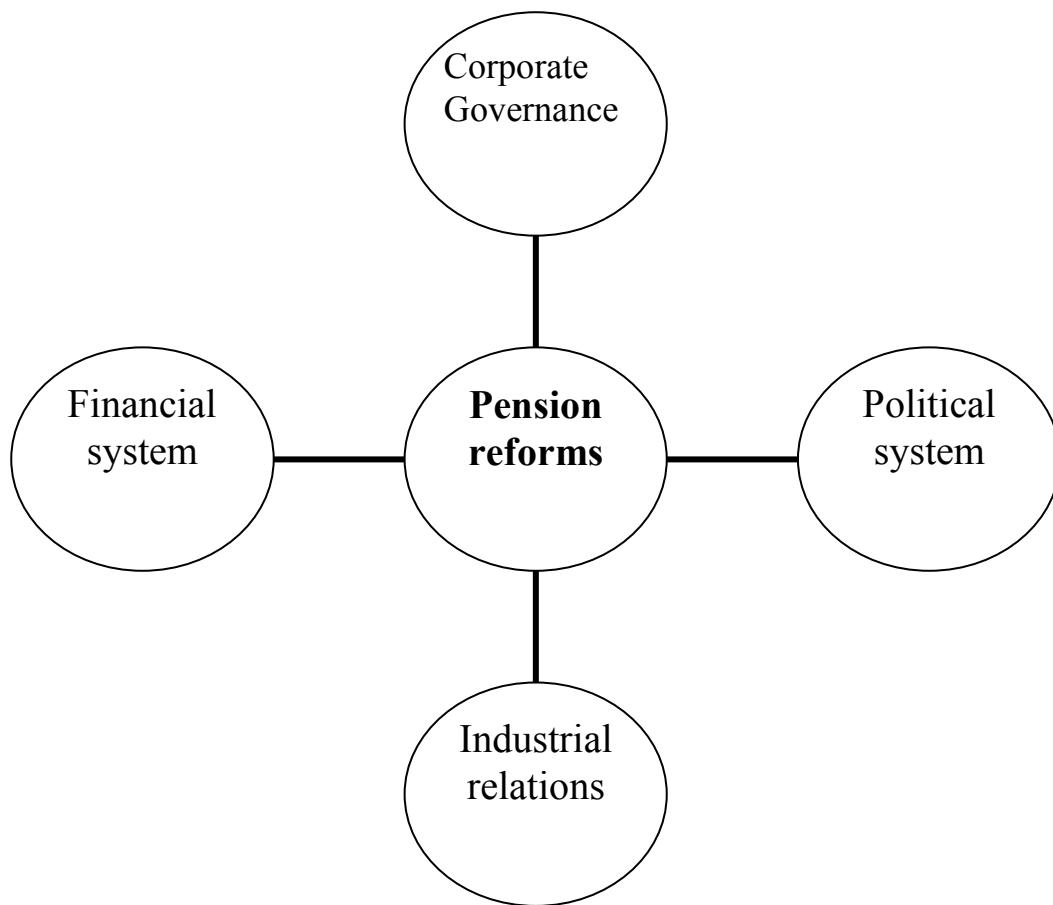
Another important institutional characteristic for the pension systems is to identify who is controlling the pension programmes and whether they are under the control of private or state actors. Pension programmes might be under the control or partnership of employers, unions, financial capital and state actors providing thus groups with unequal power asymmetries over decision-making. For example, if there is a scheme that has been organised on a funded principle, then the actors that hold power over the decision making of the fund are responsible for its investment. If we realise that pensions attract a substantial percentage of salaries and employers' contributions, then pension funds are not just a type of funding but a substantial capital actor within the political economy. Which groups are able to control these savings determine the future investment practices and the *logic of instituting* socio-economic reality.

Changes in both the content and the logic of welfare institutions are deemed as the object of the analysis. The importance of shifting power asymmetries and more importantly actors' strategies towards the shaping of welfare institutions are realised as part of the empirical investigation. At the same time, the shaping of welfare institutions is realised as constitutive for the distribution of power asymmetries, actors' strategies, alliances and ideas. Therefore both the content and the logic of the pension systems are important aspects for the understanding of institutional change and are therefore realised as mutually constitutive.

3.3.2 Operationalisation

The question of what represents a change in welfare institutions and especially pensions (Kangas et al 2006) shifts a level of analysis and attempts to identify how can we capture change at the policy level but also for the welfare state as a whole. Institutional changes therefore can be realised either in terms of *parametric policy changes* and as *paradigmatic reforms* (Hinrichs 2003). Parametric changes within the pensions system can be analytically realised based on three principles; benefit reduction, contributions increase and exploitation of public finance. Benefit reduction refers to changing the indexation of the benefits and the introduction of demographic components. Contributions increase occurs when employees or employers are asked to contribute more and for a longer period of time, while some governments may cover some of the pension expenditure through the increases in VAT. Paradigmatic reforms refer to substantial changes within the pension system such as the introduction of new schemes or mandatory plans that aim to enhance the channelling of savings to private schemes or the privatisation of already existing public schemes. At the same time the shifting of PAYG into funded schemes represents a substantial change for the logic of the pension system.

Figure 3.1: Institutional complementarity as analytical tool



After identifying how we can capture analytically institutional change for the pension systems, there is a need to explain how institutional change occurs and for this question, a more holistic view of the recent pension reforms is needed. The thesis follows the debate regarding the importance of ‘institutional complementarity’ and examines pension reforms and their legacy as a dynamic process that co-evolves in relation to the following institutional domains (Streeck 2005); the role of industrial relations, the development of financial systems, the role of corporate governance and the role of political parties (see figure 3.1). All these neighbouring institutional domains are of key importance for the development of the pension systems and provide ideal starting points for the analysis of the power asymmetries among key actors such as organised labour, employers’ organisations, financial capital actors, managers, political parties and state actors. The selection of these institutional domains is grounded on their importance for the development of pension systems.

Pension systems are not solely a social right that protects all citizens from poverty during old-age but also represent a social programme that has been evolved as part of the engagement of workers with the labour market. At the macro level, industrial relations and wage bargaining have been crucial for the development of pensions with both public and private employers providing generosity of pension programmes for their employees. It has been argued that the shifts in production regimes is meant to affect the expansion and the decline of pension programmes (Sass 2005, Swenson 2002) while other scholars argue that extensive welfare arrangements are not a burden but a comparative advantage for some production regimes (Hall and Soskice 2001). Flipping the coin, the emerging importance of corporate governance as an institutional domain that bridges employers and employees at the plant level is related with the availability and the generosity of pension schemes depending on the employment and redundancy policies of the firm. The arguments here are linked with the shifting payment options of the occupational welfare that shift the responsibility of the firm towards welfare recipients (Bridgen and Meyer 2005), the lack of adequate contributions on employers' behalf (Shaoul 2003) and the decline of take-up ratios in times of policy complexity (Clark 2006).

Political parties have been crucial as advocates of policy delivery with the structure of the political system shaping the possible pathways of reform and policy options. The examination of political parties as actors is still dominating the comparative politics literature on pension development, focusing on the role of political parties, veto points and the structure of political system for the implementation of the policy reforms (Bonoli 2001, Bonoli and Toshimitsu 2005, Immergut and Anderson 2007). More importantly, as it would be shown, the institutional domain of the financial system has been neglected within the social policy literature and few scholars have been able to link the development of pension funds with pension reforms (notable exceptions Pontusson 1992, Manow 2001, Clark and Whiteside 2003). The way the financial systems are structured, the concentration or the dispersion of financial holdings, the regulation of the financial market have all shaped the role of pension funds and their investment policies for the political economy of each nation state (Zysman 1982, Jackson and Vitols 2001, Clark 2000, Clark and Whiteside).

Methodologically the thesis contributes through the innovative application of institutional complementarity as an analytical tool that examines neighbouring institutional domains over time. While all these studies have been focusing on one or two institutional domain(s) in order to explain pension systems, the analytical approach here attempts to assess the role of key actors within the various institutional domains in a comparative historical framework for each pension system. The analysis places the development of these institutional domains and actors in a context that allows time, timing and sequence to be taken into perspective. Therefore, each institutional domain and the conduct of each strategic actor is realised in relation to the institutional context. In this way, the sequence of events is being realised as the policy legacy that frames actors' strategies and ideas for what is possible. Bring forward the Polanyian perspective, these strategic orientations are realised in terms of the desirability of actors to promote two contrasting logic of organising socio-economic reality; one that promotes a mode of instituting that prioritises individualism, competition and pro-market policies and another that promotes a mode of instituting that is based on solidarity, redistribution and that prioritises societal norms over strictly economic ones.

The key actors that shape and render their logic as the dominant mode of instituting are not isolated within the institutional context but are realised as operating within various complementary or if you prefer neighbouring domains. This institutional complementarity has been either realised as 'tightly' or 'loosely coupled'⁸. In the case that complementarity is tightly coupled it means that any change in one institutional domain will affect the complementary domains. If it is only loosely coupled, then we have the creation of 'hybrids', or the idea of 'institutional compatibility' (Ebbinghaus and Manow 2001). The analytical question that arises thus is, whether a change in one or more institutional domains affects the complementarities of other domains (Deeg 2005) or just to rephrase it for the analytical approach adopted here, whether dominant key actors are able to influence the development of other institutional arrangements not only in terms of institutional form but also according to the logic of instituting pension systems.

⁸ For a discussion on the notion of institutional complementarity see Socio-Economic review (2005), 3

This attempt offers an innovative methodological perspective for the development of pension systems that at least to the authors' prior knowledge has not been carried forward before, nor employed by a single researcher. Attributing time a crucial analytical and theoretical importance for the identification of causal similarities and differences for the development of three pension systems, the research renders 'time' not as only as analytical concept but becomes essential part of the empirical investigation. In few words, time and sequence matter and the research does not isolate the development of the pension systems from its institutional complementary domains. Time and legacy remain important and enter the analytical framework not as a static understanding of reality but in a dynamic relation with key actors' strategies and interests. The research therefore considers the various power asymmetries that key actors' are holding and examines the various 'channels of power' that either help actors to mobilise their resources (e.g. labour institutions) and employ their strategies over socio-economic policy making (e.g. co-determination, political parties).

The research therefore explores the three pension systems from the time of their inception and the legislation of the first public schemes. To use Pierson's phrase, 'time, timing and sequence' matter since the research focuses on the various paths that pension systems have followed over the last century until recently. The research is conducted on case study basis of the three pension reforms as individual cases while in the last part of thesis there will be a comparative chapter that will try to summarise the comparative findings and address the question of how power asymmetries can explain institutional development. All case studies follow a similar framework, whereas the power asymmetries of various actors that operate within the complementary institutional domains are realised both as constitutive for institutional building and constituted by existing institutional context.

Doing justice to the ontological premises of this research and the conceptualisation of power, the research identifies both successful and unsuccessful attempts for institutional change by exploring the power asymmetries among key actors and their ability to exercise their power at a given time through their strategic attempts to shape the future of pension systems and funds. The sequence of these attempts as well as the unfolding of the development of complementary institutional domains will be able to provide us with the necessary and sufficient understanding of how power is linked

with institutional change. The aims of the thesis is not to evaluate the process of marketisation but show the conflicting principles of instituting social reality through the examination of pension systems and funds as both instituted process (i.e. outcomes of power struggle), and as prioritising instituting logics (i.e. contextualising actors' conduct and ideas), of future socio-economic reality.

3.3.3 Type of data

The research is based on the existing published material for the development of the various institutional domains in the literature along with an examination of contemporary institutional releases such as pension reports from governing bodies and reports of public documents, announcements and newspapers. Press releases from the governmental institutions have been treated empirically as statements that represent the authoring institutions and the official stance of the governments over the development of pension policies. Empirical data have been sourced by published works that refer to quotations (e.g. interviews, memoirs) that authors have already used and translated in their published works. Therefore, the main part of the research is based on documentary and content analysis of policy documents, published material and newspapers. These documents have been sourced through governing bodies, pension funds' reports and newspapers (e.g. Financial Times, The Guardian). The complete list of sources as well as policy documents and relevant publications would be provided in the references section at the end of this thesis.

The historical approach of this research met certain obstacles in accessing material that is not available on digital format, rendering thus the examination of existing publications, in form of books and articles, as part of the empirical material. The research faces one more important limitation and that is the researcher's limited knowledge of all languages that a documentary research necessitates. This problem has been minimised through the extensive publication records on the development of the welfare institutions in the three cases selected here. The criteria for the selection of the three cases therefore were able to overcome any bias for selecting these welfare states based on the empirical material available. It is certain through, that linguistic limitation as well as lack of substantive publication records for several welfare states

remains a problem that a comparative qualitative researcher, that follows mainly a documentary analysis, could face.

Another key challenge of this research is the lack of any interviews with pension policy makers, union and employers' representatives as well as with state actors and financiers. The conduction of interviews was not a feasible option due to the lack of financial resources of this research to meet pension experts, policy-makers, employers and unions' representatives in all three countries. The thesis aims to counterbalance these problems through the historical narrative and the exploration of existing and published personal or institutional accounts (e.g. memoirs, unions' conference proceedings).

3.4 Power, time and institutions as analytical tools for institutional change

After discussing the conceptualisation and operationalisation of the research problem, it becomes necessary to discuss the importance of time and power as analytical tools for the explanation of institutional change. The chapter continues with an assessment of the existing uses of power and time for social and political research and moves on to suggest a three dimensional power perspective for the understanding of institutional change.

3.4.1 Beyond the epistemological fallacy; power as an analytical tool

The way that different scholars conceptualise power has created a rather stretched use of this word. The use of the concept becomes even more problematic in its analytical application in social research and the way scholars analytically distinguish 'power' from its effects. Drawing from the work of Hay (2002), we can schematically identify three 'faces of power' in political theory with each dimension adding to the initial pluralist perspective that was launched by the work of Robert Dahl. Later I move on to show how power resources and other welfare state theories have followed this inadequate epistemological approach and move on to propose a different conceptualisation and operationalisation of 'power'.

The pluralist conceptualisation of power followed the Weberian definition of power, as the ability of A to get B do something that s/he would not otherwise do (Dahl 1957). Power is understood as a purely relational term between two actors (e.g. labour-capital) and their power conflict can only be assessed in the formal political arena (e.g election results). The state acquires an instrumental role and the analytical focus is on the actors that hold key positions within the state apparatus and therefore are able to determine how the state will function. Scholars that follow this perspective are able to determine which actors have more power as a relation to other actors through quantifying their power asymmetries in the formal political arena.

The second dimension of power moves beyond the formal political arena and argued that pluralists neglected that apart from the formal political arena, what is also essential is the process for the selection of the agenda, since which issues are or are not on table is also part of political process. In their work Bachrach and Baratz (1962) argued that actors that hold power in the decision-making process were able to filter out issues that the politicians or elites lacked popular support. Therefore the two dimensional view of power urged scholars to analyse power both in terms of ‘decision making’ and ‘agenda-setting’ (Hay 2002). The second face of power therefore continued on the path that pluralists paved since holders of power were realised to be the same though operating both in the formal political arena and its dark corridors. Shedding light to these dark corridors and processes of agenda setting is difficult to be analytically identified but nevertheless can be observed as an outcome through an evaluation of the importance of issues that enter or skip the ‘decision-making’ process.

The third dimension of power and the contribution of Lukes (1974) in the power debate criticised the idea that policy makers or elites are not just able to exercise their power solely on decision-making and agenda-setting. For Lukes, power can be realised also in the ability of actors to shape reality “in such a way that they [people] accept their role in the existing order of things, either because they can see or imagine no alternative to it, or because they see it as natural or unchangeable” (Lukes 1974: 24). Empirically this theoretical conceptualisation of power necessitates the distinction between actors’ ideological preferences and their ‘real interests’ at the analytical level. The third and ‘radical’ face of power highlights another possible way

that power is exercised without however fulfilling its 'radical' tone to critique this process. Instead scholarship is reduced again to identifying (real) interests that subsided in favour of (false) preferences as incidents of exercising hidden power (for an extensive critique see Hay 2002, 178-187).

Despite their differences, the three faces of power have two striking similarities that can be reduced to their underlying ontological rationalist assumptions. All three faces realise power as a direct relationship between actors that is less or more difficult to observe and the task of scholarship is to identify more places where power operates. In a sense, the second and third dimension of power is allowing us to identify power and its effects in more places than just the formal political arena. However reducing power to its effects and into a relation, scholars enter to what Hay calls an 'epistemological fallacy' since they attempt to reduce an ontological problem, i.e. what can be known of power to an epistemological question, i.e. how we can know of power. If the epistemology precedes the ontology, then there is an epistemological (or what Danermark et al 2002 call 'epistemic') fallacy. It is thus likely to identify a reality, not based on *what* can be known but rather it will depend much on *how* it can be known (empirical findings). In this way, the *means* (science, knowledge) are determining the reality, reducing the latter to the level of the former with a result to shed light in particular areas and leave other parts of reality in the dark.

For example, the one-dimensional view of power as established by the pluralists, is clearly matching the conceptualisation and operationalisation of the concept of power resources that Korpi advocated (especially) in his early work. As we have already pointed, Korpi's realisation of power is reduced to 'power resources', a quantifiable measure that can be counted in election and mobilisation results. In fact, Korpi's foundational work on power resources is realised as a game between actors that compete in the formal political arena for higher mobilisation and election rates. While the operationalisation of power through electoral and mobilisation results is an important aspect of identifying power and as an analytical tool to explain institutional development, it is by no means the only one, neither is it adequate. For example, the power resources approach faces similar problems as the pluralist conception of power; they pay no attention to the operating structures of the state such as growth and economic policies and neither is there a realisation that might be more actors than just

trade unions, employers and state actors strategically aiming to shape the institutional context.

The augmented approach to rational choice institutionalism represents an important step towards the realisation of asymmetrical power relations among actors since scholars within this tradition account for the institutional context within which actors operate and shape their strategies. However, the understanding of power is based on the pluralists/neo-elitists conception of power as something that can be identified only when it is visible and formal and institutions are meant to reflect 'prevailing balances of power'. Korpi (2001) instead of discussing adequately the faces of power debate, attributes institutions as the determinant for both 'agenda-setting' and 'preference-shaping', reducing thus effectively the second and third face of power to the first. In this sense the counting of votes or membership rates as a methodological approach provides us with a conception of power that is isolated in what can be measured while institutions become purely instrumental to prevailing power interests.

The task therefore is to overcome the epistemological fallacy that reduces the analytical identification of power to its appearances and its theorisation as a purely relational term. The exercise of power cannot only be realised as a 'power over' someone as the faces of power debate advocates but should be realised as the ability to shape the institutional context within actors operate. As Hay (2002: 185) argues, the concept of power could be further elaborated into becoming a 'power of' an actor to shape and determine the very institutional context she operates. These actions are realised as strategic and exercising both intended and unintended consequences in a social reality that is not fixed but remains contingent and indeterminable. In this sense, the intentional conducts that aim to reproduce or change the institutional context, represent an indirect –and yet absolutely crucial- form of power that aims to change the context within which actors operate. The context (structure) is favouring some strategies over others and renders some ideas more plausible or credible affecting thus the selection of actors' strategies of what is possible. The way actors interpret the reality is thus also mediated (and yet not determined) by the role of ideas and the power of those who can impose a certain cognitive approach of the reality.

The approach adopted in this thesis resembles Hay's analytical concepts of 'conduct, context and idea shaping' and distinguishes at least in three analytical dimensions of power: structural, relational and symbolic (Papadopoulos 2005). Power is characterised by the creation and mobilisation of resources in the three dimension by the social agents and is spatially and temporally crystallised form of governance for the respective social space, which means that it '*translates*' into both a content for institutions and a mode of instituting them (Carmel and Papadopoulos 2003).

All three dimension are mutually constitutive and are only analytically distinguished⁹. Structural power refers to the reproduction or alteration of the very institutions within which the social agents conduct their action. When exploring this dimension, analysis can 'capture' the *instituting* capacity of social agents. Power asymmetries are observable as differences in their capacity to maintain or alter the rules of the field or metaphorically the 'rules of the game'. Similar to what Hay (2002) describes as the *context-shaping* aspect of social action, exercising structural power is achieved by mobilising power resources in order to defend or alter the institutions and/or the mode of governance that regulate the distribution of these power resources, i.e. the rules of the game. In addition, changes in the form and content of institutions follow changes in the capacity of agents to mobilize structural power resources. In this context, structural power is a dynamic between social agents intending to defend or alter how regulatory processes are consolidated institutionally. The outcome of this dynamic relation 'translates' into both the contents of institutions and the modes of instituting them.

Relational power is the ability to force someone to do something that otherwise s/he would be reluctant to do. Power here is a relationship between social agents in an already determined (by structural power) social context. When exploring this dimension, analysis can capture the *instituted* capacity of social agents to act. Discursive power is the way that society recognises, understands and interprets social categories within the existing power-relations. When exploring this dimension, analysis can capture the ability of social agents to define the 'conditions of possibility'

⁹ This conceptualisation of power is a theoretical synthesis that draw its inspiration from Lukes (1975), Strange (1994), Hay (2002), Bourdieu (2005) and has been originally developed by Carmel and Papadopoulos (2003) and further advanced by Papadopoulos (2005), Papadopoulos and Roumpakis (2008).

for themselves and other actors to act out of their intentions; to put it simply, whose concepts, assumptions and perceptions of reality are hegemonic in one or more social spaces. Power asymmetries are observable as differences in the capacity of social agents to discursively establish and defend their symbolic status as social agents i.e. how far their definitions of the social space and their claim to act in an instituting capacity are 'recognised' by other social agents.

The historical analysis of this research therefore aims to identify the efforts and the strategies that various actors employed to pursue their interests regarding the development of pension systems. The thesis now moves on to discuss the concept of time in social research and more particularly in welfare state theories.

3.4.2 Time as an analytical tool

The question of institutional change as summarised in the literature of welfare state development has followed several research frameworks in order to bring change and time within the analytical framework. For example many theorists in the rational choice institutionalism address the issue of time as a moment that helps the analysis to contextualise the 'rules of the game', prescribe actors as engaged in a conflict with a pre-given set of power asymmetries that depends upon the context that actors operate at a given point in time. The focus of the attention therefore is to scrutinise the dominant actors, their power asymmetries and discuss the details of the context and actors strategies at that point of time ('A') based on their rational calculations and adequate information for the intended consequences of their actions. Apart from its appealing simplicity, as Hay (2002: 145) puts it the 'synchronic' analysis is 'a-temporal' in the sense that it does not pay attention to the sequence of events, becoming thus unable to explain how and why have the power asymmetries of moment 'A' became possible in the first place and subsequently how they can change in the future.

The most common analytical strategy in order to understand institutional change is a variant of synchronic analysis but instead of focusing on a specific point in time, the 'comparative statistics' analysis is actually comparing two moments in time, 'A' and 'B'. Comparative statics compares and contrasts analyses conducted at different

moments in time, thereby comparing the form and structure of the system in question at various points of development (Hay 2002). Typical examples are conceptual pairings and oppositions for example Jessop's (2002) ideal types of welfare state development (KWNS-SPWR), rendering this institutional change an integral part of a theoretical approach that theorises change but does not necessarily support its thesis with empirical findings.

Moving beyond the theoretical pairings, scholars employ the periodisation of time as an analytical device to show institutional change (Lieberman 2001). For example the study of Mark Blyth (2002) identifies the 1973 liberalisation of financial capital as the critical point in time that is able to provide us with the contrasting periods of 'embedded' and 'dis-embedded' liberalism (Ruggie 1982). The work of Blyth, heuristically identifies the critical point that divides and breaks the institutional path into two eras without however explaining the unfolding of the crisis itself. While critical junctures are external to the theoretical schema, the new era is prescribing different qualities to the context within actors operate and form their strategies. Therefore critical junctures appear *deus ex machina* enabling the researcher to avoid analytical complexity but at this comes at the analytical cost of not being able to identify the conflict for the pace and direction of the change.

When the theory is not able to determine the pace of change and scholars do not share a dominant theoretical approach for institutional change, then the analysis of sequences and time become essential. What Hay (2002: 148) calls 'diachronic analysis emphasises the process of change over time' and here scholars instead of comparing two points in time or two periods of time, are able to render the sequence of events and the pace of change as a matter of empirical investigation. No pre-given theoretical assumptions are determining the pace and direction of change, with the latter being open and contingent upon actors' strategies and power asymmetries. Time, timing and temporality therefore become not only analytical categories but more importantly part of the empirical investigation that render the development path of pension systems and the pace of change as important features of the analysis. Policy legacies are realised as conditional for prescribing power asymmetries and therefore shaping actors' strategies that by no means are realised as conclusive to actors' conduct. Therefore where some scholars identify crisis and critical junctures,

the researchers that examine sequence are able to assess the context within actors strategies' and ideas are formulated, providing us the analytical advantage of accessing the unfolding of events and identifying causes not from their outcomes but from power struggle. It is certain that this analytical approach is more empirically painful but qualifies for the research questions that have been posed for this research.

3.5 Drawing conclusions from a small N study; the research strategies

The overarching premise of this study is that time matters for the understanding of institutional development as well as the context within actor's conduct is exercised. As Pierson (2004) suggests, 'history matters' and it is especially in the case of pensions as a social program, that changes take longer time to be realised. For this reason numbers alone could 'misinterpret' reality. Therefore time, timing and sequence become important aspects in realising the ability of actors to pursue their strategies within the context they are operating. The sequence of events therefore becomes part of the empirical research, shedding light thus in the causal process itself. More than this, actors and their action is not independent of the context they operate affecting thus the values of variables, for example a peak collective bargaining system would not have been possible if labour and employers were not well organised. Since time and sequence matters, the cross-cases comparative analysis is supplemented by a within-case analysis that has been taken up for this thesis based on what several authors have called 'process tracing and pattern matching' (Mahoney 2003), 'systematic process analysis' (Hall 2003) and 'diachronical analysis' (Hay 2001). These analytical proposals overlap considerably in terms of their time frame and the levels of aggregation and differ in their explicit pursuit to identify causal laws and their epistemological premises (see the exchange between Hay 2005, Hay and Wincott 1998, Hall and Taylor 1998).

For historical institutionalism, the diachronic analysis is synonym to 'process tracing' (Hall 2003, Skocpol 2003, Mahoney 2003, Goldstone 2003). Through this analytical tools researchers are able to assess the pace and timing without prejudging the course or the direction of change. Actors conduct is taking place within a specific context and their action are not realised to bring always their intended consequences. The questions that are being asked are 'what is possible' and 'what else was possible?'.

These types of research contributes twofold to social theory, one by following an inductive logic that aims to advance theoretical statements about the process of change and to test deductively theoretical hypotheses concerning that process of change.

The ‘systemic process analysis’ follows several steps towards the identification of causal assessment (Hall 2003). First the research identifies a set of theories (e.g. power resources) that propose certain factors that determine future outcomes. From each theory, the researcher identifies the causal factors (e.g. strong unions and left-wing parties) and through the historical analysis identifies whether the causal theory is able to predict future outcomes (e.g. welfare state retrenchment, expansion). In a few words whether the theory still holds its explanatory power in time and contrasts it with other competing approaches. The researcher aims to derive as many as possible observations from the cases and finally attempts to identify whether there are any patterns available in his observations and whether the theories that have been contrasted retain their explanatory power. One possible way of following these imperatives of social research is by applying the methods of agreement and difference to this research.

Instead of searching for the foundations of a superior theory that stands all the tests as Hall’s (2003) theoretical exercise suggests, I opt to use this analysis in order to discuss the available welfare state theories and attempt to identify causal patterns across the selected cases. As Skocpol has suggested “the investigator’s commitment is not to any existing theory or theories, but to the discovery of concrete causal configurations adequate to account for important historical patterns” (Skocpol 1984: 275). The methods of agreement and difference will be applied in order to challenge the causal factors of dominant welfare approaches for the development of pension system through a dis-aggregation of the levels of analysis that controls not only for the causal factors (e.g. strong unions) identified by the theory (e.g. power resources) but controls also for all the actors that are identified to be operating within the particular context of the case (e.g. employers organisations, banks etc).

The diachronical analytical framework prescribes the research the foundation for a comparative study that places sequence and timing as part of the empirical findings

and the ontological premises of the thesis attributes the context as important for actors' conduct and ideas as responsible for shaping their future context. The logic of the comparative research therefore places importance on the context, the details and complexity within actors' strategies as part of the empirical reality. The 'idiographic' inquiry therefore is applied in all three cases and it is only in the comparative chapter that the knowledge of the three cases is brought into a comparative perspective that allows the researcher to identify possible patterns. Therefore 'process tracing' and 'pattern matching' (Mahoney 2003, Mahoney and Rueschemeyer 2003) complement cross-cases studies and through the use of dis-aggregated variables bring the 'idiographic' logic of inquiry closer to the 'nomothetic' assumptions for causal similarities and differences.

The ontological premises of this research define the social reality as contingent, complex and open-ended process and the task of the 'critical realist' researchers is identifying any causal mechanisms that might be operating in our empirical ignorance. The thesis aims to contribute in the unfolding of any causal mechanisms in the relation between power and changes in welfare institutions. While the ontological foundations of this research rest comfortably within the 'critical realist' tradition, the thesis questions the epistemological assumption of the dominant welfare state approaches and especially their realisation of power. The thesis contributes in this perspective by bringing a Polanyian theoretical perspective that realised pension systems and funds as *instituted processes* that could be analytically explored through a three-dimensional power approach. The purpose of this study is twofold; to explain institutional change (realised as pension reform, reproduction or innovation) through identifying causal similarities and differences while at the same time is involved with an exercise of theory testing. The study simultaneously conducts an inductive inquiry that focuses on the case studies and a deductive inquiry that tests the theoretical assumptions on empirical grounds.

Comparative institutionalism allows the researcher to solve epistemological questions that link empirical data with grand theories and 'idiographic' with 'nomothetic' approaches (Jessop 2004, Skocpol and Somers 1994) through the 'thick description' of case studies and the identification of patterns or causal similarities or differences for the development of the three selected pension systems. These identifications allow

the researcher to ‘interpret and re-contextualise individual phenomena within a framework or set of ideas [...] in a new way by observing and interpreting this something in a new conceptual framework’ (Danermark et al 2002). Though the aim of this thesis is not as ambitious as to identify hidden causal mechanisms, the research aims to contribute to the foundations of a comparative, historical, power-theoretical approach for the understanding of welfare state transformations.

3.6 Conclusion

This chapter has outlined the methodological issues arising from the theoretical approach of the thesis. In particular, I argued in favour of a power and time sensitive research strategy that would be in accordance with the critical realist ontological premises of this research for an ‘open-ended’ understanding of causality. I argued that such a research strategy could be formulated and defended through the adoption of a three dimensional power perspective and application of diachronical analysis. The aim of this research strategy is not to establish a predictive theory (X causes Y) but a theory that will account for the complexity and the contingency of social reality by prescribing actors asymmetrical power dynamics. In this way this research is: *inductively* exploring similar patterns and causal similarities across cases, *deductively* testing theoretically derived hypotheses and finally aims to *abductively* re-interpret institutional development through the lenses of a power and time theoretical approach.

Chapter 4: The Social democratic response to the market economy

4.1 Introduction

“Reforms do not merely prepare for the transformation of society, they are the transformation itself” (Karleby cited in Blyth 2002: 105).

No other phrase captures better the logic of the Swedish social democracy than SAP’s leading figure Nils Karleby. It reflects the way Social Democrats realised the importance of welfare state reforms not just as the means towards the improvement of their well being but as an end in itself that would empower and people against market forces. In the contemporary Swedish welfare state, no other programme, than pensions, reflected the battle between key actors and their capacity to prioritise their norms and rules over socio-economic policy making. This chapter follows a historical narrative that attributes the formation of actors’ strategies and their power to shape the future content and logic of pension schemes, as well as the timing of pension reforms, as part of the analysis.

The chapter is divided between four eras that account for the enactment of the pension schemes and the importance of the industrial relations for the formulation of the Basic pension in 1948 (section 4.2). The second era explores the rising power of unions and their attempt to epitomise social democracy (section 4.3). The third era refers to the radicalisation of the union (section 4.4) movement and the response of the employers’ (section 4.5). During the fourth era, the chapter explores the recent development and the attempts of neo-liberal market actors to undermine the legacy of the Swedish pension system (section 4.6). The chapter explores all the major changes that have affected the power asymmetries of key actors in the complementary institutional domains and concludes in section 4.7 with an assessment of the importance of power asymmetries for the institutional development of the Swedish pension system.

4.2 Industrial relations at the dawn of the previous century

The late coming of industrialisation as well as the ability of the Social Democratic party to become the major representative of their interests among other left and Communist parties (see Korpi 1978) created strong links between trade unions confederation LO (*Landorganisationen*) and the Social Democratic Party (*Socialdemokratiska Arbetarepartiet-SAP*). Both skilled and unskilled manual workers joined LO, preventing thus an early segmentation of the union movement (as in the case of Denmark, see Esping-Andersen 1985). As a response to the early organisation of workers into organised groups, employers joined in 1902 and created their own organised counterpart; SAF (*Svenska Arbetgivarföreningen*). Agricultural groups were politically divided between protectionist wings such as the Conservative party but also with the pro-market Liberal party before the turn of the 20th century (Baldwin 1990).

The development of trade unionism was accompanied by further vertical organisational forms for both white collar and professional employees. The white collar employees in the private sector created in 1931 their central organisation DACO (*De Anställdas Centralorganisation*) while the public sector employees constituted TCO (*Tjänstemännens Centralorganisation*) in 1937 (Kjellberg 2000). The political support of TCO was divided between the party spectrum with the majority favouring SAP. The professional employees instituted their central organisation SACO (*Sværiges Akademikers Central-organisation*) in 1947. In 1944 DACO merged with TCO, holding the name of the public employee central organisation thereafter. Both (new) TCO and SACO followed vertical patterns of unionism like the LO and SAF, allowing thus professionals, blue and white collar workers to formulate unions irrespectively of the public-private divide, preventing thus segmentation of the union movement.

After a series of strikes and lockouts during the early 20th century on behalf of LO and SAF respectively, employers' proposed the creation of a labour market that would establish minimum and maximum wages for the employees. The vertical organisation of LO and SAF provided the ability to exercise discipline to their organisation while

at the same time bargaining became more cost-effective. This ‘solidarism’ that SAF followed as a mode governance of the labour market was based in the creation of “restrained levelling wages” (Swenson 2002:90) across different productive sectors. The aim of SAF was to limit trade unions’ demands for higher wages in an era of labour scarcity, while LO was able to benefit from pooling organised labour interests and resources. As Swenson (ibid) shows, employers actually were against the logic of the market that prescribed competition over labour wages in a effort to avoid higher production costs and maintain their export-share in international markets.

4.2.1 The enactment of pensions and the foundations of ‘people’s home’

Sweden was the first country to establish (with a low-replacement rate) old-age pension in 1913 that was labelled as universal in its coverage (Esping-Andersen 1985: 153, Baldwin 1990). However, the scheme was far from universal in its application since public employees enjoyed their own separate scheme and the contributory principle for funding the scheme excluded people with limited participation in the labour market (Kangas and Palme 1996). The scheme was supplemented on top by a ‘means-tested’ benefit that was targeted to the poor. The replacement rate for an industrial worker as estimated by Palmer (1960 cited in Palme and Svensson 1997) reached 11.3% of average wage.

Along with the election of SAP in government several new social security laws were enacted. Most important of which was the enactment of an unemployment-insurance program in 1934 and an increase of pension benefits’ levels. A new reform in 1935 further increased the means-tested benefit and changed the funding principle of the scheme from a reserve fund into a PAYG basis. The next minor reform was in 1937 (effective from 1938) and improved the eligibility for claiming the means-tested benefit. Four years later the replacement rate for an industrial worker was raised to 29.4%. The expansion in the coverage of the means-tested benefit and the political decision not to offer any contract out for private pension plan for the public employees proved substantial in preventing the growth of private plans (see Palme 2003).

Originally the pension reform was about to follow Bismarck's model of social insurance and restrict its coverage to manual workers. Farmers were already pressuring for broader coverage of the population and a different funding system that would be less depended on employers' contributions and more relied on general taxation. At the same time, the effects of industrialisation, the rise of the labour movement, the Russian revolution and the collapse of authoritarian regimes in continental Europe, created pressure for the *Risikstag* to concede full suffrage in 1921.

The leaders of SAP acquired a populist discourse and realised the need to create alliances with other groups. Their aim was to create a "people's home" and not to become a political 'ghetto' (see Esping-Andersen 1985).

"People's home' is like 'a good home [that] does not recognise any one as privilege or misfavoured'" (Per Albin Hansson quoted in Blyth 2002: 116).

The ability of SAP to address wider interests was significant for the development of the welfare state (Esping-Andersen 1985, Baldwin 1990). Instead of focusing on revolutionary premises, SAP envisaged a socialist society through "education" (Hansson in Bernman 1998: 53) and the cumulative democratisation of life. The adoption of a reformist agenda and the abolition of the revolutionary ideas can be summarised in the words of another leading figure for SAP, Axel Danielson:

"Whether or not small farming is doomed to die, it is not the task of social democracy to hasten the impoverishment of agriculture... [We] don't expect... that intensive poverty will bring forth socialist change... Let (us try to reach a) compromise with farmers... through this [we will] solve some of our most urgent tasks... to become a people's party" (Danielson cited in Bernman 1998).

In order to gain majority in the proportionate electoral system in 1932, SAP looked for alliances to form a government. While SAP had abolished revolutionary ideas, Liberals rejected SAP's government formation proposal. It was via the protective agriculture policies that an agreement between farmers and trade unions allowed Social Democrats to gain parliamentary control. This protectionism was initially expressed through the creation of cartels and the establishment of minimum prices for milk. From now on, the prices of commodities (such as milk) were not allowed to be determined by the market mechanism but from the political intervention of their

producers. This protectionist effort signalled the shift towards a *protection from* the market economy. The common ground between two major social groups and the foundation of the ‘red-green’ alliance was premised on the need of farmers and workers for protection from the market economy (*pace* Polanyi, see- Ryner 2002: 219, cf3).

4.2.2 The ‘historical compromise’ of Saltsjöabden agreement in 1938

Already by 1930, LO gained significant power since it was recognised by employers as a social partner that “represent[ed] the working class as a whole” (Ryner 2002:87). This power was originally symbolical since LO was able to enter into negotiations with employers and mobilise workers. Through high membership and density rates, the cost-effectiveness of one leading centralised peak organisation provided unions with significant power resources. Following their electoral promise to LO, SAP legislated for an unemployment insurance system in 1934 that would give the opportunity to trade unions to create their self-administrated funds through government subsidisation. The Ghent system apart from protecting the unemployed, provided incentives for workers to join unions (Rothstein 1992, Ebbinghaus and Visser 1999) and more importantly institutionalised the power of LO in labour relations. Therefore LO symbolically had gained the power to represent catholically the wage-earners’ interests in collective bargaining, enhanced its relational power through high participation rates but more importantly was able to determine the rules of the game for unemployment provision through the concentration of the Ghent funds.

An interesting taste of what was about to follow was the case of a general lockout on behalf of the SAF which was awkwardly supported by LO. The reason behind this backup was that a certain branch of the LO (i.e. the paper worker’s union) was increasingly dominated by communist ideas and political affiliations. This political orientation of the paper worker’s unions was received as a threat for the social democratic orientations of the LO. Already in 1932, SAP had dropped the claims for the ‘socialisation of the means of production’ from its charter and focused on the new employment policy under the ‘red-green’ alliance (Martin 1984). LO and SAP were

clearly abandoning their revolutionary claims in order to place the ‘reformist’ agenda high on the table of the Swedish market economy.

The institutionalisation of autonomous collective bargaining took place in the outskirts of Stockholm, in *Saltsjöabden*, where LO and SAF signed the 1938 Basic agreement. The impact of this agreement was substantial for the future of Swedish socio-economic reality and underlined the privilege for LO to control alone the decision for strikes. SAF made several concessions to wage-earners (i.e. working environment standards) but at the same time as Swenson shows engineering firms faced shortages of labour. Thus the agreement followed the logic of the solidaristic wage system that necessitated disciplined labour markets, strong peak associations and most importantly provided employers, especially the export-sector¹⁰ (Swenson 2002: 114), substantial gains. The historical compromise between LO and SAF, was based on the warranty of management prerogative and property rights i.e. employers retained their authority over corporate governance and industrial policy making undisputed.

Employers were able to determine their investments through a very intertwined and tight control of capital. Sweden similar to Germany, had developed a bank-based financial system (Zysman 1982) that provided capital loans to firms. Due to the crisis of the stock market in 1921 and in early 1930s, banks managed to concentrate the vast majority of corporate shares. The main two banks of Sweden, *Svenka Handelbanken* (SHB) and *Stockholms Enskilda Bank* (SEB) were under family control. Banks and holding companies held an important share in the corporate percentage, creating thus a ‘family network’ that allowed intermediate financial institutions to borrow capital from abroad and to loan it with higher interest rates. This tight relationship of banks with corporations was crucial for the realisation of common and long-term interests between financial and productive (industrial) capital.

The recognition of common gains for both LO and SAF, expressed the historical compromise between *blue-collar workers* and *industrial firms*. The coordination of

¹⁰ The leading role of the export sector was exemplified by companies in lumber and steel, electronic (e.g. Ericsson) and mechanical engineering and in agricultural (e.g. Tetra-Pak). The export sector was also providing household goods such as electric appliances (e.g. Electrolux), automobiles (e.g. Volvo, SAAB) and housing items (e.g. IKEA).

their actions to undermine the development of radical trade unionism, and the domination of a less antagonistic to LO approach of the SHB group leader in SAF (Swenson 2002) were necessary to maintain the premises of the compromise. The key actors avoided any radical strategies and opted for the creation of a basic consensus that would avoid productivity disruptions through institutionalised bargaining between employers' and workers' peak associations. SAF had realised that the logic of the market and workers' militancy could undermine firms' capacity to compete internationally due to higher wage costs in times of labour scarcity and emigration. Employers instead preferred to tame the forces of the market through embedding 'wage-earners' as a recognised partner in socio-economic policy making. Unions dropped any radical claims and realised the opportunity that the political system offered to LO's reformist agenda. The aim was not able to radically challenge the rules of the game but to strengthen their position within the market economy.

4.2.3 The 1948 Pension reform: citizenship pensions

In 1948, Sweden developed the first universal flat-rate pension program that abolished all contribution and means-tested criteria. Flat-rate benefits would be available for all population. The previous pension system was realised as inadequate to meet the needs of the retired population and the adoption of a more universal provision emerged in Sweden as an outcome of a battle between agrarians, organised labour, employers and political parties. Despite the initial concerns of the Social Democratic Minister of Social Affairs Gustav Möller that favoured a targeted character for the program, the universal plan was preferred under the pressures of other key members such as the Conservatives and SAP party members. The rationale for all these actors to consent into the legislation of the 1948 pension reform varied.

After its failure to raise majority in the elections, the Conservative party aimed to address the needs of the middle strata. Turning vice into virtue, Conservatives recognised welfare state expansion as necessary for the continuation of socio-economic institutions and favoured the abolition of 'need' as a basis for entitlement. This shift was part of the Conservatives strategy to address the needs of the middle classes that bared most of the burden due to the tax system (Steinmo 2003). Middle and high-earning groups were not willing to pay through taxation means-tested

benefits, while they could themselves be included in the beneficiaries through a flat-rate pension (Baldwin 1990).

For employers, labour scarcity remained an important problem that industries were facing (Swenson 2002) and they believed that through the adoption of social legislature, emigration from Sweden could be marginalised and the labour force would be more loyal to the Swedish political economy. Prior to 1948, several industries and enterprises wanted to create company pension schemes on the top of the public ones. Much discussion and debate between SAF and VF (*Verkstadsföreningen*- Swedish Engineering Employers Association), ended with the plea to freeze company based pensions since labour costs would rise (due to competition for skilled employees between firms) and solidarism would be undermined. Thus the development of 'People's Pension' for SAF, according to Swenson, was not a respond to the depression and high unemployment as much as it was a tool to avoid wage competition in the form of pension benefits between companies.

4.2.4 Critical reflection on the early power asymmetries

What remains important though is to understand why all these actors came to realise as their common interest the legislation of the 'People's Pension' program. In order to avoid any functionalist argument for the benefits of the 'People's pension' to all key actors, it is important to highlight the competing ideas and the struggle not only to legislate a universal basic pension but also shape the logic of the pension scheme and how it affects the formulation of workers' interests. Therefore instead of attributing the establishment of the universal pension, it is important to understand that the 1948 pension scheme promoted redistribution among wage-earners and guaranteed a minimum income to all Swedish citizens irrespective of employment record. 'People's pension' was an outcome of class alliances that promoted redistribution rather than competition in the pension system.

These class alliances were evident in the Swedish political economy in the industries (SAF-LO), corporate governance (SAF-banks) and politics (LO-SAP, SAP-farmers, SAF-conservatives). The realisation that the liberalisation of the market economy in

the labour market and pensions would harm the interests of employers also served the interests of the reformist LO. In a sense, all actors had agreed upon the principles of the market economy but preferred instead of liberalising labour and pension markets to create a strong coordinated market economy which would preserve the leading role of the export-secto. At the same time, it allowed organised labour and its class alliances to gain parliamentary power but not to challenge the fundamentals of the Swedish market economy; managerial prerogatives and property rights.

For organised labour the institutionalisation of the ‘People’s Pension’ secured far and foremost their role as a key actor within the Swedish market economy. The lack of different competing schemes and the universality of pension benefit strengthened citizenship rights but also exercised a disciplinary effect on organised labour. The universal pension scheme did not provide unions as much power resources as the Ghent unemployment system did, but it helped to stratify class alliances and shape common interests formation. The Social Democratic legacy of Sweden would soon be linked with the discursive power of LO for further democratisation of socio-economic life. The 1948 pension reform illustrated the ability of organised labour through its alliances to render pensions as social right that was granted to all individuals irrespective of their income and labour market performance. The scheme established the protection from market forces during retirement and prioritised solidarity over competition and market participation as the logic of instituting the new pension system.

4.3 Epitomising Social Democracy

The chapter now continues to address unions strategies to empower their role in the governance of the Swedish socio-economic development and provide a coherent set of macro-economic, labour-market and pension policy reforms that would maintain and reproduce the aims of the union movement; full employment, redistribution and welfare state expansion. It represented an important power struggle between unions and employers, not only over the governance of socio-economic institutions but also at the level of ideas and enhancing wage-earners solidarity.

4.3.1 The Rehn-Meidner plan

The primacy of the export sector for the Swedish economy necessitated that production costs would not rise since an increase could undermine firms' exports. However, in the 1950s and partly due to the instability of the world economy (aftermath of WW2) inflation increased and thus demands for wage increases. LO was reluctant to put wage restraints upon its members and the issue was addressed in the 1951 LO Congress.

“Bearing this in mind, the trade union movement should make it perfectly clear that it cannot and should not accept any such unconditional responsibility for the preservation of national economic stability” (LO 1953 in Martin 1984:205).

LO was aware that if wage restraint were to continue that would in the long run undermine the power of organised labour. If LO previously was trying to restrain the wage demands of its members to stabilise economic policy, it was the time for economic policy to change in order to meet the demands of the LO. In the 1950s the work of the two chief economists of the LO Gøsta Rehn and Rudolph Meidner¹¹ was about to renew the Swedish socio-economic policy-making and enhance the structural and discursive power of LO.

The idea of the Rehn-Meidner plan was that LO would coordinate wages not according to productivity of the firm but rather to what was regarded as a 'just' wage (Ryner 2002: 82). Among the aims of the plan was that marginal plants and industries with low productivity would be knocked out and their employees would be re-trained and transferred to high productivity plants. At the same time the economic model tried to limit profits through indirect taxation on sales (Steinmo 1989) and as a consequence of limited profits, employers would not provide wage increases and thus avoid inflationary pressures for the economy. The gap between wage stability and sufficient income for living would be matched with an expansion of social policies.

The pursuit of fiscal and monetary policy was under the discretion of the state and more particularly on the Ministry of Finance. The taxation on profits allowed the

¹¹ Gøsta Rehn was the main author of what is been called elsewhere the 'Rehn Plan'. It was Rehn himself that mentioned the contribution of Meidner for the formation of the plan. Therefore, here I prefer to name the plan as "Rehn-Meidner" (1951) to avoid confusion with the following 'Meidner plan' of 'wage-earners funds' in the 1960s-1970s.

creation of a cap that allowed private resources to be directed for public savings. The Rehn-Meidner model premised that the state would take this capital and loan it again back to business at below market prices thus enabling corporations to have source of ‘cheap money’ and substitute for business’ profit losses. The model also proposed the creation of the Investment Fund (IF) that was financed through tax exemptions to the corporations and was governed by Labour Market Board (AMS). The funds that were collected were invested in an account of the Swedish Central bank. The funds were used mostly as investment for capital and especially manufacturing industries; corporations could use 30% of the deposited amount and were deducted 10% of their taxable income if they invested in their company (Pontusson 1992:70-1). The funds were not open to political decision-making over industrial policy but provided a tool that would support the macroeconomic policies and targets of the Rehn-Meidner plan.

Overall the Rehn-Meidner plan provided a coherent set of policy proposals for the governance of Swedish socio-economic development. The plan empowered LO and SAP since it allowed both these actors to place full employment¹² and welfare state expansion at the heart of the Swedish market economy. *Symbolically*, LO was not only recognised as social partner that could enter into collective bargaining but as an actor that could influence the socio-economic policies of Sweden and it provided a clear and holistic vision of how reality could be shaped by organised labour. The plan allowed trade unions to increase their power resources through their membership rates but also through their ability to exercise a discursive power over the development of socio-economic life.

4.3.2 Crowding out the market: The debated pension reform of 1959

“The pension struggle was their struggle [...] it would weld together the trade union and political labour movement as never before” (Erlander in Martin 1984:217).

The universal flat rate pensions promoted ‘social equality’ but ‘economic inequality’ during retirement was still persistent (Hinrichs 2004: 22). The existence of flat-rate benefits had to be reconsidered since it was not adjusted to the 1960s socio-economic

¹² The use of ‘full employment’ in the thesis reflects more the political aim of LO and SAP and less the reality of the Swedish labour market, since the Rehn and Meidner Plan counted on controlled unemployment and re-training schemes to maintain its high productivity growth. Thanks to Professor Guy Standing for bringing this to my attention.

conditions. The Basic state pension in late 1950s offered low-replacement rates and did not allow middle and high wage-earners to achieve higher pension benefits. The pension reform of 1959 was of particular importance for the power configuration of actors and the development of welfare state. The lack of a second pillar at the top of the universal flat-rate pension provided an empty field for institutional innovation since the role of the market and private plans was underdeveloped¹³, due to employers' reluctance to transfer competition over labour wages into pensions.

Both Conservative and Liberal parties rejected the idea of a legislated pension scheme and favoured a voluntary scheme based on bargaining. The agrarians did not have any particular interest in the new scheme and their electoral power due to industrialisation was in decline. In an effort to secure broad agreement between social groups, LO proposals for the creation of an earnings-related scheme favoured white-collar employees (Esping-Andersen 1985). This political effort was a signal for the shifting coalitions of the Social Democratic party and the LO; the white-collar workers.

SAP proposed to create a 'buffer' pension fund through the collection of contributions that exceeded liabilities of the system in order to secure the input and output transfers of the system, before the ATP scheme would mature. The AP funds would accumulate a capital that would be able to invest in bonds after two years from its enactment. The response of SAF was to organise a counter-mobilisation that was electorally expressed through a coalition of bourgeois (e.g. Conservative and Liberal) parties. In 1957 there was a referendum for the future of the earning-related schemes. The outcome of the referendum was based on class polarisation and a mobilisation of relational and discursive power resources between LO and SAF and their think tanks. The outcome of the referendum favoured SAP but only with plurality support. The previously divided bourgeois parties formed a coalition and managed to stop the legislation of the pension reform in 1958. As a response to the political tension, SAP provoked elections.

The results gave SAP only plurality and not majority in the parliament. With the political support of the Communist party and the defection of a working-class unionist

¹³ Company pensions were underdeveloped since only a few major companies providing a benefit after long years of service.

of the Liberal Party, SAP managed to pass the law with one vote majority (Hecló 1974). This time it was apparent that labour market disputes between LO and SAF were displaced by party politics and class mobilisation. The ability of the LO and SAP to mobilise voters and participation in labour organisations is an prime example of increased relational power of organised labour (see Korpi 1978,1983) in order to deal with employers interests'. The mobilisation of power resources allowed LO to display its relational power and at the same time managed to increase its structural power in its ability to legislate that the (three) fund(s) would be publicly controlled (Esping-Andersen 1985).

The formula proposed by SAP was the enactment of 'national supplementary pensions scheme' (*Allmän Tilläggspension-ATP*) that was funded solely by employers. Thus the first pillar of the Swedish system remained a universal flat-rate benefit (*Flexiblare Pensioneringssystem- FP*) funded by general taxation topped by the ATP scheme. The ATP pensions "were designed to offer compatible, if not better, pension benefits than the private sector" (Blyth 2002: 124). The earning related scheme was funded out of employers' contributions, based on PAYG system and provided a defined benefit that covered almost 90% of the working population and offered 66% replacement rate (Esping-Andersen 1985). Both schemes were indexed with the consumer price based index. The Basic pension scheme was financed by employers' (around 6%) and general revenues (2%) (Sundén 2000, Könberg et al 2006) while for the earning-related pensions employers contributed 13% of wages.

Later on, Special Pension Supplement was introduced for people that could not achieve a satisfying employment record. This supplementary benefit was equal to low contributions of the ATP scheme. Occupational pensions were part of collective bargaining and while the white-collar scheme (ITP) was already in place before 1960, it expanded it's coverage from 50% to almost all white-collar employees (Palme and Svensson 1999). The blue-collar workers (STP) pension was introduced only in 1973, imposing thus difficulties for blue-collar workers of the private sector to catch up with the benefits of the previous schemes. Both schemes were collectively negotiated and were financed solely by employers.

4.3.3 A critical reflection on the power asymmetries and governance of the 1957 pension reform

The battle over the control of the funds, are the hallmark of power struggle for the development of the Swedish pension system since it provided the opportunity to organised labour to invest the collected savings according to their norms and thus prioritise their logic of instituting socio-economic reality. The process for the governance of the pension reform (see table 4.1) was severely politicised with pensions being realised not just as an extension of a social right that would provide adequate income during retirement but was also realised as a tool for the shaping of future socio-economic reality through the use of the AP funds. As Swenson argues the institutionalisation of a publicly controlled earnings related pension fund was a politically a ‘seismic event’. In industrial relations, the establishment of the funds allowed SAP and the LO to be less dependent in SAF’s investment decisions. The major problem for SAF was the publicly controlled character of the funds. Most importantly, the existence of substantial capital would mean that future investments would weaken the role of private initiatives and undermined the market-based allocation of credit capital for economic policy making.

Table 4.1: Governing the pension system after the 1957 ATP reform

<i>Who is recognised to govern?</i>	Open to political struggle, political parties, collective actors (LO-SAF)
<i>Modes of governing?</i>	Politicisation of pension reforms, Mobilisation of organised labour and capital expressed via party politics
<i>What is to be governed?</i>	Pensions as a social right- Citizenship pensions, Earning related pensions (ATP)- AP funds investment
<i>Power of the unions</i>	Structural power through their participation in the control of the funds Relational power: apart from party politics, challenged private accumulation of savings and capital providers Mostly discursive power, shaping future socio-economic investment and maintaining the premises of the Rehn –Meidner Plan

For organised labour, the benefits of this pension reform were threefold; first the politicisation of the decision making for pension policy rendered pension not as a technical issue but allowed politicisation to determine the future of the pension schemes. Second, unions through their participation in the control of the funds enhanced their power of shaping the logic of instituting socio-economic reality, i.e. industrial policies and the expansion of public housing and social development. And finally, putting aside for the moment the impact of the in the development of industrial policy (Pontusson 1987, 1991, 1992), it remains crucial that the funds were another tool that prioritised the aims of LO such as the continuation of full employment, expansion of the welfare state and enhancing the redistribution among the wage-earners, prolonging therefore their ability to exercise discursive power over the conditions for organising socio-economic life and enhancing the solidarity of the union movement.

The proposal of the Liberal Party to offer a possibility for pensioners to opt-out and enter private schemes was considered as a problem again due to the solidarism orientation of SAF and the intensification of competition for the already scare labour force (Swenson 2002: 287). The dismissal of these initiatives proved crucial for the development of the ATP scheme. The legislation of the ATP scheme signalled a shift in Social Democrats' class coalition shifting away from the farmers and towards the emerging white-collar employees (Esping-Andersen 1985, Pontusson 1992, Ryner 2002). This alliance set the basis for the expansion of the welfare state policies and for setting an agenda that aimed to enhance the power of working and middle classes in prioritising their norms for an encompassing and solidaristic pension system.

4.3.4 The role of the AP pensions funds in industrial policy-making and welfare state development

After two years from the establishment of the ATP pension reform, the 1961 LO Congress suggested that companies should rely less on self-financing and that LO was willing to compete in the credit market with the dominant financial actors; SEB and SHB. According to the LO proposals, AP funds would be able to buy shares of the enterprises in order to compete in the supply of capital while “mak[ing] sure that

pension savings would be channelled to *productive* investments” (Ryner 2002: 137, my emphasis). The rationale was to invest in the industry sector through a creation of a board that would manage the volume and the timing of the investments to be made in the economy. Despite the significant concentration of capital, the funds were not able to collectivise ownership and the means of production. Partly this can be explained that the funds were not implemented to perform such a task in the first place. As the creator of the plan admitted:

“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-earners funds”... It would take a good decade before the trade-union movement became clearly 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” (Meidner 1975 cited in Pontusson 1992: 94).

Along with the expansion of the funds, the political significance of corporatist structures for investment policies was enhanced. The leader of the LO, Geijer, was particularly interested in securing the ability of wage-earners to control their savings without any intermediation from the government. Despite employers’ initial hesitations, Geijer strategically aimed for a collaboration of SAF and LO for the investment of the funds. It was clear that LO was willing to maintain its promises for full employment, expansionist welfare state and not to threaten the foundation of the market economy. In fact, in order to dispel SAF fears, Geijer promised that part of the funds would be given to industries (Swenson 2002:289-292) and companies would be eligible to borrow half of the fees that their annual contributions to the scheme.

The control of the funds was based on tripartite board of directors with members from trade unions, employers and appointed members of the government (see table 4.2). The organisational form of pension assets became a national foundation independent of the crown. However, The Pension Committee that had discussed different options ‘was aware that the very size of the fund, if it were centrally controlled as a single unit, might cause it eventually to dominate the capital market’ (Daly 1981). The end solution was to divide the foundation to three funds each having their own Board of Directors (BoD). The AP1 received and administered contributions from local and national governments in their role as employers, including publicly owned

corporations, while the AP2 handled the contributions from private employers with at least twenty employees. The third one, AP3, received and administered the contributions of self-employed persons, as well as contributions from firms with less than twenty employees. The control of the funds was based on normative agreement on that the BoDs would be tripartite, with board members from trade unions, employers and the 'public interest' (in form of members appointed by the central or local governments). The AP1 board consisted of three representatives from local governments, unions and employers while in AP2, unions and employers obtained each four seats with central government appointing only one (Pontusson 1992: 82). In the AP3 fund board, unions had four seats, employers' association one, small employers three, and finally central government one.

In contrast with the AMS board, these boards did not provide labour representatives a majority (Pontusson 1991). In a sense, LO's vision of reality was in accordance with the priorities that employers' placed in enhancing productivity growth and through the investment of the funds attempted to gain a fair share from socio-economic growth. LO's discursive power therefore was realised within the frames of the Swedish market economy with aim to improve the living and working standards. The tight ownership structures of the Swedish market economy and especially between banks and firms, provided capital more power over the control of the funds, since the savings were channelled to banks and then invested in bonds and loans. Despite their ability to participate in the control of the funds, unions were not able to challenge the savings channelled to private financial institutions neither managers' expertise on investment; they would either have to create their own private financial institution or channels the savings to the state. The latter option was dismissed by the LO leadership in order to secure investment in industries and maintain their compromise with employers.

The AP funds that were created were placed under certain restrictions in the investment choices. In 1975 total of 74% of the funds were directed to government bonds while 18% was directed to lending and promissory loans (see Pontusson 1992:83). The investment of AP funds in government bonds was linked with the development of new housing constructions and especially with the launch of the 'Million program'. The initiative of this program was to deliver one million houses in a period of ten years (Esping-Andersen 1985:188). With this initiative much of the

ability of private capital to invest in housing was marginalised. This policy was considered as a “priority” (Meidner in Martin 1984:220) and was accompanied with the enhancement of the power of local authorities since the latter were responsible for the management of the new houses.

Table 4.2: Swedish pension funds in the 1960s

<i>Who controls</i>	Tripartite representation
<i>Savings channelled</i>	Through banks, Government bonds (74%), promissory loans (18%)
<i>Investment towards</i>	Industrial capital (esp. export-oriented firms) and social development
<i>Investment in</i>	Only fixed income securities i.e. government and housing bonds
<i>Aim</i>	Maintaining the premises of the Rehn-Meidner plan (i.e. high employment, welfare state expansion)
<i>Power of unions</i>	Participation(minority) in boards, power through job and welfare expansion Discursive- retaining its power over prioritising the premises of socio-economic development Limited Structural - no direct control or challenging managerial prerogative or property rights

Apart from the creation of the new public houses, the allocation of funds enabled low-rent houses in the private sector. The Social Democratic government lowered the interest rates of mortgages below the market rates, promoting thus the public control of production and pricing of houses. In total the effort the government and the LO was

to take advantage of the creation of public funds and crowd out the market rationale as the dominant instituting principle in housing. Along with this housing policy, the state invested in further social development such as the construction of hospitals and schools (LO 1963 cited in Pontusson 1992: 85). In total the funds allowed LO to prioritise its investment policies and secure the continuation of the Rehn-Meidner plan premises.

Overall, the legislative framework for the AP funds did not allow a serious influence over industrial policy-making while the mode of their investment was promoting technocratic rather political decision-making (Pontusson 1992). The public funds did not threaten the cornerstones of market economy; managerial prerogative and property rights. In fact if for the establishment of the ATP funds there was a coalition with white-collar unions, for their development, LO was willing to gain more control over the allocation for the AP funds through the recognition of mutual interest with *industrial capital* (esp. export-oriented firms).

4.4 Radicalisation and wage disputes within the union movement

During 1960s, LO assessed the maturation of the Rehn-Meidner socio-economic plan and recognised the necessity to channel additional savings to the economy, either in the form of loan (AP funds) or equity capital. The late 1960s and early 1970s were marked by a serious tension in industrial relations. When the construction of the houses was completed during the mid 1970's, unemployment levels increased, the three decades of industrial peace ended. The existing institutional configuration allowed massive profits for the corporations while wages remained stagnant. After the 'Kiruna strikes' in 1969¹⁴, LO allowed local unions to negotiate for improvements in the working environment (health and safety) without LO itself losing its central role over wage bargaining and collective agreements (Martin 1984). However, the solidaristic wage structure was losing its appeal since it did not allow the labour force in the dynamic sectors of the economy to receive higher wages and a dispute between

¹⁴ It has been estimated, that the strikes in late 1969 caused 150,000 work days loss (Swenson 1989: 89).

wage-earners emerged. The EFO¹⁵ wage model was first step towards the rationalisation of wage differentials and distinguished between the competitive and the sheltered sector, with the former realised as a leader for wage setting.

The radicalisation of LO was exemplified with the aim of wage-earners to undermine the managerial prerogatives of employers and enhance the role of local unions in the corporations' management through the proposal of four main changes in the workplace; the Working Environment Act, the Security of Employment Act, the legislation on worker directors on corporate boards (Co-Determination Act) and finally the wage-earners funds. The radicalisation of the LO was realised as a hostile action on behalf of the employers for two main reasons; first it threatened employers' prerogatives and second the government-led introduction of the aforementioned acts broke all codes of the autonomous collective bargaining that was established in 1938.

At the same time, the unity of organised labour was under pressure since for a long time, miners maintained their wages lower than the market price in order to sustain the solidaristic wage system. In the early 1970s the miners' strikes were seen as a reaction to the lack of unions' power at the local level and the concentration of power at the peak level. As Swenson (2002) argues, the problem of the miners was not realised as a problem with LO *per se* but rather with the fact that white collar employees in the mining sector that were represented by (TCO affiliate) SIF (*Svenska Industrijänstemannaförbundet*- Swedish Union of Clerical and Technical Employees) were enjoying higher wages. SIF enacted bargaining with SAF and soon more TCO affiliated unions in industry and commerce joined in an autonomous bargaining with the employers. At the time, TCO and SACO represented by 1966, 27% and 5% respectively of total union membership and clearly questioned solidaristic wage structures by entering into negotiations independently from LO.

¹⁵ EFO is an abbreviation of the three economists that participated on behalf of TCO, SAF and LO for the plan (Edgren, Faxén, Odhner).

4.4.1 The Fourth AP fund and the ‘wage-earners fund’ proposal

The radicalisation of the LO workers in the 1960s raised the issue whether the transfer of savings to employers and banks had enhanced the power of unions to shape industrial policy making. More than this, if additional savings were to be channelled to the economy, then the transfer of collective savings into equity capital could not be provided as a ‘gift’ to business. At the same time, wage differentials within the union movement remained and the solution to the puzzle of channelling more savings to the economy, maintaining solidaristic wages and enhancing the role of union in Swedish market economy was left to Rudolph Meidner.

The Meidner group came up with a response that was about to shake the foundations of the Swedish economy. The premises of the Meidner Plan were in accordance with the existing logic of macro-economic policies (i.e. preservation of full employment policies, welfare state expansion) but also aimed to enhance LO’s power of corporate decision-making. The Meidner group suggested the creation of two funds that would be linked with the ATP scheme. The first proposal suggested the transfer of ‘excess profits’ for the creation of a union controlled fourth AP equity fund. The difference with previously established AP funds was that the fourth AP fund would accelerate capital formation through the supply of equity capital and wage-earners would exercise their power through shareholding votes. The basic principle of the Fourth fund was

“To provide business with more equity capital for the benefit of industrial expansion and increased employment”(Swedish government 1973 cited in Pontusson 1992: 205).

The Fourth AP fund was granted “500 million SEK, less than 1% of the total assets of the [three] AP funds at the end of 1972” (Pontusson 1992: 190). The appointed commission suggested that there should be a ceiling on the ability of the funds to concentrate ownership. Despite the recommendation of the capital market commission, SAP and LO aimed to use the fourth pension fund as a tool to exercise their power in industrial policy making. However, the legislative framework allowed funds to buy company bonds but without any legal influence over them (B-shares) while at the same time AP funds’ were also linked with commercial banks and intermediary credit institutions. In the 1973 election, SAP percentages declined and

formed a coalition government with the Liberal and Central Party. In a political exchange for their support, SAP did not allow the fund to be centrally controlled by LO but 60% of shareholder votes were delegated to local unions (Pontusson 1991,1992) decentralising thus the power of LO and its representation within the management boards.

The second option advocated the creation of the ‘wage-earners funds’. The plan argued that wage restraints in the dynamic sector of the economy would be balanced with the issue of new shares that would belong to wage-earners, as part of a new labour law. The collective savings would become a ‘reserve investment fund’ within the firms budgets and the profits would be re-invested in the firm. The growth of union-controlled funds did not aim per se in the socialisation of the private property but rather to democratise corporate governance. SAP as well as public sector workers (TCO) were reluctant to endorse Meidner’s radical proposals. This did not prevent the discussion over ‘wage-earners funds’ to dominate the agenda of LO-SAP discussion rounds (Martin 1984: 282). However, the election of the central and right-wing coalition government effectively placed a hold on Meidner’s proposals.

4.4.2 Critical reflection on the power asymmetries during the ‘wage-earner fund’ proposals

The realisation that the channelling of savings as well as its control should be under political bargaining of its nominal owners exemplified the discursive ability of unions to formulate a set of proposals that would empower their role within the Swedish market economy. The channelling of savings rendered ‘funds’ as an important tool for shaping the logic of instituting socio-economic reality through participating in the overall planning of industrial policy and also empowering unions at the workplace. Apart from the gradual democratisation of listed companies’ corporate governance, Meidner’s plan proposed that during the maturation of the funds, workers would be able to be educated in financial and corporate governance issues, enabling them to be less dependent on the role of financial managers (Martin 1984: 273). Effectively the plan recognised the importance of pension funds for democratising corporate governance structures and empowering the role of wage-earners over the Swedish market economy. The attempt of LO mobilised its structural, relational and discursive

power in framing ‘what else is possible’ and propose a comprehensive socio-economic plan that prioritised the interests of its members.

Therborn (1984: 12) described the effort of the wage-earners funds as “the most radical, concrete and immediate proposal” of the Swedish labour movement “through which the ownership of all the major means of production would be gradually collectivized”. In retrospect, this discourse was overestimated since the proposals were not adopted immediately neither did middle-classes share the prospects of radical unionists to support it. The declining power of the SAP and the establishment of a coalition government watered the radical tone of the Fourth AP funds while the wage-earner funds were not immediately endorsed by Social Democrats. While the Fourth AP funds was finally legislated as a proposal that could tame unions’ disputes over wage differentiation, the wage-earner funds adopted a radical tone that was strongly opposed by pro-liberal market actors. The hotly debated funds triggered a redeployment of SAF ideology as well as changes in its internal structure.

4.5 Contesting unions’ power: The counter-attack of employers and financial capital

The chapter now continues with an assessment of the redeployment of SAF strategies and orientations. Pro-liberal market actors’ response to the unions’ offensive aimed to undermine collective bargaining, the diversion of investment in domestic capital activities and the emergence of financial capital interests. These attempts aimed in the restoration of employers and financial capital actors’ power.

4.5.1 The redeployment of SAF: shifting ideological and strategic orientations

“The wage-earners funds were considered as a direct assault on the sanctity of private ownership, the foundation principle of Swedish embedded liberalism”
(Blyth 2003: 205)

In response to the adoption of the ‘wage-earners funds and the co-determination agenda by LO, the new electoral board of SAF declared the *Saltjöbaden* Agreement dead and the economic policy of financial investment in the form of debt as

unacceptable. By that time the Swedish Engineering Employers Association (*Verkstadsföreningen-VF*) was willing to abandon centralised bargaining. Along with the defection of the VF members and the break up of collective bargaining, SAF tried to challenge the institutions that the social democratic legacy had put in place. The decision of metal-workers to enter into wage negotiations with the employers was a blow of its ability to pool power resources and more importantly to exercise its power in promoting the interests of wage-earners. The end of the historical compromise came at a time that the electoral appeal of SAP was declining and after 34 years, a centre-right party coalition formed a government.

The 1976 election placed a break on the Social Democratic domination and a new coalition led by the Liberals was formed with the ‘Central’ and ‘Moderate’ (‘Moderaterna’) party came in power. The new coalition proved too fragile since there was serious conflict over the implementation of the funds, since the Liberal and the Central party had signed a parliamentary white paper for the democratisation of the ‘wage-earner funds’ and both parties opposed Moderate’s party welfare state retrenchment agenda. As Blyth (2003: 207-9) shows, the effects of the Social-democratic legacy were clearly exemplified in the adoption of ‘social-democratic policies’ of the first (1976-79) bourgeois government such as the aim for full employment and maintaining the generous welfare provision. In fact, the 1976 centre-right government “nationalised more industry in their first three years in power than the Social Democrats had done in the previous forty-four year” (Pontusson 1991: 173-4).

The break from the Social Democratic discourse came with the internal changes in the leadership of SAF. The new elections that were declared in 1978-9 allowed the formation of new bourgeois coalition, this time led by the Moderate party and together with the Liberal party re-orientated their approach and adopted a clear pro-market discourse. This coalition proved significant for the empowerment of SAF and its ‘neo-liberal’ direction (Gezelius 1992 in Ryner 2002: 170). In the 1980s SAF published their new proposals called ‘Free markets and Free choice’ (Earles 2003, Ryner 2002:145). The new programme attacked welfare state institutions and the solidaristic wage bargaining model. Instead, SAF promoted

“ free enterprise, personal ownership and responsibility’; ‘pay formation based on free market, ‘focus on the employee-a stimulating job in a sound environment’; ‘an efficient labour market, requiring reduced taxes and employers’ social insurance contributions and reduced public social insurance benefits” (SAF 1990 in Ryner 2002:145).

By mid 1970s, the interests of the capital remained organised around two main bank groups: SHB and SEB. Behind the two groups, there were family networks that had concentrated most of the wealth. Actually, 0.3% of all households owned 50% of all corporate shares in 1975 (Spånt in Pontusson and Kuruvilla1992: 782) and 17 ownership groups were controlling the largest part of the Swedish economy (Whyman 2004: 415).

In 1978 a new SAF leader was appointed. The new leader, Curt Nicoln, managed to create an alliance between translational productive and financial (SHB) capital with small enterprises playing a crucial role. Ryner (2002: 144-147) identifies here the turning point of SAF orientations. SAF realised that the business world lacked the ability to determine the popular and policy discourse and therefore aimed to enhance the ability of capital through advertisement, organised lectures and a series of events (Blyth 2003, Schiller 1987: 46-7,148-9 in Ryner 2002: 145). Firms had re-oriented their productivity units in other countries. New technologies, i.e. automation, transformed the labour relations and allowed export companies no longer to maintain their productive lines exclusively in Sweden. The new elite groups that were formed from Swedish international corporations such as ‘Volvo’, ‘Saab-Scania’, ‘Electrolux’ and the other companies had a severe effect in the role of financial and production capital.

In 1976 SAF’s report on ownership, suggested the creation of a privately controlled fund and the bourgeoisie government introduced two privately managed mutual funds ‘Skattefond’¹⁶ in 1978 and ‘Företagsfond’ (corporate mutual fund) in 1981. These funds were realised as the ‘liberal alternative’ to the socialisation attempts of the wage-earners funds and were wholeheartedly supported by SAF (Johnsson and Lounsbury 2004). This among others meant that the existing bank-based financial capital was losing its interest in long-term and traditional investment such as productive activities and started re-orienting its financial actions towards short-term

¹⁶ ‘Skattefond’ literally means ‘tax-fund’.

investments (such as financial services). Along with these changes, the bourgeois government introduced a major tax system reform that decreased tax rates on capital and corporate profits from 52% to the flat income tax level of 30% (Steinmo 2003). The Conservative leader and Minister of Finance actively promoted private financial interests and aimed to discredit any collective and politically controlled fund. It was clear that the empowered structural power of capital and the mobilisation of SAF managed to significantly affect the public discourse in Sweden.

Essentially, organised employers were able to shift the balance of power; at the relational level through undermining collective bargaining and segmenting unions' unity. At the structural level, by preserving the status quo and by hollowing out two key fountains of power resources for the unions; namely full employment and wage-earners funds. At the discursive level, SAF tried to promote heavily a different logic of the Swedish market economy which favoured the role of the private welfare provision and the less reliance on public welfare. SAF's strategies to further promote market liberalism included the declarations of 'Free Enterprise Days', campaigns to promote 'entrepreneurship', 'individualism' and the effectiveness of market tools in organising socio-economic life. During this period, employers' strategically aimed to establish competition among wage-earners through the de-centralisation of collective bargaining and investing in production activities abroad. The strategy of SAF and the financial groups (SHB, SEB) was twofold; to weaken the institutional ability of union to raise their power resources and provide a counter-vision that challenged Meidner's plan.

4.5.2 Under the financial spell? The return of Social Democrats

The return of SAP in power in 1982 under the leadership of Olof Palme faced the problems of declining real earnings, rising unemployment and budget deficits due to the recession of the economy (Palme and Svensson 1997). At the time, the ATP scheme contribution ceiling was indexed with prices and with income growth advancing rapidly, it effectively created a ceiling for the benefits that middle and high wage earners could draw in retirement. Palme suggested the creation of committee in 1984 that would address whether a pension reform might have been necessary to channel more savings into the economy. Before the committee announce its proposals,

a Private Pensions' Scheme (PPS- *Allemanssparandet*) was introduced to deal with the lack of savings channelled to the economy.

Due to this stickiness of the ATP scheme and its failure to adjust to the changing socio-economic conditions, savings were diverted to the private schemes and mutual funds. Before coming to power, SAP declared its aim to close the private mutual funds as unjust and costly. Interestingly, LO endorsed mutual funds as a tool that would strengthen unions' ownership of industry and created its own mutual through LO's insurance company. As an outcome of a compromise between SAP and unions, Palme instead of dismantling mutual funds, proposed their replacement with an alternative mutual fund saving scheme, 'Allemansfond'¹⁷ (Jonsson and Lounsbury 2004). In this way, SAP institutionalised the role of mutual funds within the Swedish market economy and enhanced the role of privately controlled funds. The management of the LO funds was under the control of banks and professional investment.

It appears therefore that LO was under the spell of financial investment capital and opted to channel its savings and either independently or in collaboration with SAF created its own financial capital actors such as insurance firms and pensions funds (e.g. AMF). The aim of LO was to increase its relational power in the management boards and participate in corporate governance and through tightening their relations with capital actors (LO 2006). Effectively, LO's failure to undermine the cornerstones of the market economy and the lack of any control over the existing pension funds, locked LO within a path that followed the premises of the emergent financial capital interests. It was therefore no surprise that the only valid vehicle for LO to participate in the economic growth as well as increase its financial power resources was through the creation of mutual funds.

Once again it becomes important to examine the important difference between formal institutions and their logic since LO through the creation of collaborative (with SAF) mutual funds indicated its will to pursue its target of exercising power over corporate governance. However, the means that LO selected were not prioritising solidarity or

¹⁷ 'Allemansfond' means 'Everyone's fund'.

wider class interests but rather the exclusive interests of LO. The mutual funds was a pragmatic opportunity for LO to enhance its power resources and collect the savings of wage-earners but at the same it institutionally reproduced the logic of private financial actors, since funds' investment decision making was not politicised.

The power of the 'financial spell' transcended LO and captured in the mid- 1980s, SAP itself. Initially, the Palme government regarded a 20% devaluation of the Swedish Krona (SEK) as a necessary economic policy to enhance private investment over the dynamic sectors of the economy (export sector), restore productivity growth and low levels of unemployment. However in 1985, the government changed its economic policy and declared that the state would not borrow anymore from abroad but it would only borrow from domestic financial markets. This change can be attributed to the shifting international institutional framework and emerging significance of international financial actors (e.g. IMF) as well as in domestic actors, since during the bourgeois government, the already established banks pressured for further deregulation of the capital markets (Svenson 2002).

The change was formed as battle between the Ministry of Finance and the Central Bank of Sweden against the ideas promoted by the LO economists. The LO proposals for the creation of public-controlled savings that could provide an alternative for the increase of credit capital available in the financial markets was dropped as an option by the SAP government (see Ryner1999,2002). The power imbalances between key actors became even more clear, since domestic financial capital actors' -including both private banks and the Ministry of Finance- and employers' reluctance to borrow from abroad, pre-empted the ability of manoeuvring public fiscal policies to support full employment rates.

Consequently, both Central Bank and the Ministry of Finance adopted the neo-liberal argument that the automatic market mechanisms would be the most efficient tool to set the 'real' wage structures and allocate credit capital (Sweden Ministry of Finance 1984, 1985 in Ryner 1999, 2002:178). The de-regulation of the credit markets strengthened the power of financial actors and pre-empted the ability of unions to enter collective bargaining negotiations and bargain for what they regarded as 'just' wages and working conditions. The outcome of this shift in economic policy meant

that Swedish government and especially the Ministry of Finance prioritised the importance of market tools rather collective bargaining over the determination of wage structures, an act that shows the importance of the state in shaping instituted process and establishing logics of socio-economic instituting. Effectively both private and public financial institutions established a hierarchy of norms that prioritised the power of financial capital interests and the logic of the market mechanisms in instituting the future of socio-economic reality.

4.5.3 The use of the AP and ‘wage-earners’ funds

Addressing the demands of the electorate, SAP introduced the ‘wage-earners funds’ in 1982. The radical elements of the funds were significantly watered down and similar to the AP funds, wage-earners were not able to exercise any significant power over the investment decision-making. If the ‘wage-earners funds’ “were designed to depoliticise collective ownership”, they were actually enacted on the basis of “market-driven strategies” (see Pontusson 1992: 224). The implementation of the ‘wage-earners funds’ were legislated with the “aim to improve the supply of risk capital for the benefit of Swedish production and employment” (Pontusson 1992: 205) based on three principles to :

“Yield a good return, on a long-term basis, and with a distribution of risks. Investments will mainly be made primarily in manufacturing and related enterprises” (Ministry of Finance 1985 in Whyman 2004: 424).

The 1983 legislation departed from the Meidner plan in many ways and clearly exemplified the decreasing power of organised labour to shape the future of pension policy making. The wage earners funds had a 10% ceiling on ownership while they could not hold more than 8% of the voting rights in a company (Wilde 1992). That meant that the funds did not have a channel to influence economic and industrial policy-making, unless they could coordinate their efforts to own shares of the same corporation. Workers would be able to participate in the board and vote in the corporation decision-making but their representation share had a limit of 4% of voting rights in the company. The manager of the ‘wage-earner’ funds were retired financial experts which did not realise their role as an extension of the labour movement but

rather were allowed to gain a more ‘autonomous and competitive’ stance (Wyman 2004).

Overall, the efforts of labour were curtailed mostly from the legislature framework that the funds had to follow. As Pontusson concludes the ability of the unions to influence industrial policy and control capital was curtailed due to the “strategic capacity of business to exclude” unions from industrial strategy (Pontusson 1992:235). AP funds in fact, were more successful in gaining shares with voting rights and thus acquiring a more substantial role in relation to the wage-earner funds. The funds never coordinated their actions and even in the firms that had concentrated the highest ownership percentage of 10%, there was always an owner group that would own a great percentage of the firm (for details Whyman 2004: 429-431). A fifth fund was introduced in 1988 that was able, as the fourth AP fund, to invest in equities but was also allowed to invest in properties (Första AP-Fonden 2007).

Table 4.3: Wage-earners funds in practice

	Wage earners funds (adopted)	Wage earners funds (originally proposed)
<i>Who controls</i>	Managers	‘Wage-earners’
<i>Savings channelled</i>	Banks, Government bonds	Public Fund
<i>Investment in</i>	Industrial capital (esp. export-oriented firms), financial products	Listed companies, gradual concentration of ownership
<i>Aim</i>	‘improve the supply of risk capital for the benefit of Swedish production and employment’ [...] and ‘yield a good return’	Enhance unions’ control over financial markets, “to socialise capitalism”
<i>Power of unions</i>	Minimised, unions lost battle over funds	Empowered unions, union controlled financial actor, attempt to shake and shape the ‘rules of the game’

As the table 4.3 shows the substantial differences in the logic of the wage-earners funds among the original proposals and the funds that were adopted in 1982 differed not only in the ability of organised labour to exercise any control over investment policies but more importantly curtailed the ability of wage-earners to promote their logic of instituting over Swedish socio-economic reality. The original Meidner plan showed the ability of organised labour to create a financial actor that would be able to compete with employers and private and public financial institutions in prioritising wage-earners demands and vision of social reality. Instead, the legislation that SAP introduced dropped the radical elements of the Meidner plan (Blackburn 2007) and the savings were surrendered to the logic of the market economy, since the nominal owners lacked any power of strategically using the funds to serve or even prioritise their aims within the Swedish market economy.

4.5.4 Sweden in the 1990s

After the declining investment rates of Swedish productive capital domestically, unemployment levels peaked. The bourgeois government in 1990 dropped the commitment to full employment and implemented a tax reform that hindered the progressive taxation system. The devaluation of SEK in 1991, served the needs of the Swedish export sector to increase their competition in the world market while Swedish financial capital interests were not harmed. The few families and owners of Swedish multinationals that concentrated vast amounts of SEK before the deregulation of the currency system in 1989 were allowed to sell their SEK (see Wennerberg 1995, Henrekson and Jacobsson 2003). In 1992, there was a run of the Swedish Krona, partly led by the AP funds since their investment behaviour was not different to any other financial investor (see Belfrage and Ryner 2007) and in order to deal with this problem, the Ministry of Finance increased 500% the marginal interest rates.

Indicative of the new embeddedness of the Swedish economy, the Conservative government in 1991 abolished the Ministry of Housing and tried to push for the privatisation of housing stocks. In the economic downturn in 1992-3 the export-led corporations were severely affected while unemployment had significant impact to the state budget due to a rise in the expenditure (unemployment benefits) and a loss of

revenue (social insurance contributions, taxation). Unemployment was estimated at 2.1% in the beginning of the 1990 and it climbed to 12.5% in just three years time. The tremendous decline of almost 100,000 jobs in the welfare state sector resulted in a 25% decline in fertility rates during the 1990s (Esping-Andersen 2002b). The new austerity measures included the cuts in the public sector jobs and the privatisation of telecommunications and electricity companies (Wilde 1992). Waiting days for benefits were increased, eligibility restriction were tightened and the replacement ratios in unemployment, sickness benefits were reduced first in 1990, then in 1992 and 1993 without any major changes observed in pensions yet.

The Conservative government of Carl Bildt, strategically opted to tightened the links with European Union (EU) and Sweden accepted the macroeconomic criteria of the Maastricht Treaty, i.e. low inflation rates and public deficits. The acceptance of the treaty locked Swedish political economy with a transnational macroeconomic authority (EU), transforming thus the power relation between labour and capital.

“In 1993-1994 we became EU members and essentially adopted a neo-liberal strategy as neo-liberalism is built into EU institutions. It takes away all your strong means to combat unemployment” (LO economist cited in Stephens 2000).

However the implementation of strict neo-liberal policies had as a result the increase of unemployment figures and unpopularity of the bourgeois government. In the next elections in 1994, SAP formed an alliance with the Green and the Left party. For the re-elected SAP (1994), the EU provided a regulatory framework that would be more concerned with the reduction of deficits and inflation rates rather than redistribution and full employment policies. In fact the EU targets and Maastricht criteria became the “cornerstones of the macroeconomic policy after 1994” (Blyth 2002: 237).

The Swedish metal working union (*Svenska Metallindustriarbetareförbundet-Metall*) pioneered the pressures for wage differentiation and adopted an offensive stance against the white collar public sector workers (Rehn and Vicklund 1990). Metall pushed for the entry of Sweden in EU. According to their claims, the entry in EU was compatible with Metall’s wishes for a

“stringent economic policy aimed at reducing demand and price increases in the sheltered sectors [and...] increased competition through a continued deregulation in the sheltered sector of the economy” (LO 1991 in Swenson and Pontusson 2000: 98).

The EU macroeconomic institutions would secure wage restraints for the sheltered public employees, thus stabilising pressures for wage increases and inflation pressures. Indicative of the diverging strategies of the trade unions was the effort in 1998 to create an equivalent to the 1938 Agreement for wage bargaining. SAF, LO, TCO and SACO were invited to discuss several proposals. However the relations between the main unions have changed and TCO and SACO both opposed LO proposals while SAF preferred to establish collective bargaining at the sectoral level (see Stephens 2000, Clement 1994). Thus what triggered institutional change in the wage bargaining system can not be attributed to any exogenous causes but rather a new cross class alliances that was created through the distinction of the EFO model between sheltered and export-oriented sector in the economy (Swenson and Pontusson 2000).

At the same time that wage disputes between organised labour occurred, SAF and SI (*Sveriges Industriförbund*- Federation of Swedish Industry) pooled their power resources and merged into SN (*Svenskt Näringsliv*- Confederation of Swedish Enterprise). Due to the votes per profits election system, multinational companies gained significant power over the decision making and strategically aimed to undermine the complicated corporate structure of Swedish capitalism and achieve lower production costs through investment abroad. In fact as Pestoff (2006) notes, in 1998 the Swedish corporations employed more workers outside rather inside Sweden. At the same time foreign control over Swedish corporations was growing with more than half a million of Swedish wage-earners working for foreign owned firms (esp. in pharmaceutical industry) (see Henrekson and Jakobsson 2003).

The transformation that was taking place in the institutional domains of corporate governance and industrial relations was led by multinational corporations and private capital actors that were prioritising the interests of their shareholders. Indicative of these changes is that owners of listed companies (e.g. Electrolux) dropped their privilege of voting power in management boards in order to increase their transparency and shareholder value (Henrekson and Jacobsson 2003, Lindvall and

Sebring 2005). Another important indication of employers' shifting interests is their withdrawal from the National Labour Market Board (AMS) committee and the control of the 'Active Labour Market policies', an institutional feature of the Rehn-Meidner plan (Clement 1994). Consequently, the government requested from the unions to withdraw from the AMS, reasoning that there is not legitimacy anymore for them to participate since the departure of employers (Lindvall and Sebring 2005). Employers' clearly lacked interest in preserving the corporatist structures in place and undermined labour institutions. These changes were fundamental for the future development of the institutional domains and the power asymmetries among the key actors since multinationals corporations and financial actors strengthened their position within the market economy.

4.6 The pension reform process: Embedding the financial logic

In the turn of the decade, the committee that was brought together in 1984 published its report and predicted that the Swedish pension system would meet financial difficulties in the first decades of the 21st century. The committee did not propose to reform ATP scheme but rather to restore pensioners' income level by indexing benefits with income growth. SAP government proposed a new round of discussions for the pension system while at the same time lifted any restriction for the investment of the AP funds. The liberalisation of funds' investment practices was a demand of the LO and partly their demands were met through the introduction of the Private Pension Scheme (PPS). The 1984 pension committee had already acknowledged the need for raising contribution rates to meet the demands of the pension system as well as the suggestion that the AP funds would shrink in 15 years. Under the old system, the contribution rates were estimated to be around 23.5% in 1990 and predicted to reach 40% in 2015 (as calculated by the Pension Committee 1994 in Selèn and Ståhlberg 2007: 1178). As Palme (2003) argued ATP was neither sustainable nor was it able to meet its social policy targets.

The earnings-related scheme was a collection of different schemes on occupational basis. Thus there was the fund of the white-collar employees (ITP), the fund of the blue-collar employees (STP) and the fund of the municipality state employees (SPV)

and central government employees. The funding of these schemes was based on different principles. The STP initially was organised on a PAYG basis and it gradually developed into a total funded scheme in 1996. The ITP scheme covered 32,6% of all insured workers while STP schemes covered 39.8%. Government and municipality employees covered 10.7% and 16.9% of the population in late 1980s (Kangas and J.Palme 1989 cited in M.Palme and Svensson 1997). The ITP scheme was a fully funded define benefit while employers' pressure for define contribution benefit (Palme 2003: 150,162, Palme 2005). In 1996, LO and SAF decided to replace the DB plan of blue-collar workers (STP) with a 'Contractual pension' plan that offered DC benefits (AMF 2008), reflecting thus the response of key actors to the maturation of occupational pension schemes.

As for the private pensions, the institutionalist argument put forward by Esping-Andersen (1985) that private schemes were not growing due to the extended coverage of the ATP scheme, has to be revised since private pension plans increased from 5% in 1980 to 15% in 1989 and to 35% in 2000 of the working population (Palme et al 2003). This increase was possible through the supply of tax incentives and deductible premiums for personal pension plans that were introduced in the 1980s. The role of the state became crucial since it did not only provide incentives to individuals to setup their own personal private pension plans but also for allowing the ATP scheme to be outdated since it was not anymore able to meet current social policy targets.

The coming of the Bildt bourgeois government (an alliance of four centre-right parties) in 1991, called all the political parties that were represented in parliament to create a pension committee. Placing in practice the 'blame avoidance' tactics, the bourgeois government included all political parties in the discussions, sharing thus the blame with SAP over the possible reform or abolishment of the ATP scheme. The committee was chaired by the Minister of Social Affairs, Bo Könberg (Liberal Party), academics, policy experts and members from the Ministry of Finance and Health and Social Affairs but no representatives of unions and employers were included in the committee (Lindvall and Sebring 2005). The pension committee examined many proposals with the Conservatives favouring the privatisation of the pension system and the Social-Democrats arguing to maintain it public (Sundén 2000). As Kangas et al (2006) argue, the legacy of the ATP reform and the discursive power that this

reform exercised over the pension policy making, necessitated that the decision of the pension committee were written to address the social democratic audience.

The decisions taken by the committee suggested three main changes. The pension system would not anymore offer DB benefits but rather benefits would be based on DC basis. At the same time, the calculation of the benefit would not be based on the best 15 years over a 30 years working time but it would be based on lifetime earnings. On top of these changes, the committee decided to delay retirement age by providing incentives for flexible working arrangements and suggested that a part of the pension savings to be channelled to an individual fully funded pension account (Palme 2003). LO favoured the commission's proposal to adjust the benefit on life-time earnings since white collar workers were better off with their 30/15 ATP benefit calculation formula¹⁸ (Selén and Ståhlberg 2007), while white-collar workers rejected the 20/20 principle (Könberg, Palmer, Sundén 2006). The proposals were backed by a total of 5 out of 7 political parties that represented 85% of parliamentary seats with the Left and the New Liberal party criticising on different grounds the reform.

All these changes linked the pension system with the demands for a less costly public scheme that pushed wage-earners to work longer, emphasised the contribution-benefit link and dealt with demographic pressures. As Lundberg (2005) suggests, the overall aim of the pension committee was to render the governance of the pension system as an autonomous system that was not to be influenced or manipulated by governments or other social actors but rather acquire an 'autonomous' and 'de-politicised' role within the market economy. The Pension committee's announcement was illustrative:

"The costs for the system [would] therefore be completely independent of these factors and [would], as a result, survive without continuous political intervention" (SOU 1994 in Kangas 2006 et al: 21).

Further pressures to privatise the pension system met the resistance of the Swedish pension policy legacy and what Myles and Pierson (2001) suggested as the 'double payment problem' that the transition from PAYG to fully funded schemes necessitates. The proposal remained 'in principle' since the Social Democratic party

¹⁸ Estimation of the benefit was calculated on the basis of the best 15 contribution years over an overall 30 years employment record.

was holding the legislation of the new reform due to the serious opposition that unions posed to the proposals.

Organised labour was not part of the pension committee but maintained its ties with SAP and attained the Social Democratic Party Congress (Anderson and Meyer 2003). However, the pension reform was not successfully implemented due to the tight links between SAP and LO as Anderson and Meyer argue. While for the ATP employers were providing all contributions, now employees were also asked to contribute towards the pensions system. Indicative is that among the regional union units, only 2 favoured the proposals, 16 were against, 7 of which requested to implement a reform along the lines of the ATP system (see Lundberg 2003 quoted in Kangas et al 2006, ft2). The parliamentary representatives of SAP approved the reform before the party members approved it and despite their criticisms, they effectively imposed a dilemma to party members; whether the multi-party proposal was accepted or the whole process of the reform was brought to an end. Effectively union members were not left with other alternatives and succumbed to SAP interests.

The creation of the consensus among the political parties and the lack of intellectual leadership within organised labour did not allow LO rank-and-file members to challenge the hegemonic discourse of demographic challenges, the abolishment of the ATP scheme and the logic of the new pension system. Indicative of the discursive power of employers and financial capital was that even the representative of SAP in the pension committee, an ex-LO member of the Meidner plan committee, joined the 'realistic' and 'logical' assumptions of demographic challenges (see Anna Hedborg's interview in Lundberg 2005: 16-17) and any claim on behalf of unions' for political control over the investment of the funds was dropped. If the power of organised labour in the past was channelled from the bottom through parties and up to state officials, it was the state officials and party members that exercised their power in shaping the interests of organised labour (Lindvall and Rothstein 2006).

In the 1998 elections, the Left party (ex-Communist) and the Green party increased their electoral share and along with SAP formed a left-of-centre coalition government. The chapter now continues with the pension reform that SAP and the pension committee introduced and explain how the market economy rationale has been

empowered as the logic of the pension system. In contrast with Steinmo (2003: 44), I argue that the SAP government did not manage to ‘dampen the swings of the free market’.

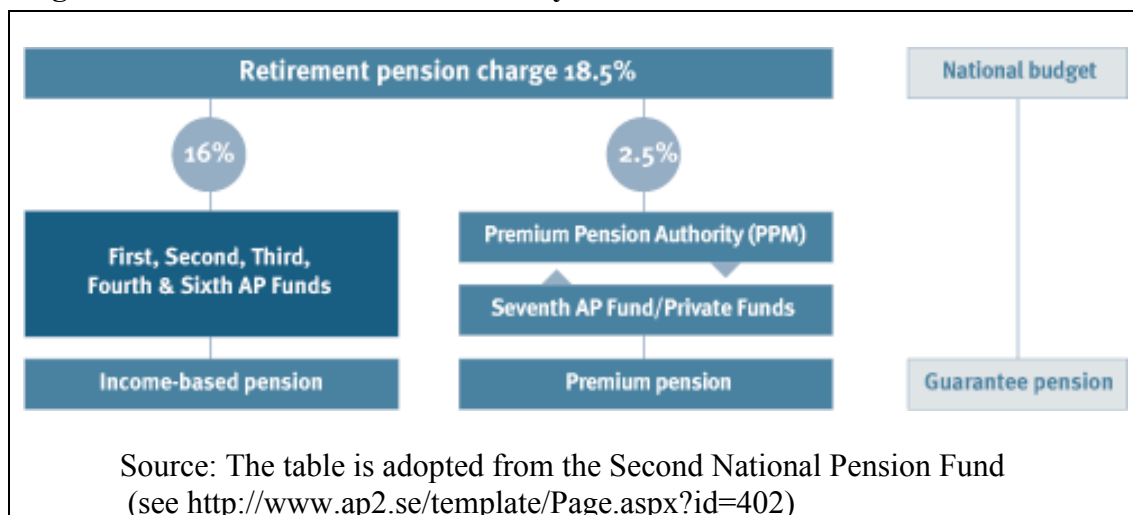
4.6.1 The new pension system: path departure and the empowerment of the market rationale

The 1998 pension reform (became effective in 2001) keeps 18.5% of year earnings as pension credit with the 16% directed for the *income-based* NDC pension accounts and with the 2.5% being directed to private-investment reserve funds called *premium pension* (FDC) and generate fully funded pensions (FFP) (see Figure 4.1). The system is organised primarily on PAYG basis for the 16% and on a funded basis for the rest 2.5%. The contribution of the employee is 7% of the wage and further contributions are needed for payments from the social insurance system and unemployment insurance. Employers pay 10.21% of the employees wage to the pension system. The contributions are 17.21% because the replacement rate for maximum pension is calculated as 93% of the ceiling contributions. The individual will continue to accrue his pension right even in time of unemployment or in case of injury through the contributions of the unemployment and disability insurance system respectively. The pension system provides a universal but not flat-rate benefit as the old system. The new pension system adopted policy innovation from the neighbouring Finnish pension system, and introduced a means-tested minimum pension that aimed to alleviate of poverty (Guaranteed Pension - GP) for people who are not able to achieve the necessary level of contributions through the earnings-related scheme. The pension reform has replaced the Basic pension and ATP scheme with the new income and premium pension.

The basis of this new *income pension* scheme is the contribution of the individual in the scheme over her/his lifetime. Wadensjo (2005: 2) is right to argue that the new pension system become more like an ‘insurance system and less a system for the redistribution of income’ since individuals hold responsibility for their outcome and transfers among wage-earners are severely undermined. In terms of eligibility, there was a change from ‘citizenship’ to 40 years of residence in Sweden and 30 years of

earnings otherwise there is a reduction in the pension amount. The earliest retirement age that the pension can be claimed is 61 and the legal maximum age for work is 67.

Figure 4.1: The new Swedish Pension system



The key change here is that pensions are not any more provided on the basis of a social right but depend on the market. Pensions' contributions are linked directly to life-time earnings and the performance in the labour market while the benefits increasingly depend more on the performance of the financial market investments since the collected savings are controlled by the AP funds. Finally, the income pension system has a built-in mechanism that automatically balances the relation between assets and liabilities and provides benefits according to living expectancy age per birth cohorts and immigration rates (Första AP-Fonden 2007b). The automatic balance mechanism (ABM) therefore prevents the scheme from financial exhaustion but at the same time raises the question of adequate retirement income in case of consistent low returns from the financial markets.

The first four AP funds were given equal portfolios and certain guidelines (see table 4.4). The primary goal is to “maximise long-term return on capital in relation to investment risk” (Ministry of Finance cited in Weaver 2004: 304). There is an emphasis for more long-term and safe investment while at the same time bearing in mind ethical and environmental considerations of the investment. The old ATP funds are used to cover their liabilities and mainly used as a buffer funds in case of demographic or economic crisis. The new task of the old ATP resources would be to act as buffers in case of economic or demographic problems. The assets of the old AP

funds have been credited with 200 million SEK and transferred to the creation of the Sixth pension fund (The sixth AP Fund 2008). The sixth fund aims to enhance investment in small and medium companies and a seventh fund that is responsible for the people that do not want to choose between the Premium Pension fund managers. Originally there was a fifth fund but it was closed.

Table 4.4: Investment rules as set by the Swedish National Pension Fund Act

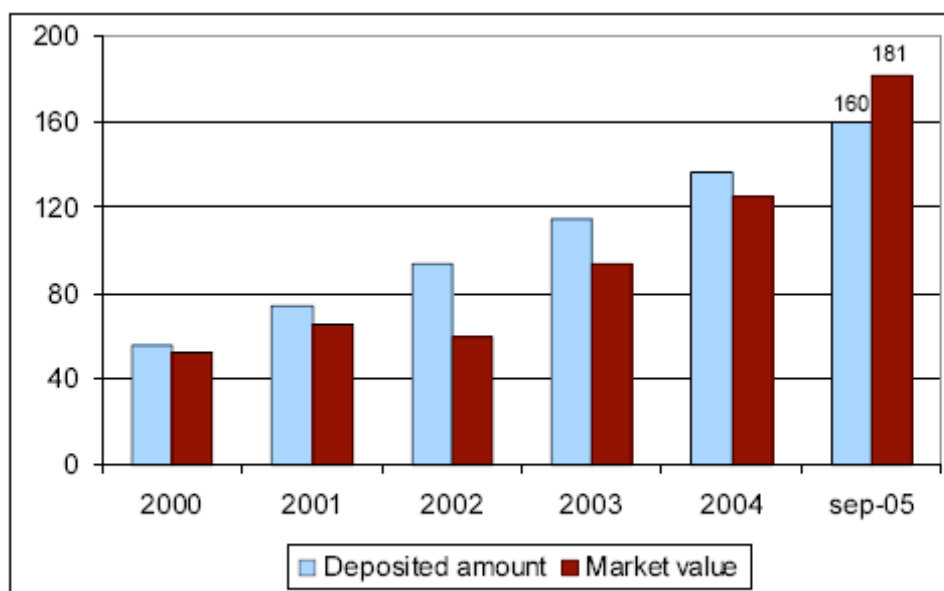
<ul style="list-style-type: none"> • No more than 70% of the Fund's assets may be invested in equities • At least 30% of each fund's assets must be in low-risk interest-bearing securities • No more than 10% of any funds assets 'may be exposed to a single issuer or group of issuers • No individual fund may hold more than 10% of the voting shares of any listed company • At least 10% of each fund's money must be managed externally by January 2002 • No more than 5% of assets of any fund can be held in unlisted securities and any such investments should be made indirectly; and • No fund may hold equity holdings in Swedish companies greater than 2% of the capitalisation of the Stockholm stock exchange • No more than 40% of the Fund's assets may be exposed to currency risk • No restrictions on the share of the Fund's assets that may be invested outside Sweden <p>Source : Weaver 2004: 305, Första (AP-Fonden) 2007</p>

The four funds were allowed to diverge in their investments. A split of 69/31% between bonds and equities in their enactment has transformed in favour of more equities for all four funds. The percent of investment in equities differs among the funds with the fourth fund reaching 63.3% of total investment. The investment in Swedish equities remains between 12% and 24% among the funds (Weaver 2004). The liberalisation of investments practices diverts investment from productivity growth and financial economic growth while the funds are institutionally prevented from exercising any significant power in listed companies and board of directors. The reform therefore maintains the logic of the private pension schemes and the operation of pension funds as financial actors that prioritise high returns.

For the *premium based pension*, the pensioner is expected to actively participate in the financial market and choose among the 500 fund managers. Pension savers can change their fund every day with no cost or even rely to the public default pension (7th AP) fund (ISSA 2001). The 'Premium Pension' accounts, contributions and license of

funds' managers is coordinated by a regulatory authority, *Premiepensionmyndigheten* (PPM), that bears the responsibility for the administration and information of the scheme. The control of savings is in the hands of private managers that do not share any restrictions upon investment choices. Since the implementation of the premium pension in 2000 the deposited amount on the funds was higher than the actual returns in terms of market value. Only in the last first semester of the 2005 the returns measured in market values exceed the deposited amount (See figure 4.2). In fact for every SEK that is being credited to the system there was a loss of 9% from investment (SOU 2005:35).

Figure 4.2: Accumulated deposited amount and fund capital (SEK billion)



Source: PPM

The table is adopted from Sweden Government Offices 2005:34)

Part of the agenda of the new pension reform was to adequately educate pension savers in financial services. The effort attempts to imitate the creation of the perfect conditions for an efficient market of pensions where pensioners are financial literate, well informed and aware of investments. This attempt clearly illustrates how the power relations have been able to prioritise the institutionalising of market tools and strictly economic assumptions for the governance of the pension system. Despite the several programmes and attempts (M.Palme and Sunden 2004, Belfrage and Ryner 2007), the PPM notified a substantial fall from 70% in 2000 to 9% of the population that actually exercised their ability to choose between funds (Palme 2005) with

pension savers switching to the (public default) Seventh Swedish National Pension Fund (*Sjunde AP-Fonden*)¹⁹.

The implementation of the new pension reform replaced both the Basic pension and ATP schemes while occupational pension and private pension plans remain on top of the premium and income pension. Overall, the new pension system constitutes a substantial institutional change for the development of the pensions in Sweden, since both parametric policy changes (table 4.5) and paradigmatic reforms have accompanied the shifting logic of the pension scheme. The parametric changes refer to the introduction of demographic components and longer period of contributions since life-time earnings are effectively exceeding the previous 30 years of employment. Most importantly, employees now contribute to the scheme and share with employers the contribution costs.

Table 4.5: Parametric changes in the Swedish pension reform

	Before 1998		After 1998	
	FP	ATP	Income	Premium
Eligibility	Citizenship	Employment	Employment & Social Assistance	Employment
Contributions	Employers (5.86%), general revenues (2%)	Only employers (13%)	Employers (10.21%) Employees (7%)	
Calculation	Flat-rate	30/15	Automatic balance / Demographic component	
Responsibility	State	Employers	Employees	
Funding	PAYG	PAYG+ funds	PAYG+ Funds	Funds
Payment	DB	DB	NDC	DC
Administration	State	Social partners	PPM (Regulatory authority)	

¹⁹ The seventh AP Fund has decided to sell shares of well known companies such as Coca-Cola, General Motors, Nestle, Texaco and Wall-Mart. The fund however still invests in gambling and tobacco companies (Weaver 2004: 307) while more recently AP funds have invested in arms construction and dealing companies such as Haliburton and Wall-Mart (NPRN 2008).

The paradigmatic reforms are realised through the introduction of the premium pension that is organised on the principle of a fully funded scheme that is under state regulation (PPM) but at the control of private managers. The shift from the PAYG schemes that provided DB plans into the introduction of purely DC plans for both income and premium pension system links pension contributions with the performance of the labour market and the pension benefit value accrued with the performance of the pension funds.

4.7 Institutional change, power asymmetries and the governance of the pension system in Sweden

The governance of the new pension system reflects the power asymmetries among the key actors and how power struggle comes to be realised for the change of welfare institutions (see table 4.6). In contrast with the previous pension reforms there have been fundamental differences in the process of implementation, the content and the logic of the pension scheme. These changes are linked with the empowerment of private and public financial institutions and their logic of instituting socio-economic reality. The process for the marketisation of pensions cannot be solely identified in one institutional domain but as a dynamic process that has been shaped by the power of key actors in the complementary institutional domains identified here (see Svenson 2002 for a discussion of marketisation on credit and infrastructure policies).

The appointment of the pension committee aimed for the creation of a political consensus for the implementation of the reform. As Myles and Pierson (2001) note the adoption of policy committees is necessary for politicians to avoid blame and legitimise the decisions to the electorate. However, what Myles and Pierson neglect, is that not all social actors participate in the policy committees and neither do all the members of the committee share equal power. Equal participation guarantees equal relational power in terms of the presence and voting for the committee. However, societal interests and especially those of the nominal owners of the pension savings were excluded from the implementation process. That remained an exclusive 'top-down' decision of political parties' representatives. As Hinrichs (2004:26 original emphasis) argues the *mandatory* character of the scheme satisfied SAP, while the

“*private ownership and individual choice served* bourgeois interests, [and] increased savings were a target of both political blocs.

Table 4.6: The governance of the new pension reform

<i>What is to be governed?</i>	Pensions as a contract
<i>Modes of governing?</i>	Artificial separation of economics & politics, Market-based criteria for investment
<i>Who is recognised to govern?</i>	Expert committees, political parties representatives, exclusion of wage-earners
<i>Power of the unions</i>	Lack of discursive power to provide an alternative and challenge SAP elites’ decisions

The agenda of the reform and how pensions were realised departed significantly from the previous pension reforms. The empowerment of private capital actors is reflected in the realisation of the pension system as a social programme that is clearly linked with economic growth and it is not open to be politicised (see table 4.7). The funds are not allowed to be controlled by their nominal owners and remain at the hands of private managers, preventing thus wage-earners to use the funds as tools to exercise their power of prioritising their pension policy aims, the formation of class alliances and their demands within the complementary institutional domains. This artificial separation of economic from political control over investment of the savings resembles the logic that neo-liberals market actors’ advocate and aims in consolidating the power of private capital actors over the governance of the pension system.

What is increasingly realised as the object of governance, is a pension system as ideal-typified in the residual welfare systems, where the state intervenes only to meet the policy target of adequate income for the poor and the market is the primary authority for the governance of the pension system. Reflecting on these remarks, the new Swedish pension system does provide a means-tested benefit for the needy while wage-earners are not anymore guaranteed their retirement income with DB plans. Employers and the state have *transferred the risk* for the adequacy of the benefit both for occupational pension schemes and the new pension reform through the replacement of DB with DC plans to pensioners.

Apart from this transfer of risk, the new pension plan is trying to channel citizens' savings into a privately controlled pension funds and insurance companies, while at the same time the schemes are organised at the individual and not at the collective level in order to prevent any collective actor from gaining control of the funds. The new pension reform cancels out any collective capacity to control savings or politicise the investment decisions while the responsibility for the benefit remains to the individual. Pensioners are realised as financial literate, fully informed and well aware of the shifts in the volatile financial market to exercise their choice in selecting among the various pension funds. As the government argues,

“the distinguishing feature of the premium pension system is that pension savers themselves carry investment risks and make investment decisions” (SOU 2005:31).

According to the government, the pension reform was realised as necessary in order to deal with “the cost of the pensions (that) had increased while growth was low” (Socialdepartementet 2004:3). Indicative of the hegemonic discourse of the demographic challenges can be found on the reasons that necessitated reform as stated by the Swedish officials.

“There were several reasons why a new system had to be implemented. The number of pensioners in relation to the economically active population is continually increasing [...] However, low growth rates over several years combined with the increasing number of pensioners receiving higher and higher pensions has exposed the weakness of the system. The political decision of the new system involved the consensus between most political parties represented in Parliament, something considered to be a guarantee for future stability” (ISSA, 2001).

While a lot of emphasis was drawn to the demographic challenges, the pension committee and the pension reform did not reflect on what accounts for the declining productivity rates in the first place. The adoption of a strictly demographic discourse diverts the attention from the politicisation of the challenges that pension system face. For example, while population is growing older this by no means cancels out the impact that the investment practices of multinationals and financial capital have caused for the creation of employment and economic growth. What becomes essential, is who has the power to frame the reasons (e.g. population aging) for the challenges (e.g. demographic) that pension systems' face and the solutions (e.g. personal responsibility) offered for the actors' to decide.

Table 4.7: Unions, power and the AP pension funds

	Swedish AP funds (1957)	Swedish AP funds (2001)
<i>Who controls</i>	Tripartite representation	Private managers
<i>Savings channelled</i>	Through banks, Government bonds (74%), promissory loans (18%)	Through funds, Maximum 70% on equities, 30% low-risk securities, maximum of 2% ownership share of listed firms
<i>Investment towards</i>	Industrial capital (esp. export-oriented firms) and social development	Financial capital products
<i>Investment in</i>	Only fixed income securities i.e. government and housing bonds	Equities, securities, currencies
<i>Aim</i>	Maintaining the premises of the Rehn-Meidner plan (i.e. full employment, welfare state expansion)	To “ maximise long-term return on capital in relation to investment risk”
<i>Power of unions</i>	Limited Structural - no direct control or challenging managerial prerogative or property rights	Limited structural - no control or participation in the investment-making process
	Participation(minority) in boards, power through job and welfare expansion	Artificial separation of the economic and political control
	Retaining their discursive power over prioritising the premises of socio-economic development	Limited discursive power over the investment of the funds, ethical considerations

It remains important therefore to identify the key actors behind these changes and also explore which logic of social-instituting dominated the pension reform. The main target of the pension reform was to address employers' demands for retaining a stable contribution rate, channel savings to the Swedish financial and credit capital in order for insurance firms, banks and capital actors to be able to provide the necessary means for Swedish firms to compete for financial-led growth (Boyer 2002). Thus what can be realised here is that the balance of power has shifted in favour of employers and financial capitals since they have managed to incorporate LO within their policy agenda. According to the 'VoC' literature, employers' are willing to sustain the complicated structures of collective bargaining and the generous welfare state as a competitive advantage. As Steinmo (2003) argues, along with Scharpf (1999) and Soskice (1999), maintaining a generous welfare state and a coordinate economy is viable through the creation of competitive advantages for business (Huber and Stephens 1999). Whether, all people share the optimistic opinions expressed in Steinmo (2003) and the reassuring argumentation of Soskice that coordinated market economies have faced less pressure, the changes in the policy area of pensions has questioned their arguments.

4.8 Conclusion

This chapter provided an innovative historical examination of the pension development and accessed the attempts of all relevant actors (unions, parties, employers, financiers) in framing the institutional path of the Swedish pension system. I argued that Swedish organised labour through its ability create class alliances in the political system, initially with farmers and later with white-collar workers, and its ability to reach a compromise with employers' over industrial relations, succeeded in layering the foundation of a generous basic pension system. The struggle over the development of the Swedish pension system was played out in the late 1950s and the introduction of the ATP scheme and AP funds respectively. This reform was not only an outcome of political struggle but essentially an institutional innovation on behalf of the Swedish unions, since the latter managed to

impose their instituting principles over the governance and the aims of the of the ATP pension schemes and the investment of the AP funds.

The radicalisation of unions demands' in the late 1960s an early 1970s was a critical point for the future of the Swedish political economy. Essentially, organised labour was reluctant to loan its savings to firms without empowering its own position within the institutional domains of corporate governance and financial markets. Once more the struggle for institutional innovation was linked with the development of the pension system, only this time the radicalisation of the organised labour faced two serious obstacles; the redeployment of employers' strategies and the break of unity within the labour movement. This era proved to be a critical turn for the path of the Swedish market economy but also strengthened capital actors' power at the expense of organised labour.

Following the development in the complementary institutional domains of corporate governance, industrial policy making, financial systems and party politics, I showed that the balance of power has shifted in favour of employers and financiers. The retreat of unions' role over the Swedish market economy was also exemplified in the governance of the last pension reform. Unions were unable to participate in the pension policy making process and neither were they able to shape the future of the pension development. The institutional logic of the pension system exemplifies the shifting power imbalances that favoured capital actors and embedded wage-earners into a mode of instituting that prescribed the financial market mechanisms (risk assessment), norms (high profits, shareholder values) and individualism (personal freedom) as the most efficient tools for socio-economic policy making.

In the following chapters, I move on to examine the institutional path of the German and British pension system and funds. The examination of these cases through the power and time sensitive analytical approach will then be under comparison in chapter 7.

Chapter 5: From the authoritarian legacy to the marketisation of the German pension system

5.1 Introduction

The thesis continues with an exploration of the development of the German pension system and distinguishes between four main eras of pension development; authoritarianism, democratisation, contestation and marketisation. In section 5.2, I explore the authoritarian era; it accounts for the foundation of the pension insurance scheme from Chancellor Bismarck and reaches upon the end of the Nazi regime. This era is marked by top-down decision making, institutionalised the segmentation of pension interests and prevented the investment of pension savings in equities and financial market products.

In section 5.3, I explore the transition from the authoritarian legacies to democratic institutions and how collective bargaining became decisive for the governing of pension institutions. Section 5.4 analyses the competing logics for instituting pension logics and explores the power dynamics responsible for the introduction of the 1959 Social Insurance reform. In this section, I explore the role of occupational pension funds and highlight the distinctive characteristics of the German ‘book-reserves’ and their importance for the German political economy.

In Section 5.5, I explore how pension systems effectively became a tool for managing labour supply and demand through the endorsement of early retirement schemes as a tool for renewing the German labour force. In section 5.6, I argue that the shifts in domestic power relations along with the economic crisis of the 1970s and the unification process in the early 1990s was an era of contestation of all previously established labour and welfare institutions.

The last era reflects upon the ability of market liberal advocates to prioritise their interests by channelling more savings and shifting the control of the schemes to

private financial actors. In section 5.7, I analyse the process for the governance of the 2001 and 2004 pension reforms and the attempts of market-liberal actors and the SPD-green party government to shift the logic and the path of German pension institutions. In section 5.8, I discuss how the institutional changes in all neighbouring institutional domains and actors' power asymmetries favoured the creations of Anglo-American pension funds and the weakening of the public pension insurance scheme. It is argued that the recent developments represent significant changes in the content and the logic of the German pension system and the role of pension funds within the German market economy. The chapter concludes in section 5.9 and argues that the German pension system is far from being a 'frozen landscape'; in fact, it has reshuffled the power dynamics among unions, employers and financiers.

5.2 The Bismarkian institutional legacy

Already in the 19th century, Chancellor Bismarck pioneered a social insurance scheme for health, work accidents and pensions. The new social insurance system was self-administrated and financed by both workers and employers (Meyer 2004). The first pension scheme was a top-down innovation of Chancellor Bismarck that attempted to prevent the radicalisation of the labour movement and strengthen the ties of workers with the new-nation state. As Bismarck admitted,

“When we have 700,000 small pensioners drawing their annuities from the state, especially if they belong to those classes who otherwise do not have much to lose by an upheaval and erroneously believe they can actually gain much by it” (cited in Rimlinger 1968: 414).

The pension scheme for blue-collar workers was established in 1889 and eligibility was not upon age but ability to work. The white-collar workers created their own the scheme in 1911 with the aim to achieve similar replacement rates to the civil servants pension scheme. The civil servants (*Beamte*) scheme was non-contributory and it was financed from general taxation. Thus, from quite early, the German pension insurance scheme introduced differentiation among occupational group schemes that did not allow redistribution among wage-earners and institutionalised the segmentation of the labour movement's interests within the pension system.

The federal structure of the German political system prescribed local states (*Länder*) certain power over the implementation of the social insurance schemes. The regional separation into north-east Protestantism and south-west Catholicism created a borderline inside Germany and it reflected the formation of political parties (e.g. Catholic parties in the south and Protestant parties in the north) and the union movement. The ability of a united union (*Einheitsgewerkschaft*) was undermined due to the division of labour movement according to political affiliations, religion beliefs, occupational status and also the lack of coordination within the movement itself (Ebbinghaus et al 2000). Before the WW1 the German labour movement was separated in liberal-oriented, Christian and 'free' from religion or employers influence unions (ibid: 290-1). The Christian unions flourished in the south regions and developed links with the Christian Democratic party, while the 'free' unions were affiliated with SPD.

The *Sozial Demokratische Partei Deutschlands* (SPD- Social Democratic Party of Germany) merged from the integration of various parties in Gotha in 1875. The SPD based its premises in the Marxist ideological tradition and did not entrust the creation of class alliances and the use of parliamentary democracy to attain its goals since it realised "the transition to socialism as a revolutionary occurrence" (Klaus Novy 1978 in Berman 1998:388). SPD was unable to provide wider class coverage since its program referred solely to industrial working class and was considering small ownership of land (from peasants and agrarians) as incompatible with the socialist-Marxist ideological premises. SPD efforts to attract other social groups such as the middle classes were also marginal and thus no class alliance compromises were achieved (Berman 1998, Baldwin 1990). The 'ghetto' approach of SPD meant that social democracy was not interested to create political alliances, neither was SPD willing to address wider class interests.

5.2.1 The institutionalisation of labour and capital coordination during WW1

The break of the World War I (WWI) forged a collaboration between employers and workers to regulate and secure the necessary resources for the war (Lehmbruch 2001). The need for labour mobility was counterbalanced with political power for the

organised labour at the firm level through the establishment of work councils (*Betriebsräte*)²⁰. The origins of coordinated industrial relations were an authoritarian institutional innovation that secured workers compliance and their embedding in the German market economy. The inclusion of organised labour in the decision making of the firms was a significant step towards enhancing workers' recognition within the German capitalist state and provided them an opportunity to raise significant power resources through the monitoring and consultation of firms. As Streeck and Yamamura (2001) point, the first rights that were granted to wage-earners from the state were given as compensation for the lack of political or citizenship rights and as a reward for their participation in the German market economy.

After the end of WW1, Germany entered the period of the Weimar Republic (1918-1933). The Weimar Republic put in place the first institutional legacy of social partnership between employers and trade unions under the state arbitration, with the creation of the collective bargaining (*Tarifordnung*). The cooperation between organised labour and capital enacted with the *Zentralarbeitsgemeinschaft* agreement (ZAG – Central Work Groups Agreement) in 1918. Therefore the authoritarian institutional legacy of the work councils at the plant level and the cooperation between unions and employers at the sector level was further developed with the state enforcing the agreements to non-complying firms.

The ability of trade unions to participate in the self-government of the state insurance scheme enabled them to gain significant experiences how to run social programmes and allowed them to capture two thirds of the administration seats, since employees were providing double contribution than employers. In this way, organised labour created vested interests in the state insurance model and allowed the creation of *Parität* i.e. “an institutionalised system of conflict accommodation among corporate actors with (corporate) equality, as different from a liberal system based on individual autonomy” (Lehmbruch 1997: 57 cited in Manow 2001b: ft19). This system became influential since it mediated the conflict between employers and employees and provided the union movement significant power resources through the representation of workers' interests in bargaining.

²⁰ For more details on the establishment of social partnership and the inclusion of organised labour during the WW1 and its impact see the work of Feldman(1966,1981 cited on Lehmbruch 2001).

While the union movement was raising its power resources, there was a split between 'social partners' and 'council democrats'; the former welcomed their embedding in corporate governance institutions and the latter (esp. IG Metall) advocated total workers' control over production and investment policy making. The 'social partners' specifically aimed in embedding themselves in the German market economy as legitimate players that looked forward to share the prosperity that the employers and workers collaboration could bring (Markovits/Allen 1984: 114). Politically this distinction was expressed in the strategies of the two major political parties of the left with SPD forming with the Catholic and German Democratic Party, a central coalition government during the Weimar Republic. The German Communist Party (KDP) that was formed from radical ex-SPD members rejected the creation of the Weimar republic as a bourgeois institution and openly criticised SPD for departing from its revolutionary aspirations. The Nazi regime soon declared KPD 'illegal', undermining thus further the ability of the radical left to gain any power over the political system.

The institutional structures of the German industrial relations fostered the cooperation of employers and workers, with the latter departing from their revolutionary agenda and embedded within the regulatory efforts to sustain productivity growth. The cornerstones of the early German political economy was set by the 'close' corporate ownership structures (Jackson 2001: 128) that concentrated on few families that were able to raise significant financial resources through their tight links with banks. In this way, ownership was not diluted to shareholders but remained largely between (family) networks and banks. In 1931, the new regulation further strengthened the role of the banks since it placed tight restrictions for the creation of alternative credit-providers, including the ability of unions to develop cooperative schemes. With the election of the Hitler as Chancellor in 1933, the ability of investment in the stock markets was concentrated in 'productive' and not any more in 'speculative' investment. The new regulations restricted the exchange of stocks and invested in government (central and local) bonds, prolonging thus the lack of trust in the financial markets.

The institutional legacy as set in the early 20th century shaped the formation of class interests and political parties as well as established the dominant role of banks in

becoming the sole source of credit capital for the German employers. Unions were able to benefit from the establishment of a labour institution (e.g. work councils) since it allowed them to participate in the monitoring of the firm and enhance their ability to create power resources at the plant level. The establishment of work councils managed to create an effective link among workers and employers' interests in maintaining the productivity of the firm without however unions being able to transform their resources into power over challenging managerial authority at the plant level or formulating a coherent set of proposals for socio-economic development.

5.3 The transition from authoritarianism: Institutional configurations after WW2

The chapter continues with a brief account of the historical development of all relevant institutional domains for pension development and it assesses the power asymmetries of all key actors in industrial relations, corporate governance, political and financial system during the era of democratisation. The examination of these domains are necessary to understand key actors' strategies and their ability to exercise their power of instituting the dominant logic for the development of the German pension system.

5.3.1 The revival of the old pension institutions

After the end of WW2, the occupying Allies government tried to push for universal social security reform (*Einheitsversicherung*), similar to the those established in the rest of the European countries (e.g. Britain, Sweden). The Allies' proposals met the opposition of miners and agrarians with the latter preferring the creation of separate rather than universal schemes (Baldwin 1990:192). The authoritarian institutional legacy of the social insurance principle and the segmentation of the labour movement proved crucial for the rejection of the proposals, since some occupational groups had created vested interests in their own separate schemes. The lack of a unitary actor did not allow the union movement to formulate a proposal that could transcend its occupational differentiations and interests.

The rejection of the basic universal scheme paved the way for the revival of the old pension schemes through the introduction of the “Social Security Adaptation Scheme” (*Sozialversicherungsanpassungsgesetz-SVAG*) in 1948. The SVAG increased the levels of the pension benefit and equalised the benefits for both white and blue collar workers. The higher benefits would be financed through higher contribution rates from employers and state subsidies. Effectively, the institutional landscape had locked the interests of the occupational groups within the logic of the social insurance principle and SVAG further enhanced the existence of competing interests within the labour market and the pension system since the schemes remained separate and prevented any redistribution among occupational groups. The social insurance principle survived the democratisation process and reproduced the stratification of occupationally-based class interests.

5.3.2 Democratising labour institutions

The first unitary peak association that included both blue and white-collar workers was the *Deutscher Gewerkschaftsbund* (DGB- German Trade Unions’ Federation) and covered 33% of the total workforce while the white-collar employees in the private sector created another peak association (DAB) that was not always in agreement with DGB. Civil servants revived their peak association (DBB- Civil servants Union) further enhancing the segmentation among the union movement. At the same time, employers created three peak associations; the chamber of commerce (DIHT), the Federal Organisation of German Employers’ Association (BDA) and the *Federation of German Industry* (BDI). BDI with DGB became the strongest ‘social partners’ associations for the coordination of German market economy institutions.

In the aftermath of WW2, the adoption of the *Tarifautonomie* allowed unions and employers’ associations to enter free collective negotiation without the intermediation of the state (Lehmbruch 2001, Manow 2001) though the latter guaranteed the extension of collective agreements in sectors that social partners had weak representation (Manow 2001:114-5). After a union mobilisation that was backed up by SPD, the CDU legislated the *Montanmitbestimmung* (Codetermination act) for

steel and coal workers in 1951. The Codetermination Act granted parity to workers over director boards and secured that 90% of their representatives should be trade union members (Markovits/Allen 1984: 97). The implementation of these codetermination met severe opposition from the employers in the steel and metal industries and the pro-free market *Freie Demokratische Partei* (FDP). Despite this opposition, the democratisation of political life and the institutionalisation of the Codetermination act transformed the authoritarian institutions of the past into

“channels of democratic participation [...that] established labour as a legitimate force in corporate governance”. “Codetermination aimed to ‘democratise’ what had historically been recognised as a relationship of authority deriving from the asymmetrical power of firms and employees” (Jackson 2001: 126, 155, orig. italics).

The efforts of DGB to expand the *Montanmitbestimmung* to the other sectors of the economy failed and instead there was the grant of a *Mitbestimmung* that provided only 33% representation in board of directors (Markovits/Allen 1984). The leaders in setting wages in collective bargaining were the most well organised single trade union and employers association, IG Metall (*Industriegewerkschaft Metall*- Metal workers' Union) and Gesamtmetall (Metal Employers Association) respectively. Despite the fact that the agreements were used as pilots for the agreements in other sectors, differentiation between employees and employers continued to exist with work councils pressuring for 'wage drifts' at the plant level. Collective bargaining was not restricted to wages alone but also to non-wage matters i.e. health and pension schemes, rendering thus the development of collective bargaining and the power of social partners as a determinant for the development of the pension schemes.

5.3.3 Political parities: Setting the plan for economic growth

The first years of parliamentary democracy for the post-war West Germany were crucial for the setting the cornerstones of the German market economy. On their behalf, unions formed in 1949 the 'Munich program' that referred to the achievement of full employment rates, expansion of Codetermination in all aspects of social life, social justice, the socialisation of key industries such as metal, chemical, automobile firms and finally the banking sector. However, the restoration of parliamentary democracy was marked by the domination of the *Christian Demokratische Union*

(CDU) under the leadership of Konrad Adenauer. SPD did not achieve to be in power at least at the federal level, but it was able to control some of the *Länder*.

The establishment of the First Federal Republic in 1949 came along with the CDU's distinctive economic policy, labelled as 'social market economy' (*Soziale Marktwirtschaft*) (Lehmbruch 2001: 84). The articulation of this doctrine, was based on the ability of the CDU to comprise both the belief in the market economy but also the social conservative principles of *Christian Soziale Union* (CSU) within the party. The leading figure and CDU's economic advisor, Müller-Armack, argued that state redistribution and intervention is "in conformity with the market" (Lange-von Kulesa and Renner 1998 in Lehmbruch 2001: 84). The German development strategy was based on the role of export-oriented firms that benefited from comparatively low wage averages in relation to other main exporting countries.

Essentially, the CDU proposals were a response to unions' formulation of the 'Munich Program' in 1949. Unions' strongly opposed the primacy of the export sector and the strategies for capital formation as formulated by the CDU Minister of Economics Ludwig Erhard, and instead demanded that higher wages and domestic consumption should be the tools for economic growth. However, the institutional legacy of corporatism and the separation of Germany proved crucial for the ability of unions to exercise their power over economic policy. The election of CDU in government prevented unions from capturing any position of power within the post-war government. At the same time, progressive unions, such as IG Metall, distanced themselves from the communist-affiliated unions and their Eastern counterparts, further marginalising the radical voices within the labour movement.

With the demise of the 'Munich Program' and the radical voices within organised labour, unions did not question the managerial prerogatives of employers neither their ownership rights but rather opted to enhance their power through their inclusion in corporate governance and collective bargaining, adopting thus a vision of reality that was embedded within the principles of the 'social market economy'. Indicative of this discursive power is that by 1950, SPD had accepted the market economy principles and totally abandoned its premises for a democratically planned economy. This amendment further marginalised any radical elements within the party and embedded

SPD within the discursive power of the ‘social market economy’ as an overall point of reference for the formulation of future policies. In 1956, KPD was declared ‘unconstitutional’, effectively sidelining politically radical voices within the political system and the labour movement.

The influence of the Catholic and Christian tradition for more social reforms had a significant effect on the ability of CDU to establish the basic economic principles for the re-organisation of the socioeconomic relations. The domination of CDU and the principles of the ‘social market economy’ outmoded the ‘Munich program’ with unions’ left in a search of new policy agenda. By 1953, the terms ‘socialisation of the means of production’ and ‘planned economy’ as stated in the ‘Munich Program’ were relegated in the unions’ new program (*Aktionsprogramm*) (Markovits/Allen 1984). The program rendered labour like any other producer that should use the market mechanisms to improve their wages and welcomed the rationalisation of productivity as a mean to achieve the end of productivity growth and subsequently higher wages (ibid). Unions therefore by 1950s, were embedded within a discursive framework that rendered the market mechanism as the most effective mean to achieve their aim of higher wages, consolidating therefore the institutional coordination of the ‘social market economy’.

5.3.4 The development of financial markets and corporate governance: the domination of ‘patient capital’

After the end of the WW2, the banking system retained most of its features and the local states banks merged to form the *Bundesbank* (Federal Bank) (Vitols 2001:186-7). The banking sector in Germany remained largely under public control and it comprised from municipal, regional and cooperative banks. The latter provided the necessary funding for SMEs to operate (Vitols 2005b, Manow 2001). Companies were allowed to use a part of the pension reserves that *Sparkassen* (local banks) had collected (Blackburn 2002:184) and thus enabled the cooperation between local banks, company and community development.

The role of the banks as the main actor in the German financial system was crucial in the development of long-term strategies for the firms and became the actual ‘motor’

of German capitalism through their ability in controlling the German financial system (Zysman 1982). The lack of substantial capital markets and stock market capitalisation rendered the German banks the dominant actors within the financial system. Despite the fact that many attribute Germany the crown of corporatism in industrial relations, in the financial system the independence of the Bundesbank was a victory of the financial and industrial interests that favoured price stability and low inflation².

The new tax system penalised the investment in equities (corporate and individual charges) while it favoured the investment in public bonds and reinvestment of high profits. The long-term investment in the German economy and the ability of the banks to provide 'patient capital' as well as an 'internalised' monitoring of the firms, (Jackson 2001:167, Manow 2001b:2) provided a distinct variety of non-liberal capitalism (Streeck and Yamamura 2001,2003) that tamed the demands of financial capital actors. Indicative is the case of the 'insurance company giant' *Allianz*, that opposed these tight investment regulations but was finally obliged to accept the 'rules of the game' as set by the leading actors within the German political economy; export-sector firms and banks (see Höpner 2005: 344, ft10).

For the German unions, the battle was placed at the plant level with collective bargaining only setting the agreements upon which employers and employees would took off their negotiations. The inclusion of labour in the management of the firm allowed employers to overcome management problems and enhance cooperation and avoid industrial conflict. Trade unions were accepting the existence of cooperation between them and employers, "because its institutional power did not rely solely on the economic value of labour as a 'commodity', but derived from institutional sources" (Jackson 2001: 167). Therefore the recognition of organised labours' participation within the management of the firms and the institutionalisation of their power at the plant level served as a mean for advancing unions' interests.

The constellation of the power asymmetries during the process of democratisation favoured the interests of export-oriented firms and the long-term strategies of

² For example, the advocates of low inflation were students of the 'Freiburg school of economics' and the 1963 Chancellor Erhard was one of them. For more details see Markovits/Allen 1984: 106-110).

financial capital. Unions' were able through the establishment of labour institutions to increase power resources at the plant and the peak level through the establishment of work council rights and collective bargaining respectively. The exercise of their relational power was framed within a discursive framework that departed from any radical demands and embedded unions' interests with the principles of the social market economy. The conformity of tight monetary policies with the principles of the 'social market economy' was the foundation of German economic growth that despite its premises to be inclusive towards workers and their interests, it had allowed the concentration of major assets in just a few thousand owners. The concentration of such wealth would soon trigger unions' unrest.

5.4 Competing pension logics: The politics of the 1957 pension reform

During 1955-1957 there was serious disruption of productivity since several strikes over wage disputes occurred. IG Metall originally entered in negotiations with employers in order to demand wage increases but the export-oriented firms in metalworking and mining regarded these demands as harmful for the competitiveness of their firms (Manow 2001c). Trade unions and especially DGB started shifting their priorities from distribution (e.g. wages) to redistribution policies and especially the expansion of social programmes. Indicative of these shifting demands was the election of the new chairman of DGB in the 1956 conference in Hamburg who was considered as a social policy expert. The debate about health and pension systems framed the collective bargaining agreements in 1956 and export-oriented firms (e.g. in shipbuilding, automobile construction) were willing to concede higher contributions for the workers' protection instead of wage increases. This would benefit exports since increases in nominal wages would not affect the competitiveness of the German products and at the same time domestic-oriented firms would avoid wage competition over skilled workers.

The pension policy proposals available stemmed from the SPD and DGB. Both actors were impressed by the establishment of the *Volkspensionen* in Sweden, and in response to DGB demands in 1952, the SPD proposed the introduction of a basic flat-rate tax financed pension scheme. The SPD proposal provided tax-financed means-tested benefits to older people with low income while allowing occupational groups to

continue their participation in the social insurance scheme that was separated between blue-collar and white-collar workers. The logic of the DGB-SPD proposals aimed at creating a two pillar pension system that would provide a minimum income to all pensioners, irrespective of their participation in the labour market, while it maintained the differentiation among occupational groups and their benefits at the second pillar. The aim of this proposal was to overcome the occupational segmentation of the union movement and extend pension coverage to citizens and not just to workers, placing thus a stronger support for pension policies and securing income during old-age with those that have a full contribution record to achieve a 75% replacement rate (SPD 1957). The proposals met the opposition of DAB that considered equal benefits irrespectively of occupational groups as ‘unjust’ (Baldwin 1990:202) and therefore the dispute between trade union associations did not allow the creation of a coherent and common proposal on behalf of organised labour.

After the end of this dispute, unions opted to strengthen the social insurance principle and SPD backed their proposals. The industrially tensed years between 1955-7 were finally settled with a generous public social insurance based pension system and a compromise between employers and the CDU. On the one hand, employers were not willing to enter into competition for more attractive pension plans and preferred to establish a public insurance scheme that would allow them to share the cost of these public schemes with small and medium enterprises (Manow 2001). On the other hand, the institutional legacy of the social insurance principle as well as the competition among the union movement prevented the adoption of a basic security scheme that would expand coverage and would effectively pool the power resources of all unions and citizens for the creation of a universal pension scheme.

The governance of the German pension system was realised as an extension of collective bargaining that provided employers and unions the main roles in setting the arrangements and the agreements over the pension system (see table 5.1). The role of CDU and the principles of the ‘social market economy’ prioritised the interests of export-firms (i.e. low wages and low-cost social programmes) and the institutionalisation of the social insurance principle as a mean to stratify the class interests within the pension system. The pension reform did not aim to provide universal benefits but rather explicitly linked pension benefits with the performance in

the labour market. Therefore, pensions were not realised as social programme that was part of a social right but rather as an extension of the labour market contract that rewarded (or punished) workers according to their wage and occupational status. In this way, the main actors of the labour market formed the governing authority that could recognise who is eligible for building a pension claim (e.g. women in housekeeping were not considered as part of the labour market) and the amount of the benefit (e.g. widows or housewives received a percentage of their partners' pension).

Table 5.1: The governance of the pension system in the late 1950s

<i>Who is recognised to govern?</i>	Work councils, Unions (DGB,DAB), Employers, Political parties (CDU, SPD)
<i>Modes of governing</i>	Collective bargaining
<i>What is to be governed?</i>	Pensions as a deferred wage, No bargaining over public pension funds
<i>Power of the unions</i>	Segmented unions (DGB-DAB), Discursive power to place pension reform in the agenda Relational power at peak and plant level bargaining

The 1957 pension system created the basis of the “*one-pillar approach* in Germany” (Hinrichs 2004: 18) and it epitomised the primacy of the social insurance principle since it provided coverage to 90% of the working population. The reform provided equal replacement rates with both blue and white collar workers receiving 70% of their wages after a complete 45 years contribution record of 1.8 times the average wage (Rimlinger 1968). The benefit was calculated on an individual basis and it was based on a relation between lifetime earnings and contributions. In order to meet these rising demands, contribution rates increased from 11% to 14% and both social partners shared the cost of financing the schemes. Civil servants could achieve a total of 80% replacement (Hinrichs 2004) or reach 70% of the replacement rate in just 35 years of service and their scheme was tax-financed. Farmers were also covered under a special scheme. The official retirement age was set at 65 for men and 60 for women. After retirement, the benefits were indexed with the gross salaries and wages, securing thus that pensioners would maintain their income status in relation to the working population.

The reform transformed the public pension system from a fully funded financing system into a PAYG due to the lack of trust in financial markets. The initial surplus of the PAYG scheme was organised as public funds that were used to rebuild the – devastated from the war- housing sector and their “investment in equities was illegal” (Manow 2001b:8). Though the assets of public funds declined soon, their governance was not part of any bargaining agenda, allowing the banks to reserve the savings and sustain their credit-services to the economy. The governance of the public pension funds indicated the aims of the German political economy at the time; mainly the restructuring of housing and the restoration of the German economy through the pursuit for high productivity growth.

The reform highlighted the importance of stable career patterns that privileged skilled workers who represented the core workforce²² of the company and union’s members (Manow 2001: ft 4). The public pension insurance did not provide wealth redistribution but was linked with the performance on the labour market and is tightly coupled with the performance of firms. The primary aim of the social insurance scheme therefore was the maintenance of living standards and income replacement (Rimling 1968) and not primarily the prevention of poverty.

5.4.1 The German occupational pension funds: the ‘book-reserves’ system

The ‘one-pillar’ German pension system with its high replacement rate attracted most of the savings, however it did not crowd out completely occupational and private pension schemes. According to the 1969 legislation, the benefits of the second pillar of the German pension system are determined from collective bargaining. The private occupational pension schemes are funded and provide a DB (defined benefit) pension. The administration of the funds varies among the existing schemes, with most private occupational pension schemes controlled by employers and with work councils participating in the decision-making process only in case of company closures.

²² The ‘core-workforce’ was typically comprised by blue-collar workers, with relatively high wages and stable careers (see Standing 2009).

The most famous use of occupational pension funds was as company reserves (“on-the-books-reserves”), enabling big firms to use cheap credit and invest the funds to the company itself. The firms collected the contributions of their employees and then the capital collected was invested with aim to secure productivity (for employers) and real wages (for employees) growth (Manow 2001). In this way, the ties between employers and their core workers were further enhanced with the employees maintaining their interests in the productivity and the profitability of the firm. The tax system favoured the use of book reserve systems rather than the creation of funds, since employers’ contributions were exempted from taxation (Ebbinghaus 2000). Small and medium enterprises (SMEs) externalised their liabilities through signing contracts with insurance companies that were responsible to provide the pension benefits.

Table 5.2: German occupational pension schemes

	Book reserves	Private funds
<i>Who controls</i>	Employers	Private managers
<i>Savings channelled</i>	Firms budget, banks	Insurance companies
<i>Investment towards</i>	Firms’ reserves, Export-oriented firms	Financial capital
<i>Investment in</i>	Firms’ assets formation (machinery), training schemes	Fixed income securities (i.e. government bonds) and tight restrictions on equity investment
<i>Aim</i>	Enhancing productivity growth and real wages	Profit-making
<i>Power of unions</i>	Monitoring, Decision-making only in case of company closure	None

The ‘book reserves’ exemplified the logic of the ‘social market economy’ i.e. reconstructing and safeguarding economic growth, German capital creation, job growth and welfare redistribution to those that participate to the labour market. The

reserves illustrate a prime example of how occupational pension funds were embedded within a market economy that prioritised private capital formation and how workers linked their interests with the productivity growth of their firm. Indicative of the priorities that were set in the Germany economy was that SMEs lacked the ability to control internally the capital collected and thus apart from externalising the management of the schemes, they were not able to use pension savings as their investment capital but rather had to rely for loans on banks.

The control of the book-reserves was left to employers' but work councils were able to monitor their investment and secure that the funds were spent on training schemes and the necessary investment for the continuation of productivity growth while in the case of externally controlled schemes, workers were not able to participate in investment decision-making (see table 5.2). In this way work councils were not able to exercise any control over the funds but were able to monitor and access information from their inclusion within the management board. The introduction of the 1974 legislation secured some benefits in case of company closure and imposed tighter legislations in the investment of the funds. Workers' interests therefore remained linked with their employers and did not depart from the 'social market economy' principles but rather epitomised them.

5.4.2 A critical reflection on the power asymmetries and governance of the 1957 pension reform

Chancellor Adenauer's 1957 reform met some opposition within the government itself and more specifically from the financial interests that were prioritising tight monetary policies and constrained budgets, e.g. Ministry of Finance and Economic affairs and the Bundesbank. Private capital actors and public financial institutions raised serious concerns for the impact of the scheme on saving and their channelling in the public pension system (Schmähl 2003). However, their concerns did not gain much support since the priorities of placing exports and productivity growth at the helm of the German political economy were set by export firms and the CDU government. The increasing significance of the public social insurance pension system led the leading employers' peak association (BDA) to advise companies to follow a restraint policy regarding private company pensions and avoid competition over skilled workers.

The dynamics of the 1957 pension reform illustrate how the DGB and SPD failed to reach the necessary consensus within the labour movement over the creation of a basic universal scheme since the social insurance principle had created vested interests to occupational groups. The institutional reproduction of the social insurance principle and the increase of the replacement rate indicated that unions preferred to use the institutionalised tools of collective bargaining to establish higher replacement income for their retirement. Pensions were not realised as a social programme that could reach all German citizens; instead, it reproduced the occupational differentiations in the labour market which either rewarded or punished pensioners depending on their contribution records. Employers' were willing to concede these demands and establish such a generous public insurance scheme since it would offset unions' unrest and avoid competition for private schemes over skilled workers.

Adopting Swenson's argument, Manow (2001) illustrated how German employers' were against the principles of the market economy and preferred to avoid competition in order to maintain lower labour costs and supported the establishment of a generous pension insurance system for all workers in order to avoid higher labour costs. However, did all actors share employers' perspective for the creation of the pension system? This question is important in order to understand the power asymmetries among the key actors and shed light over the conflicting interests that did not necessarily backed the leading role of export-firms. The concerns raised over the channelling of pension savings indicated how private and public financial interests such as Allianz, *Bundebank* and the Ministry of Finance prioritised the reliance on privately controlled schemes that considered the public social insurance scheme as a burden for the federal budget.

The institutional complementarity between, industrial relations, corporate governance, financial systems, political parties shows how DGB failed in its attempt an alternative since it clashed with the interests of DAB, BDI and the CDU that were strongly favouring the development of a generous occupational segmented social insurance scheme. Despite DGB attempts to institutionalise a universal pension scheme and the concerns raised by public and private financial capital actors, they all failed to prioritise their demands over instituting pensions. Unions were not able to transform

their power resources into a creation of a coherent proposal that would allow unions to formulate a pension policy agenda but rather focused in bargaining over better agreements within the existing institutional context. Export-oriented firms through the tight links with CDU established their interests and values of ‘social conservatism’ as the dominant mode of instituting pensions but also reproduced unions’ fragmentation. The discursive power of CDU and its ‘social conservatism’ principles along with export-oriented firms’ interests clearly marked the prioritisation of the social insurance principle as a mode of instituting the pension system and stratifying socio-economic interests.

5.5 The 1970 economic crisis and the growth of early retirement pensions

The break of the early 1970s economic crisis triggered a recomposition of the German industrial relation and production model. The German state shifted its support from declining sectors to new (small and medium sized) enterprises and technologies (Zysman 1982) that enhanced the role of state governments (Länder), local associations of businesses and local banks. Declining sectors were left to rationalise internally their production and adjust to the new demands of the international economy. Part of this ‘internal rationalisation’ was the dismissal of the old labour force and its replacement with younger cohorts of workers that were able to use new technologies for the enhancement of productivity growth.

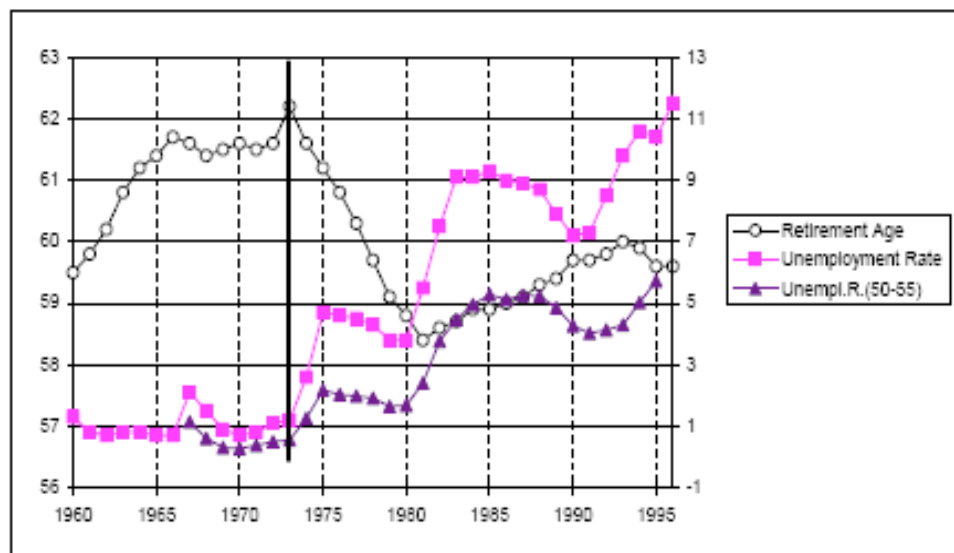
The SPD government through the 1972 pension reform addressed the demands for the renewal of the labour force and introduced the first early retirement policies that allowed wage earners (with 35 contribution years) to retire at the age of 63 and if they were disabled at the age of 60. The reform allowed self-employed and housewives - that were previously uncovered by the public pension scheme- to opt in to the public insurance scheme (Baldwin 1990:281-3) while it introduced the first elements of redistribution for workers with long-career record that were not able to achieve the minimum contribution rate.

Early retirement provided firms the opportunity to renew their labour force and unions were able to maintain full employment rates. The burden from early retirement

was transferred to the state and unemployment scheme, enabling thus a compromise between employers and trade unions at the expense of the unemployment insurance scheme and state budget (see Trampusch 2003). Thus effectively the replacement of the labour force and the new orientation of the German economy rewarded the core workforce of the German ‘social market economy’ with lower nominal retirement ages.

For the unions, the early retirement scheme became quite popular since it was realised as another tool that could enhance their high-wage strategy and provide favourable retirement terms to its members. Figure 5.1 shows how the decline in retirement age matched the increase of unemployment rates and especially among older workers. Retirement age fell from 62 years in 1973, to effectively 58.5 years in the first years of the 1980s. The burden was transferred mainly to the state budget, which rose from 1970 to 2000, by 4.3% of total revenue (Streeck and Trampusch 2005). The pension and unemployment funds were compensated with generous grants from the federal government.

Figure 5.1: Early retirement and unemployment from 1960 until 1995



Note: „Retirement Age“ is the average age of all new entries into the public pension system. „Unemployment rate“ is the general national unemployment rate. „Unempl.R.(50-55)“ refers to male unemployed age 50-55.
Source: VDR 1997 and BMA 1997.

Source: Table adopted from Börsch-Supan and Wilke 2004: 21

In 1977 the SPD/FDP federal coalition government introduced the first reform that implemented cutting costs measures such as changes in the contribution rates and reduction on benefits. The need for higher contribution rates to sustain the levels of

the pension system reserves were substituted with the payments of the unemployment social insurance schemes to the pension scheme. The election of CDU in 1982 brought changes in the pension system. More tight rules in eligibility for the disability pensions were introduced in 1984, while claims for retirement age dropped to 60 and 63 for women and men respectively. In 1989, the Kohl government pension reform established that all forms of early retirement would be only available after the 63 years of age, and introduced both a penalty of benefit reduction of 0.3% per month and an “elderly part time work” (*Altersteilzeit*) option (See Hinrichs 2004, pf15). The reform was in agreement with SPD, FDP, unions, employers’ and the pension funds umbrella organisation (VdR) (Clasen 2005: 105).

The governance of the early retirement schemes linked pensions with the ‘productivist’ logic (Hinrichs 1998) of the German market economy that promoted collective bargaining as a mode of governing pensions. All key actors in collective bargaining were able to prioritise their interests for the development of the pension system and more specifically early retirement schemes. For employers’, early retirement schemes were clearly linked with the demands to strengthen firms’ productivity growth through the renewal of the labour force. On their behalf, unions realised early retirement schemes as a strategic tool that would reduce labour supply and maintain their bargaining power for higher wages, reproducing thus the logic that linked organised labour’s interests with the mechanisms of the labour market.

Export-firms maintained their power over designating the priorities of socio-economic growth with the state providing significant subsidies towards the early retirement schemes in order to serve the aim of strengthening productivity growth. The governance of the early retirement schemes was realised within a framework that rendered the labour market mechanism (labour supply-demand) as the most effective tool to prioritise key actors’ interests with pensions becoming a tool for addressing both employers’ and workers’ demands for productivity growth and high wages respectively. Schematically, if the labour market was meant to affect the development of the pension schemes, it was now the development of pension schemes that were used as a tool to improve labour market conditions. Still, the burden of the state budget was transferred to all German citizens, irrespectively of their participation in the labour market.

5.5.1 Coordinating economic growth: the ‘Modell Deutschland’ in crisis

After the electoral slogan that was launched by Chancellor Schmidt, ‘Modell Deutschland’ came to represent a complex but yet successful production model, based on high prices and quality product. This model managed to provide Germany its leading role in world exports and provide the basis of economic growth. The ‘all high’ strategy of the German economic growth (Thelen 2003) meant that employers had an interest in training schemes and the acquisition of skills for the core workforce. However already in 1980s, the first problems appeared; the international economic crisis of the 1970s as well Bundesbank’s pressures for low inflation exercised significant pressure to small enterprises while it allowed only modest wage increases for workers.

Small and medium enterprises (SMEs) were not able to follow the pressures of the ‘all high’ economic growth and complained that the large firms that lead collective bargaining were buying off labour peace through wages that were unbearable for SMEs. The managers of the SMEs clearly questioned the institutionalised forms of social partnership and questioned the priorities of German economic growth as set by the leading export-firms. Therefore already before the unification and in an era of slow productivity growth, several companies tried to shift to other peak associations with favourable and less costly wage settings (e.g. Johnson Control) or through the creation of subsidiaries that were independent from collective bargaining (e.g. IBM, see Silvia 1997: 196). These interests actively undermined the agreements as set by collective bargaining and opted to exploit the loopholes in industrial relations that allowed them to reduce their operation costs.

All these pressures enacted in the 1980s and there were only exacerbated by the effects of the unification process. The unification brought several challenges to the social partners and the existing institutional configurations regarding the public pension scheme and the formation of industrial relations but at the same time it was realised as an opportunity to apply West German institutions of welfare provision and labour relations to the East (Lehmbruch 2003). The actors that had high stakes in the continuation of the institutional principles and settings of ‘Modell Deutschland’ welcomed the application of western institutional settings while SMEs and pro-liberal

market actors realised the unification as an opportunity to challenge the power relations that established the industrial and welfare institutions of ‘Modell Deutschland’.

5.5.2 The impact of the unification on the German pension system and occupational funds in the 1980s

Before the unification process took place, the Kohl government initiated a discussion among policy experts, academics, employers, unions and the VdR. The SPD and part of the CDU that still maintained the premises of the ‘social market economy’ refused any increase in retirement age while FDP, that had adopted a pro-liberal market discourse, campaigned in favour of a gradual increase. Finally in 1989, the CDU/CSU/FDP government coalition introduced with the support of SPD the new pension reform, just an hour before the collapse of the Berlin wall (Clasen 2005: 109). This consensual reform came in force in 1992 and indexed pension benefits with average net earnings of all employees (Schmähl 2003). This meant that the public insurance scheme would provide a constant net pension level to all pensioners, effectively institutionalising a DB scheme that would be financed by contribution rates and state grants (Schmähl 2007: 325). The reform also increased the official retirement age to 65 while early retirement for unemployed, disabled persons and women was abolished.

After the integration of the German Democratic Republic, the public social insurance scheme remained in place and expanded its coverage. The newcomers in the public pension scheme would receive pension benefits according to their employment record from the PAYG system and the cost would be financed from tax revenues and increasing contribution rates (25.4 % in 1992) (Ebbinghaus 2000). In the early 2000s, the public social insurance scheme covered 89% of male and 70% of female employees for all citizens of the former West Germany. East Germans could draw a pension benefit through early retirement schemes due to high unemployment rates (Börsch-Supan and Schnabel 1999) and received a social assistance benefit equal to 39% of the average net income (Ebbinghaus 2005).

Table 5.3: Institutional features of the German occupational pensions in the 1990s

	Direct Commitment Funds (59%)	Pension (21%)	Funds	Direct Insurance Funds (12%)	Support Funds (7%)
Control	Employers	Private managers		Insurance companies	Managers and Insurance companies
Schemes organised as	DB	DB		DB	DC (with a minimum DB)
Investment	'Book reserves'	Bonds & fixed income securities, 30% limit on stocks		Bonds & fixed income securities (esp. housing)	Investment in sponsoring firm shares

Authors' compilation, Information collected by ABA (2005), Möllman 2006, Jackson and Vitols 2001)

For occupational pension funds, participation was voluntary and varied upon the size of the firms, the public/private ownership and gender. The coverage of occupational pension schemes by 1993 was estimated in Germany to reach 95% for the public sector and around 46% in the private sector (Ebbinghaus 2005). The former are financed in PAYG basis while the latter in funded capital schemes. Employers controlled the investment of the savings and carried the responsibility of delivering DB pension. Indicative of the spread of company schemes is that by early 1990s 36% of men and 12% of women in the old Länder received statutory benefits from private schemes while in new Länder the percentages dramatically dropped to 4% and 2% respectively (Burke 1999). Gender inequalities were also important not only terms of pension coverage but also pension value since women received considerably lower benefits from occupational pension schemes (Ministry of Labour 1998).

Private occupational pension plans are organised on different terms both in terms of who controls it but also where the funds are invested (see table 5.3). In 1990 98% of all occupational pension plans were organised on a DB schemes (Jackson and Vitols 2001: 180). The assets of the occupational pension funds are channelled into four schemes. The "direct commitment funds" (*Direktusage*) held 59%, "pension funds" (*Pensionskassen*) held 21%, the "direct insurance" scheme attracted 12% and finally "support funds" (*Unterstützungskassen*) obtained 7% respectively of the total assets in 2000 (distribution of assets based on Vitols 2003:103-4). The direct commitments

(book reserves) are controlled by employers that invested internally in the firm and remained responsible for the payment of these benefits. The support schemes did not invest savings in the company but rather provided loans to other firms. Pension funds and the direct insurance schemes were preferred by SME since the latter transfer the responsibility of carrying out the benefits. Insurance companies faced several restrictions in the amounts they could invest in equities and therefore most of the money are directed to government bonds. Pension funds on the other hand are not allowed to give more than a third to the sponsoring company as a loan, hold more than 30% of their portfolio in equities and own a maximum of 5% of a company's capital (Jackson and Vitols 2001:181-2). The ability of unions to exercise any control was in the direct commitment funds since work councils were able to monitor the investment of the funds but with no power over the invest decision-making.

5.6 Challenging labour institutions and shifting power relations

In the early 1990s, various works tried to explain the success of the German model in the 1980s. The work of Kathleen Thelen (1991) stressed the importance of a dual system of industrial relations in Germany that allowed coordinated wage bargaining at the peak level but left room for bargaining at the plant level with wage drifts occurring especially in big companies such as automobiles manufacturers (Streeck 1984 in Hassel 1999: 486). The unification process was an opportunity for actors, such as the SMEs, market liberal employers and financial actors that visualised a different institutional setting, to strategically undermine the institutional settlement of 'Modell Deutschland' and the bargaining power of organised labour. This was possible through the direct attack on labour institutions such as work councils and collective bargaining.

The main actors that strategically aimed to undermine the labour institution of work councils originally stemmed from the SMEs in eastern Germany that did not grant similar to their western counterparts – work council rights to their employees (Hassel 1999: 490). Apart from declining coverage rates, the numbers of non-union affiliated members in work councils, the latter 'define[ing] their interests as company member interests, not as class interests' (Höpner 2003 in Grahl/Teague 2004:563). Employers were able to exploit the lack of non-unionised work council members and entered

separate negotiations²³ since 60% of German workers not covered by codetermination law (Grahl and Teague 2004: 56). As the number of agreements at the company level increased significantly, the power of organised labour at the plant level was undermined with work councils effectively accepting agreements that referred to more working hours and greater labour intensity for the same pay in exchange of job security (e.g. Volkswagen, see Grahl and Teague 2004). These changes were a direct attack on organised labour's power in two ways, it undermined the ability of younger and east-based workers to raise power resources at the plant level while it also thrived the relational power of work councils since employers entered negotiations with non-union affiliated councils.

For Hassel (1999) the declining coverage rates of work councils could be explained through shifting employment patterns since the undermining of labour institutions was more common in private services sector rather than manufacturing. However, does this mean that in the new economy there is no need for work councils or any other labour institutions to safeguard economic growth? Or should it be seen as within a broader framework as a direct assault upon the labour institutions that were put in place decades ago and provided organised labour the necessary power resources to raise their demands?

The attack on organised labour is not isolated only at the plant level but is also taking place in collective bargaining. SMEs were against the collective bargaining agreements and promoted more decentralisation and company level agreements over wages in order to be able to compete with larger firms and started to defect from Gesamtmetall in order to enter into free negotiations with trade unions (Ebbinghaus et al 2000). Gesamtmetall's response was the creation of an association that allowed the defected employers to join a new association that would be excluded from collective bargaining agreements (Streeck/Visser 2006). Effectively, employers and banks institutionalised a new framework of industrial relations whereas employers were not bound from collective bargaining agreements, allowing thus more flexible

²³ As part of a 'divide and conquer' strategy, IBM managed to sign a company agreement with non-unionised members with terms that remained unacceptable for unionised work council members (Silvia 2004).

arrangements to be bargained at the plant level and therefore emptied the ground for trade unions in the emerging service sector.

At the same time, big manufacturing companies were able to reap the fruits of decentralisation of wage bargaining in Germany and started diverting their production investments abroad (especially neighbouring EU countries) (Manow 2001). As estimated, the impact of these changes in labour relations was accompanied with a decline of two million jobs in the old *Länder* (BMGS 2003, in Clasen 2005: 109) and an increase of the combined social insurance contribution rates from 35% to 42% (ibid). The high unemployment rates were a blow on the pension system financial sustainability since the PAYG system is financed by wage contributions that the unemployed could not offer. At the same time, unemployment insurance scheme absorbed additional social insurance contributions, reducing thus the savings channelled to pension insurance scheme. This budgetary crisis of the pension insurance scheme cannot be attributed to demographics or to any other 'objective problems' but rather to the undermining of the labour institutions and the institutions that were set by 'social market economy'. Market liberal advocates were able to reduce their labour costs through pursuit of lower production sites and de-centralised bargaining empowering thus their position though undermining labour and welfare institutions.

It becomes therefore clear that the changes in industrial relations were not accompanied solely by a reconstruction of the German economic model but it also initiated shift of power that increased the bargaining position of employers either through the demise of collective bargaining or enforcing competition between work councils. The interesting point here is that the emerging service sector was not as well organised as the manufacturing sector and neither employers at the peak or at the plant level were keen to facilitate coordination among employers and workers. Effectively, this created clear dividing lines across the labour movement that prescribed the skilled workers within the large export firms with significant bargaining power and strongly defined vested interests in the productivity growth of the firm, while white-collar workers entered into flexible negotiations and peripheral blue collar workers in SMEs faced significant wage and working pressures.

5.6.1 The employers' offensive attempt and unions' response

The initiative to break with the existing corporatist legacy in industrial relations became effective through a change in Gesamtmetall's leadership that replaced the 'social partner' Werner Stumpfe with Hans Gottschol; a committed advocate of market liberal policies that pressured for a pension reform that would decrease the contribution rates and the reliance on public budgets. In 1995, during a run of collective bargaining, IG Metall requested 6% wage increase in order to set off the losses from the moderate wage increases that accepted in the past and Gottschol unwillingness to negotiate provoked the militancy of IG Metall and consequently a strike in Bavaria. Bavarian employers were not willing to halt their production in order to support the neo-liberal stance of Gottschol and conceded to IG Metall demands, effectively failing the strategy of Gesamtmetall. Gesamtmetall's aggressive stance failed due to the lack of a coherent alternative and united stance on behalf of the employers (Thelen 2000). However, advocates of decentralisation such as the Working Group of Independent Entrepreneurs (*Arbeitsgemeinschaft Selbständiger Unternehmer* - ASU) and the Association for Small and Medium-Sized Enterprises (*Verband Mittelständiger Unternehmer* -VMU) challenged the primacy of 'social partners' and prioritised pro-liberal market policies.

At the same time there was a clear divergence of interests between BDI (Employers peak association for industry) and BDA (Private firms' peak association). The leader of BDI, Hans-Olaf Henkel (ex IBM Europe chief executive) pressured for more decentralised bargaining while the leader of BDA (Fritz-Heinz Himmelreich) for the continuation of the dual system of bargaining (Thelen 2000: 155,ft52, 160,ft 59, Lehbruch 2003). The differences between BDA and BDI are indicative of the political economy projects that are competing in Germany. The former aims for the dismantling of 'social market economy' and replace it with neo-liberal institutions that discharge organised unions from their power resources, while the latter retain a more decentralised level of collective bargaining that favoured the leading production firms interests' and recognised the importance of its skill workforce for maintaining the competitiveness of the exports. Employers were not willing to dismantle the institutionalised dual system but they were able to undermine it within through flexible contracts and decentralised bargaining. Indicative of the new leadership of

Gesamtmetall was the organisation and financial support towards a public campaign in favour of market principles and norms (Streeck/Visser 2006: 253).

On the other hand, the labour movement was not able to formulate a strategy or a vision of reality that could transcend employers' pressures neither could it challenge the shifting logic of organising socio-economic relations that Gesamtmetall promoted through the advocacy of pro-liberal market ideas and policy solutions. The workforce of large firms was still able to pool its power resources and exercise power over collective bargaining, but without being able to exercise significant power over the formulation of labour policies on behalf of other workers²⁴. The break of coordination among the employers, the declining rates of trade union membership and work council coverage further undermined the role of the societal actors that implemented the 1957 pension reform. The long-term investment of banks and their tight relations with firms were also about to be transformed.

5.6.2 The changes in the financial system and corporate governance

The German financial firms were allowed to control investment funds in other EU countries and invest without any restriction or limits on their portfolio, creating thus a strong financial capital that strategically aimed in liberalising further the German financial system. Among the key actors that demand changes in the regulation of the financial system and the move towards more liberal and market based solutions were the private banks and insurance firms which faced lower profits through the supply of long term and low-risk investments (Vitols 2005b). The private banks, such as Deutsche Bank and Dresdner Bank, represented about one third of the banking system assets and held a third of the shares of the largest companies (Vitols 2005b: 3). The reluctance of Allianz and private banks to support the development of production in Germany (see below) became a financing problem for a lot of SMEs, effectively pushing the latter to adopt Anglo-American practices (Thelen 2000), for raising capital through their entry on the public trade companies' board in Frankfurt Stock Exchange.

²⁴ Indicative is the failed attempt of the IG Metall in 2003 to introduce the 35hours week in the Eastern region.

Both Ministries of Economics and Finance played an active role (Vitols 2005b) in enhancing the competitiveness of the German economy through reforming the regulatory framework that provided incentives for the creation of new venture capital. While the dominant role of banks as capital providers was not fundamentally transformed (Vitols 2005b), it became clear that private banks departed from the logic of enhancing productivity growth through long-term loans and opted for short-term financial activities. This gradual shift in banks' strategies and the emergence of private financial actors (see table 5.4) can be captured by the declining ownership of companies for banks (-0.8% from 1993 to 2003) and the increased ownership rates for insurance companies (esp. 'Allianz') and other financial actors (+6.6% and +7.5% from 1993 to 2003 respectively). 'Allianz' recently strengthened its position in financial markets through the buy-off of Dresdner Bank (Pijl/Raviv 2007) and shifting its interests into investment banking and asset management respectively (Lane 2005: 90).

Table 5.4: Distribution of ownership of German Publicly Trade Companies

Owners	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Banks	12.8	12.1	12.9	13.4	13.0	12.0	13.0	11.5	11.5	10.9	9.0
Insurance	6.6	6.1	6.3	6.3	7.7	7.2	7.8	8.2	9.3	13.3	13.2
Other financial	6.0	6.3	6.2	7.1	8.9	10.1	12.7	14.4	13.3	14.3	13.5
Households	19.9	19.4	18.8	18.4	18.1	17.5	16.9	16.5	14.4	13.0	13.9
Non-financial Companies	42.8	45.2	45.8	44.0	40.0	40.1	34.9	36.2	36.8	32.9	32.5
Government	2.0	2.0	1.8	1.8	2.0	1.3	0.7	0.6	0.6	0.8	0.9
Foreign	10.0	9.0	8.2	9.1	10.1	11.8	14.0	12.5	14.1	14.8	17.1

Table adopted from Vitols 2005b:9

The impact of EU and the internationalisation of financial capital markets had significant effects also on the existing institutional features of the German corporate governance. The pressures to adopt the EU regulatory framework that would be based on Anglo-Saxon accounting standards created significant pressures for German firms to change their structure (Clark 2000) and prioritise 'shareholder value' over the interests of stakeholders, such as organised labour. For this reason, an 'expert committee' was appointed by the SPD/Green government with the aim to protect the German firms from hostile takeovers, provide SMEs additional capital and strengthen the role German financial capital within the EU. The Eichel tax reform abolished taxation on the sell of company shares that banks held transforming thus the rigid

corporate ownership into more liquid assets. The reform transformed the long-term investment and coordination of corporate partners (e.g. unions) into short-term equity portfolio transactions that prioritised profit-making and ‘shareholder value’.

This empowerment of private financial actors was possible through the shifts in power asymmetries and their attempts to institutionalise forms of governance that separated economy from politics. The adoption of ‘expert committees’ was an efficient tool to achieve the aim of promoting pro-liberal market policies since it did not allow the politicisation of the reforms. The 2000 tax reform allowed

“banks to sell their industrial holdings, and this created the conditions for dismantling traditional features of the German capitalism that were increasingly dysfunctional in globalizing financial markets, and it was welcomed by large parts of the business community” (Lehmbruch 2003: 165).

These changes did not directly transform the German financial system but signalled an empowerment of insurance companies and mutual funds as well as shifted the investment logic of the banks and directed savings to equities and financial investments. These shifting power asymmetries prioritised a different logic of organising socio-economic life that was in clear departure from the previous logic of enhancing productivity growth through coordination and workers’ empowerment. The liberalisation of financial markets and the increasing competition within the EU rendered the collection of pension savings and the expansion privately controlled schemes vital for strengthening the role of private financial actors and the Frankfurt stock exchange. The main insurance company of Germany *Allianz* which is the higher holder of equities in the top 30 firms that are enlisted to the Frankfurt stock market - DAX 30- highlighted the need to lessen the adequacy of the public social insurance scheme, increase retirement age and strengthen even more the funded schemes (Vitols 2005b).

5.6.3 Embedding ‘shareholder value’ in occupational pension schemes

The German corporate governance structures were under the pressure of EU and US firms to switch into ‘Anglo-Saxon’ accounting practices that provided more transparency to existing and future ‘shareholders’. The adoption of the new accounting standards meant that the practice of incorporating pension savings and

benefits as part of the firms' budget was no longer acceptable since it directly undermined the transparency of share values and the corporate governance practices (Clark and Wójcik 2003, Rhiel 2007). Therefore through the adoption of the Anglo-Saxon practices, firms are not allowed anymore to use cheap credit capital as part of their book reserves and instead have been able to transfer their pension liabilities to a new vehicle for pension finance, the 'Contractual Trust Arrangements' (CTAs) that allows German firms to enhance their transparency to foreign investors. CTAs retain the book-reserve character since the savings transferred are recognised by the German tax law as part of the firms' assets (SCOR 2002). The main difference is that contributions transferred are under external control and the private management of the schemes does not face any investment restrictions as the previous book-reserves scheme did. The shift in the nature of the 'book reserves' reflected upon the shift in power asymmetries since financial capital actors would be able to exercise control over the savings collected in the trust and prioritise their investment portfolio over stakeholder interests.

CTAs flourished with major companies such as BASF, Daimler-Chrysler, Commerzbank, Continental, Deutsche Bank, Deutsche Post, E.ON, Lufthansa and Volkswagen externalising the financing and control of their pension assets and liabilities. By 2001, Volkswagen (VW), after negotiations with work councils and firms' management, introduced the VW-pension fund. Unions achieved to be equally represented with management members on the annual trust board meeting and the administration of the funds. The fund would be channelled both to stock and bond markets and employees would receive a guarantee of a 3% revenue increase (Berhens 2001).

Work councils welcomed the new accounting standards since the new scheme provided them the opportunity to participate in the administration of the scheme, though without exercising power over the investment-policy making. Therefore despite the declining membership rates for work councils and the attack on labour institutions from pro-liberal market actors, unions were able to raise power resources through their participation in the administration of the CTAs. The shifts in corporate governance are therefore important in two ways; one is that private financial actors controlled the 'book –reserves' pension savings while at the same time they imposed

their interests of prioritising ‘shareholder value’ as the main principle of corporate governance. These changes shifted the existing power asymmetries, since unions were able to participate in the funds’ administration board and therefore gain power resources through monitoring and increasing membership rates. However, unions lacked any structural power over using the funds as tools to prioritise any other means than profit-making. In fact, unions were embedded within the discursive power of the financial market institutions since they realised pensions as an investment tool that would provide them a higher share of profit-making equity transactions.

5.7 The German pension system in a turning point

Apart from the adoption of pro-liberal market policies in corporate governance and industrial relations, the 1990s were marked by a wave of privatisations in railways and telecommunications. The CDU/CSU and Liberal Party (FDP) coalition government introduced the privatisation agenda and SPD provided parliamentary support. This consensual approach for the empowering of private capital interests broke with the 1996 pension reform proposal of CDU/ CSU-FDP coalition government that SPD officially opposed for electoral reasons. Within the SPD although there were members that supported the pro-liberal market agenda they remained silent in order for SPD to capitalise on the unpopularity of the pension reforms in the coming elections. Both FDP and the business wing of CDU favoured the reduction of the replacement levels for the public insurance scheme (from 70% to 64%) and lowering the costs for financing it (Jochem 2001, Schludi 2002). The reform aimed to enhance the role of private capital actors and reduce the labour costs for employers.

CDU/CSU and FDP coalition government increased the contribution rates for employees and introduced the ‘demographic factor’²⁵. Despite unions’, pension organisations’ and SPD’s campaign against the calculating formula, the proposals were legislated (Hinrichs 1998: 18). In the legislation process, SPD voted in favour of stabilising contributions rates and financing pension budgets through an increase of

²⁵ The ‘demographic factor’ refers to an adjustment of benefits to the life expectancy, which meant that if life expectancy grew, the total sum of money would be spread out for more years, reducing thus the amount that the pensioner receives each month.

the value added tax (VAT) from 15% to 16% (Streeck/Trambush 2005, Clasen 2005, Hering 2008). Schematically, the reform allowed employers to stabilise their contributions rates in contrast with employees that had to provide additional contributions to the schemes. The increase of VAT meant that all population living in Germany, irrespectively of their pension coverage and labour market participation, would finance the public scheme with the imposition of a regressive tax burden.

The CDU remained the dominant right wing political party that contained both neo-mercantilist and neo-liberal voices for socio-economic policies with FDP outflanking CDU in support of pro-liberal market policies. The internal conflict in SPD between the Chancellor Schröder and the chairman of the Party and Minister of Finance, Oskar Lafontaine marked the different logics and political perspectives within the party. Schröder favoured market liberal pension policies and Lafontaine retained the importance of the public insurance scheme. The internal dispute in the SPD meant the victory of the market liberal advocates since Lafontaine resigned from the party and government, only to lead a few years later a left of SPD party (Die Linke).

In 1998 elections, SPD played the card of the 'defender of the welfare state' (Bönker and Wollmann 1999 in Clasen 2005: 112) and together with the Green Party formed a coalition government. However, the pressures for change in the pension system were driven from domestic actors such as private banks, insurance companies (esp. 'Allianz') to enhance the role of private capital actors and the channelling of savings to the German financial market while employers pressured to keep contributions rate and thus labour costs low. The 'Budgetary Consolidation Act' abolished the 'demographic factor' and introduced an new 'eco-tax' on fuel consumption that streamed additional revenue to the pension system. The Act abolished early retirement schemes even for long-term unemployed and indexed pension benefits to last year's inflation rates. Ironically, already by 1999 SPD curtailed more pension benefits than the Kohl government would have achieved if the demographic factor was not retracted.

The social insurance scheme will not anymore provide a 70% replacement rate and with 1999 reform the maximum benefit is calculated at 63.5% of net average earnings (Börsch-Supan and Wilke 2006: 589). The increase of revenue through VAT and the

lower replacement levels of the public scheme should be realised not only as an attempt to rationalise ‘pension finance’ but more importantly as a strategy that aimed in weakening the institutional role of the public pension system and avoid further increase of employers’ contribution rates.

5.7.1 The pension reform process: Embedding the financial logic

The SPD/Green government was inspired by the introduction of compulsory private plans in Sweden and suggested that 2.5% of wage contributions would be directed to private personal pensions. Schroeder’s strategy for implementing politically costly or debated reforms was the assignment of ‘expert committees’ that shaped future policies as exemplified in the Eichel tax reform, in the *Hartzkommission* and the *Agenda 2010* with pension-policy making not being an exception. Indicative of the new strategy of SPD was that it preferred to seek an alliance with CDU/CSU, sidelining thus union and left-wing party members.

The pension expert committee consisted among others from prominent CDU representatives that would not strictly follow party lines but create the necessary consensus for the implementation of the reform (Lehmbruch 2003). The original plan of the SPD was to include both CDU and PDS (Party of Democratic Socialism) in the talks but CDU strongly opposed it. It was clear the SPD/Green coalition government was not willing to politicise the pension reform and therefore preferred to maintain a consensual approach towards the reform. Based on this aim to achieve consensus, CDU pressured for further tax subsidies to families with children.

The alliance with CDU/CSU did not last and as a result, SPD turned towards the unions. Unions and especially DGB and its vice-president Ms Engelen-Kefer originally opposed the reform since the cost for company and private pension relieved employers from any contribution commitment. Several concerns were also raised for the continuation of the labour market performance as a basis of entitlement and the calculation of life expectancy, since both conditions affected unfavourably women’s pension benefit value. IG Metall in 2000 announced the mobilisation of its members and Riester quickly called metal-workers to find a common ground in September 2000 (Scheele 2000). The long talks of the new pension reform provided an

opportunity for key actors such as financial capital actors, unions, parties and employers to prioritise their demands and interests over the new pension reform. While the stabilisation of contributions would have to be taken for granted, the channelling and the control of the savings was at stake.

The break of consensus among the CDU and SPD, forced the latter to seek alliance with unions. Chancellor Schröder conceded tax subsidies (for 8 years) to occupational pension schemes and provided precedence (*Tarifvorbehalt*) over private pension plans. For the implementation of the reform however, SPD ‘muddled through’ concessions to two CDU-controlled *Länder* (Hessen and Saarland) and their budgets in order to achieve majority in *Bundesrat* (Schuldi 2001:36). Therefore the legislation of the pension reform was possible only through several concessions and departures from the original plan, among others the concessions to unions, the tax breaks to families and the voluntary character of private schemes (Clasen 2005: 116), without however increasing employers’ contribution rates for occupational pensions.

5.7.2 The 2001 reform: Parametric or paradigmatic shift?

The 2001 ‘Old Age Provisional Act’ was a significant shift for the German pension system with some authors advocating that it signalled a major institutional change with the private sector becoming substitutive for public (Rein and Behrendt 2005, Hinrichs 2004), while others (Berner 2005) regard the role of private provision as supplementary (Berner 2005) but substitutive for public (Rein and Behrendt 2005: 192). Significant attention has been paid to the change in the institutional features of the German pension system (formal) without however addressing the changes in power asymmetries and the logic of instituting pensions. The governance of the German pension reform therefore will be addressed after presenting the main changes of the 2001 pension reform.

The 2001 pension reform transformed the ‘monolith’ of the German social insurance principle into a multi-pillar model (Hinrichs and Kangas 2003) where people with unsatisfactory contribution record will receive means-tested benefits through a social assistance scheme (*Grundsicherung*). The new public pension benefit will be linked with increase in prices rather than earnings and for every year of early retirement

there is a reduction of a total of 3.6% for each year before the average retirement age. The lower age that one could claim retirement, though without providing necessarily full pension benefit, was 60 and from 2012 it will be raised to 62. The reform aimed to reduce the replacement rate from 70% to 64% of average net earnings²⁶. Civil servants were not exempted from these changes though they faced more meagre reductions in replacement rate (from 75% to 71.75%) but a similar increase in the statutory age of retirement (67 years) (Maurer et. al. 2008). The replacement gap will be covered by private funded schemes on the second and third pillar through the supply of generous tax subsidies that took the names after the ministers that introduced them: Walter Riester (Minister of Labour Affairs) and Hans Eichel (Minister of Finance). The first subsidy promoted the contracting of private pension plans for families with low income while the second provided tax incentives for the contribution to the occupational pension schemes.

To deal with the private pension promotion costs, the government reduced the minimum amount of fluctuation (funds available to meet pensions demands) from 80 % to 50%. The financing of both blue and white collar social insurance schemes stems from contributions that are shared equally among workers and employers and cover 70% of the cost, with the other 30% stemming from indirect taxation such as VAT and the 'eco-tax'. Despite the partial privatisation of the pension system, contribution rates would have to increase but not more than 20% by 2020 and not more than 22% by 2030. Effectively, the Riester reform prioritised the stabilisation of the contributions (equally shared by employers and employees) rate around 20% of net wages while the replacement level of the pension system (both private and public) will not fall below 67%. However this replacement rate does not necessarily mean that pensioners will achieve this replacement rate according to their previous salary unless wage-earners achieve 45 years of contributions.

²⁶ These estimations were soon altered due to the demographic projections and minimum replacement rate for a person with 45 years contribution record reached 62 % (Börsch-Supan and Wilke 2006: 600)

The most important change was the introduction of a new type of pension fund that faced no investment restrictions; the '*Pensionfonds*'. For the implementation of the funds, the policy makers drew from the recommendations of the European Commission draft directive on occupational pension schemes (COM 2000) and complemented it with some features of the German Insurance law which safeguarded employee contributions in case of bankruptcy of the pension funds (Deutsche Bank 2001). Along with the '*pensionfonds*'²⁷ two more types of occupational pension funds were able to receive the tax-break offered by the Riester-Rente reform and all three of them were externally controlled by private managers and insurance companies (Börsch-Supan and Wilke 2006: 594). The three schemes are supervised by 'PSV' (Pension Guarantee Fund- Pensionssicherungsverein auf Gegenseitigkeit). The new occupational pension schemes therefore depend upon employees' contribution record and the performance of the pension funds in the financial market while the German Insurance Law guarantees a minimum return of the deposited amount of contributions, establishing thus a new type of 'defined contribution schemes with a minimum benefit' (Bundesbank 2001). These schemes are organised on annuity-basis with a guarantee return that mimics the financial framework upon which insurance companies operate.

In a rather twist of the tale and due to the lack of any specific law for collective bargaining for occupational pension schemes (Mitbestimmung 2005), the pension reform enacted a process of talks that strengthened the collective bargaining agreements and industrial relations while especially the sector-wide agreements would play an important role towards the formation of class and employers' interests for the development of the pension system and especially occupational pension schemes (see table 5.5). The revival of collective bargaining over the governance of occupational pensions was not isolated in VW but soon sector-wide agreements over company pension followed in metal and chemical industry. Employee representation on trust boards depends on the number of employees in the pension fund, with a maximum of equal representation (Stewart and Yermo 2008).

²⁷ I use the term '*Pensionfonds*' (i.e. private pension funds) to distinguish from the old type of internally managed and invested private pension funds.

Table 5.5: German occupational pension schemes after 2001

	Book reserves (CTAs)	Private pension funds (Pensionfonds)
<i>Who controls</i>	Employers	Private managers
<i>Savings channelled</i>	External to the firm, trust funds	Insurance companies
<i>Investment towards</i>	Financial products	Financial products
<i>Investment in</i>	No investment restrictions	Liberalised portfolio on equity investment, government bonds
<i>Aim</i>	Enhance shareholder value	Profit-making
<i>Power of unions</i>	Plant level Monitoring, participation in administration boards	Peak level through collective bargaining Monitoring, participation in administration boards

In September 2001, the mining, chemical and energy unions (IGBCE-Industriegewerkschaft Bergbau Chemie Energie) and the Federation of Chemical Employers' Associations (BAVC- Bundesarbeitgeberverband Chemie) introduced the '*Chemiepensionsfonds*' that were originally administrated by a private Munich-based bank (Bayerische Hypo- und Vereinsbank AG) that retained the control of investment-policy making. Both IG BCE and BAVC were able to nominate representatives at the board but after the consultation with the managers, with the latter deciding upon the investment portfolio. Following the example of the chemical industry, IG Metall and Gesamtmetall developed their own scheme, *Metallrente*, that is financed strictly by employees with employers covering the administration expenses. The decision making for the investment of the funds is at the hands of private managers, with unions able only to secure that investments would be based on the principles of social corporate responsibility and ethical considerations (Behrens 2001b).

The take up of *Pensionsfonds* was not immediately successful as the CTAs were clearly favoured by large firms (EPN 2006) with SMEs gradually favouring 'pensionsfonds'. In this sense, the introduction of CTAs and the 'pensionsfonds' signalled a significant shift towards the governance of occupational pension schemes that prescribed to private financial actors' significant power over controlling contributions collected. While both employers and workers participate in the administration and supervisory board of the pension fund, the control remains under insurance companies with the *Metallrente* (250,000 contracts) under the management of Allianz and the *Chemiepensionsfonds* (33,000 contracts) recently shifted to R+V Versicherung (Dixon and Sorsa 2008: 24-29).

Private pensions remained voluntary and the firms that provided the services had to meet the requirements of the Federal Financial Supervisory Authority (*BAFin*) in order to offer pension plans. The contribution rates of the employees will grow to 4% of income by 2008, while the employers are not required to contribute to this scheme. There are two types of private personal pension plans; the first provide minimum guarantee income and then a percentage of the return and the second type refers to a more risky and possibly more profitable 'mutual-fund based' investment (Vitols 2002:105). The private pension schemes should acquire certification by the 'BAFin' and among the several preconditions is that the pensioners will have to be informed to which extend their savings are diverted to ethical, social and ecological investments (Corbett 2005) without however rendering such investments necessary. The returns from the externally managed pension schemes are safeguarded only at the value of the nominal level that was provided from the pensioner, securing thus that savings will not be lost. Even if the returns are high, the Riester-Rente reform does not link returns with gross or net salaries, effectively thus reducing the values of the benefits provided depending on the growth of inflation. The take up ratio of personal pension schemes remained lower than officially expected since occupational schemes proved more cost-effective (Bundesbank 2001).

5.7.3 Critical reflection on the governance of the 2001 pension reform

The reform changed the goals of the previous institutional premises since it emphasized the need to cutback public pensions through lower replacement levels and clearly favoured privately controlled capital funded schemes. As Vitols (2002: 106) notes the new regulations after the Riester-Riente reform “favour the annuity-type products [and therefore] relatively new money flows into capital markets, particularly the stock market”. The 2001 reform empowered the role of the private financial actors since more savings would be under their control and therefore effectively boost Frankfurt stock market and the capitalisation of German firms. The new institutional landscape in occupational pension schemes clearly departed from the previous logics and investments of the past since private managers were empowered and investment towards equities were favoured. As Bundesbank concluded in 2001, the new pension reform reduced the “lock-in effects of in-house forms of pension provision and strengthened the allocation function of the capital market” (Bundesbank 2001: 56).

SPD reduced further the replacement rate of the pension insurance scheme and actively promoted the shifting of contributions towards the occupational pension schemes and private plans. The state provided generous tax incentives to employees to rely on private pensions without however necessitating additional cost from employers. The shifts in indexation dropped the adequacy of the benefit and individuals will have to rely on means-testing. Therefore, the social insurance principle is compensated with a social assistance scheme, for those who fail to secure a substantial pension income through the market. Indicative of all these changes was the attempt to legislate this reform by establishing a consensual approach with CDU and strategically aimed to exclude unions from policy-making. The refusal of CDU, effectively allowed unions to bargain with SPD and managed to prioritise collective bargaining of occupational pension schemes would be eligible for tax subsidies and would gain precedence over private pension schemes.

The changes in the pension system cannot be isolated from the shifting power relations among of key actors and the modes of governing pensions. The reform process yielded a major competition among the key actors involved and as long as employers were not increasing their contributions to the schemes, the question where

would the savings be channelled and who would collect them. Unions' prioritised their participation in the occupational pension schemes control' and realised pension funds as a way to participate in the wealth creation since by 2000 3% of German families owned more than 80% of the German productive capital (Putzhammer 2001 in Möllman 2006). However, unions were not able to exercise any control over the investment of the funds but were able to impose some criteria for investment policy-making. As Trampusch (2007) argues, it becomes therefore important to realise that workers that were still covered by labour institutions, such as the workforce of large firms, were able to increase their relational power through collective bargaining and avoid further pressures for privatisation of pension provision.

The participation of unions in the pension funds exemplifies the difference in power asymmetries between the workforce of large and SME enterprises that are not covered by collective agreements, establishing thus a duality in terms of pension coverage but also upon their ability to raise power resources. This duality is even more exacerbated through the participation of unions' in the administrative control of the pension funds and become investors that reproduce the institutional role of private financial capital actors and their strategies for high-returns on pension assets, the primacy of 'shareholder value' over labour relations that render unions as "capitalists with blue collar" (Möllman 2006).

The reforms' provided an opportunity to trade unions' to strengthen the importance of collective bargaining for setting occupational pension funds and thus increase their power resources. Their participation on the administration board of the trust funds recognised unions as key actors for the implementation of the reform and in response to their bargaining power received generous tax subsidies for their contributions. However, unions were not able to transform their power resources into an exercise of power that could structurally and discursively mediate a different vision of reality but were clearly embedded within the discursive framework that realised 'pension funds' as an investment vehicle for profit-making. Still for unions, the prevention of a complete sale-out of the occupational pension schemes to insurance private financial actors was considered as a success, not least due to the ability of unions to increase their power resources through their participation in the administration of the funds.

5.7.4 The governance of the 2004 pension reform

In 2002, the SPD/Green coalition government established the ‘Rürup’ (named after its chairman) or ‘Sustainability Commission’ in order to provide new proposals for the health and pension reforms. The committee consisted of 25 members, with 7 academics and policy experts, 5 firms’ representatives, 1 member of employers’ organisations (BDA) and only 3 from unions (1 member of DGB)²⁸. The pension policy process therefore was not open to politicisation and this time there was not any bargaining with unions or political parties. The proposals were announced in 2003 and apart from introducing a new pension formula (i.e. ‘sustainability factor’), the committee suggested the transformation of PAYG public insurance scheme into a notional defined-contribution (NDC) scheme along with an increase in retirement age from 65 to 67.

The ‘sustainability factor’ would not just be sensitive to the development of cohorts life expectancy (i.e. ‘demographic factor’) but also to the transition of all demographic developments and changes within the labour market (Börsch-Supan and Wilke 2006). As Schmahl (2007: 329) estimated the replacement rate of the public insurance scheme for a person with 45 years of contributions will drop to 52% of average net earnings, rendering thus private pensions as substantive for achieving the aim of income maintenance. Women are losing from this pension calculation formula, since recognition for child rearing applies only for the public scheme and not private pensions. As Schmahl (2007) estimates, 66% of all women and 33% of all men fail to meet the necessary contribution rates for the social assistance scheme. The recent pension reform therefore continues to undermine the institutional role and the social policy target of the public insurance scheme, since even with 35 years of contributions, a pensioner would still receive a benefit that equals the social assistance scheme. Effectively the calculation formulas of the public social insurance scheme’s reduce dramatically the replacement rates, transforming thus the aim of the first pension pillar into alleviating poverty and not preserving income maintenance.

²⁸ Representatives of consumer groups, local states and civil servants also participated in the committee.

The government adopted all committee proposals but the increase of statutory retirement age. Apart from introducing the calculating formula for the public insurance scheme, the committee proposals aimed in enhancing the take-up rates of for private pension schemes, through the relaxation for the certification criteria. The debate was around how much percentage of the capital stock would be provided as a lump sum payment or in annuities. The new ‘Sustainability Act’ set 3 main targets (Berner 2006b):

- the prevention of pensioners from exhausting accumulated capital before the end of their lives by transforming it in annuities,
- the spread of the cost of acquisition of personal plans through a period of time (with limited claims for early drop from the plan) and finally
- the equal treatment of women and men in statutory benefits.

All three targets tried to address regulatory issues as well as securing the equal opportunities for men and women to perform within the market and the lump sum payment was reduced to 30%, allowing thus financial services to maintain more capital stock. The SPD/Green coalition government shifted the responsibility from the state and tried to regulate the development of pensions similar to the premises of financial markets and steer the behaviour of retirees to act as ‘responsible’, educated and ‘well-informed’ market players. Effectively after the political creation of a market for pensions, retirees were not anymore realised as nominal owners of the savings but as market players that had to be embedded within the discursively mediated reality of the financial markets.

Market-liberal advocates were able to exercise their structural power and impose a mode of instituting that rendered pensions as a financial product and pensioners as individuals that would have to follow the market rules. The governance of 2004 pension reform embedded pensions within a framework that prescribes market tools and policies as the most efficient tools for pension policy-making, which empowers the key actors that are able to control the savings and decide the investment policy-making; private managers and financial capital actors.

Table 5.6: Changes in the institutional features of the German pension reform

	Before 2001		Current		
	Public Insurance schemes	Occupational schemes*	Public Insurance and Assistance Schemes	Occupational schemes **	Private schemes
Eligibility	Employment	Occupation	Employment & Poverty	Occupational plan	Contract
Contributions	Equally shared among employers & employees	Both employees and employers	20-22% equally shared VAT, 'Eco-tax'	→	Up to 4% of employees' gross wage
Calculation & Replacement Rate	Lifetime earnings/ 70%	Based on contributions	Automatic balance / Demographic component (52%)	Based on the performance of the funds' investment	
Responsibility	State	Employers	Employees		
Funding	PAYG	Book reserves	PAYG+ Funds	Funds	
Payment	DB	DB	NDC	DC	
Administration	Social partners	Employers	Social partners	Social partners, <i>BAFin</i> PSV	

*Here occupational pension schemes refer to the most popular scheme of the 'book-reserves' (direct commitments').

**Here occupational pension schemes refer to the externally controlled schemes that received the Riester-Rente rebate.

Overall the 2001 and 2004 reforms represent substantial institutional changes since both parametric policy changes and paradigmatic reforms occurred. The introduction of the demographic factor and the reduction of the replacement rate of the public insurance scheme have shifted the priorities of the pension reform since cost-containment is prioritised over income maintenance. The shifting contributions rates and the supply of DC schemes represent a series of important parametric policy changes that clearly shift the burden the risk to pensioners rather than employers and the state. The paradigmatic reforms can be realised in the introduction of a social assistance scheme and the empowerment of occupational and private pensions, since the public schemes are now aiming in poverty alleviation while income maintenance is achieved through private and occupational schemes. Another crucial paradigmatic change is the channelling of occupational pensions to financial services and the creation of funded schemes, a policy that clearly departs from the institutional legacy of the German pension and financial system. These reforms (summarised in table 5.6) represent substantial changes for the German pension system and divert it into a new path where financial services are empowered and public welfare institutions weakened.

5.8 Institutional change, power asymmetries and the governance of the pension system

The governance of the new pension system reflects the power asymmetries among employers, employees, the state and financial capital and how power struggle comes to be realised for the change of welfare institutions. In contrast with the previous reforms, the implementation, the content and the logic of the pension systems departed from its institutional path. These changes are not just a natural outcome of demographic challenges but mainly an effort to channel more savings at the hands of private financial actors and weaken the public insurance scheme. Export-oriented firms still maintain considerable power over determining socio-economic development and their demands for stabilising contribution rates was considered vital for the continuation of their profitability and competitiveness in the international markets. At the same time, pro-liberal market actors such as banks and insurance companies pressured for pension reforms that would channel more savings into the financial markets.

If the first aim of the pension reform was to retain intact the contribution rates of the employers, the second aim was to weaken the institutional capacity of the social insurance scheme to provide adequate income replacement rates. This ‘deliberate weakening’ of the public pension insurance institutions as well as the introduction of a social assistance scheme signalled towards the shifting logic of the public pension scheme that does not anymore aim for income maintenance but for poverty prevention; where public schemes alleviate poverty and income maintenance is provided through private pensions. Institutional change therefore was possible not through the dismantling of the pension insurance scheme but through its undermining by private and public financial actors such as banks, insurance firms and the Ministries of Finance and Labour Affairs.

This institutional change cannot be realised just from the content of the pension reform but also through the shifting logic and priorities of the pension system. The shift in the logic of the pension system is exemplified in the shifting modes of governance of the pension reform, since the finance of public insurance scheme has been through a ‘rationalisation’ process that accounts for demographic and labour market shifts. These attempts to rationalise pensions’ finance illustrate the logic of market liberal advocates who draw an artificial distinction between economy and politics. An interesting example of the logic of market liberal advocates is that pension benefits are not determined by collective bargaining or social partners’ agreement but rather through a set of demographic factors (see table 5.7). While these factors rationalise pensions’ finance, at they same time they clearly depart from the politically bargained aim of the public insurance scheme to provide an adequate replacement rate to pensioners.

The adoption of demographic formulas clearly reproduces the logic of the market liberal actors that do not allow pension reforms to be politicised and instead enhance the importance of individual responsibility and reliance on private market of pensions. Therefore pensions become increasingly realised as a financial burden for the public scheme and not as extension of the labour contract anymore. Schematically there are some important differences in the modes of governing pension schemes since formulas and demographic components have substituted the importance of collective

bargaining and the key actors that are realised to govern pension reforms are ‘expert committees’ that do not allow the politicisation of the pension reform.

Table 5.7: The governance of the new public pension schemes

<i>What is to be governed?</i>	Pensions as a ‘financial burden’
<i>Modes of governing</i>	Demographic formulas and factors
<i>Who is recognised to govern?</i>	Expert committees, political parties representatives, exclusion of wage-earners

In occupational pensions, institutional change is realised in the shifting investment practices of the pension funds and trusts since the nominal owners of the pension savings participate in the administration of the funds but not in the investment decision-making. The changes in the governance of the occupational scheme reproduce the logic of the private financial actors and their interests since the German pension system lifted any investment restrictions for pension funds. Even though the book-reserves remain a popular occupational scheme for attracting skilled labour, firms are not anymore investing internally but rather allow private financial services to control the savings and the investment of the pension savings. The growth of CTAs and the introduction of the ‘pensionfonds’ divert more savings towards the aim of achieving high shareholder values and returns from financial investment and depart from the interests of workers for productivity growth and job expansion. Therefore the change in the investment strategies of pension funds signalled the shifting priorities of socio-economic development by prioritising financial interests over within-company investment.

The unions that have retained their power resources at the plant level (usually the workforce of large firms) were able to participate in the governance of the pension funds and prevent a complete empowerment of private capital actors. Interestingly, unions retain their logic of using the market mechanisms as tools for achieving their aims of higher wages and remain embedded within a market economy rationale that has departed from the ‘pure productivist’ logic and entered in a market economy where private capital advances the logic of ‘free markets’ as the dominant mode of instituting social life (see table 5.8). Unions have not been able to contest or provide

an alternative vision of reality that could transcend the interests of their employers or financial capital actors. An illustration of this embedding and lack of power is the financing of the occupational pension schemes since the demands of unions (e.g. IG Metall) for joint contributions by employers and employees failed.

Table 5.8: The governance of the new occupational schemes

<i>What is to be governed?</i>	Pensions as a ‘bargained contract’
<i>Modes of governing</i>	Risk-returns assessment
<i>Who is recognised to govern?</i>	Private managers, external to the firm, workers imposing ethical and social development investment framework
<i>Power of the unions</i>	<p><i>Structural:</i> Deliberate exclusion but finally unions with institutional recognition participated</p> <p><i>Relational:</i> Revival of collective bargaining, labour institutions</p> <p><i>Discursive:</i> Limited, endorsed financial market doctrines</p>

The recent pension reforms do not just reflect this segmentation of workers’ interests but rather institutionalise an additional one, between those workers who are covered by occupational pension schemes and have a satisfactory contribution record and those workers that lack occupational pensions or the necessary contribution records to obtain an adequate retirement income. This segmentation of the workers into well-organised and under-unionised workers resembles the shifting power asymmetries in the institutional domains of corporate governance and industrial relations, since employers’ and banks strategically undermined the institutional capacity of workers to unionise through the undermining of collective bargaining agreements and negation of work councils’ rights. The recent pension reforms provided well-organised unions the ability to increase their power resources through their participation in administration of the schemes, while peripheral workers might have to rely on social assistance schemes or achieve substantially lower replacement rates due to atypical forms of employment and precarious jobs. Therefore, the new pension reforms further

segments wage-earners' interests and ability to exercise any structural power over the development of the pension system.

All these changes have been accompanied with a significant transfer of risk away from the state (public budgets) and the employers' over to pensioners themselves. This development reflects the logic and the interest of private financial actors that strategically aimed to undermine collective schemes either through the promotion of the NDC schemes in the public pension scheme and the promotion of personal pensions that depict pensions as a 'financial contract' that is detached from its substantive economic meaning for the livelihood of workers. Firms like Allianz consider the transfer of the risk to the individual as

“a great advantage... [that] creates incentives to work and save more, boosting overall economic momentum” (Finke et al 2004).

The new pension system empowers the logic and the interests of market liberal actors such as private and public financial actors and embeds pension interests within the a mode of instituting that prescribes to market natural correction mechanisms as the principles for organising socio-economic relations within the pension system. These changes cannot be understood separately from the shifting power asymmetries that favoured market liberal policies and weakened the importance of labour institutions in industrial relations and corporate governance and channelled more savings towards the financial markets, rendering therefore the exploration of complementary institutional domains and key actors' power and strategies of shaping future socio-economic policies as crucial for the understanding of the recent pension reforms.

5.9 Conclusion

Many authors depicted the German welfare state and especially pension system as a 'frozen landscape' since interests were well entrenched into the public welfare institutions, creating thus strong support for the institutional reproduction of the German social insurance institutions (Esping-Andersen 1999, Korpi 2001). At the same time, welfare state literature that follows the VoC argument (Stephens 2000, Soskice 2000) suggested that coordinated market economies will not dismantle their generous welfare state provision. The recent developments on the German pension system show that institutional change was possible through a shift of power in favour of capital and at the expense of workers.

I argue that institutional change in the German pension system was possible through the changes in the complementary institutional domains of corporate governance and the financial system that pressured for the channelling of pensions savings in capital markets. The role of the state and the SPD/Green government alliance was crucial for the implementation of these reforms that severely weakened the importance of the public welfare institutions and empowered the role of private financial actors within the German pension system and financial markets. These changes cannot be realised as exercising automatically pressures to the pension system but as I argue, are mediated through the shifting power imbalances among the key actors involved in the governance of the pension system.

The institutionalisation of private interests in the pension system undermined the vested interests of social groups in the public insurance scheme and rendered private financial capital as key actors over the development of the public pension system. These two key changes stratify social groups' interests and empower the role of both public and private financial institutions over the development of the pension system. In contrast with 1957, financial capital actors were successful in reducing the replacement rate of the public insurance scheme since their interests did not necessarily depart from employers' and especially export-oriented firms. On their behalf, employers' of large firms were able to strengthen their links with the skilled workers through the creation of new occupational schemes while at the same time,

they attempted to invest and move their production sites elsewhere within the EU and effectively undermine the creation of more jobs in Germany.

From a power institutionalism perspective, workers that remained covered by labour institutions were able to bargain for better schemes and participate in the administration of the pension schemes. Therefore the revival of collective bargaining for the governance of the occupational schemes (Ebbinghaus 2005, Trampusch 2007) can be seen to maintain some the impetus of the institutional legacy. However, the clear distinction between those workers that are well unionised and those who are not indicates a new segmentation of interest over the development of the German pension system. Labour institutions therefore represent significant ‘fountains of power resources’ that enhance the ability of workers to bargain and prioritise their interests over socio-economic relations. The undermining of these institutions and the empowerment of financial capital actors was clearly on display on the recent German pension reform and will be of key importance for the future policy debates.

Chapter 6: The development of the British pension system

6.1 Introduction

This chapter address the development of the British pension system and distinguishes four eras for the development of the British pension system. It applies a historical approach that explores the power asymmetries among key actors and their attempts to institutionalise their distinct modes of governance over the development of the British pension institutions. The chapter starts with the development of the early occupational pension schemes in Britain. In section 6.2, I show that the institutionalisation of the early pension schemes was a response to the increased poverty among older people but also a response to the rise of the labour movement. In it, I show that financial capital actors managed from early on to create vested interests over the development of pension institutions. The chapter moves in section 6.3 to discuss the importance of the Beveridge proposal for adopting a basic universal pension scheme. The focus rests on how institutions of industrial relations, corporate governance, financial markets and political parties have shaped power relations among the key actors in pensions provision i.e. unions, employers, state and financial market actors.

The next era captures the post-Beveridge development of the pension system and the attempts and strategies of key actors' over the development of earnings-related pension schemes. In section 6.4 I explore the various proposals and alternatives and explore the importance of the institutional legacy and power asymmetries in paving future paths and rejecting policy alternatives. As I argue in section 6.5 the institutional legacy perpetuated the power that financial capital actors held over the development of the British pension institutions and of key importance for the failure of the Labour party to challenge the primacy of the market mechanisms for the governance of pension institutions. Essentially it was only via the institutionalisation of SERPS in 1975 that the Labour party addressed some of unions' demands and expanded public pension coverage.

In section 6.6, I explore how the coming of the Conservatives in power during the 80s contested the power of unions within the market economy and pensions was not an exception. The pension reforms of the Thatcher government aimed not only to channel more savings towards the emerging financial capital markets but as I argue aimed to institutionalise a market for pension provision and more importantly pre-empt the ability of workers to control their savings.

In section 6.7, I discuss how the New Labour government attempted to address the challenges of the British pension system through the consolidation of privately controlled pension schemes and the strengthening of the market mechanisms over the governance of the pension system. I argue that New Labour have consolidated the market logic over the governance of pension institutions through the adoption of compulsory personal accounts that channel savings to the financial capital markets. Essentially New Labour did not solve the problems of inadequate pension benefits and the complexity of the pension system but opted to create additional schemes that would channel more savings towards the financial capital markets. In the concluding section, I argue that the development of the British pension institutions is characterised by institutional continuity since it essentially provided inadequate public pensions and remained embedded within the logic of private and public financial capital actors.

6.2 Setting the scene: power asymmetries among the key actors

The early coming of industrialisation along with the decline of agricultural labour, provided a rapid increase in labour supply in mining, manufacturing and construction companies (Waddington 2000). The foundation (1868) of the *Trade Union Congress* (TUC) in Manchester was not based on the creation of one peak unitary association but it was comprised by different occupational groups, based on the experience of guilds. In 1918, TUC was recognised as a partner in collective bargaining and by 1919 the joint wage regulations established minimum wages for all the sectors that were not included in collective bargaining relations.

The main political affiliation of organised labour was the Labour party and TUC members financed and participated in the executive board of the party. Labour's

denouncement of communism from its constitution paved the way for the foundation of a separate Communist party. However, its electoral appeal remained marginal and essentially the main representative of unions' interests in party politics was Labour. The electoral system of 'first-past-the-post', that disproportionately favoured the first party, along with the granting of full suffrage boomed the electoral percentages of Labour and challenged the domination of both Conservative and Liberal parties.

6.2.1 The institutionalisation of the first pension schemes

The first pension programs in Britain can be traced back in the 1800s. From friendly societies to trade unions, there was an effort to provide a supplementary income to workers' retirement. The need for loyal and skilled state employees was compensated with substantial pension benefits and the civil servants scheme was therefore established as early as 1859 (Sass 2006). The first occupational fund was established by the *Northumberland and Durham Miners' Permanent Relief Society* (Hannah 1986) and a similar scheme was established for railway workers. The schemes were financed by both employees and employers while the funds were separated from the balance-sheet reserve of the company and remained under the management of clerks. Therefore apart from the civil servants scheme, workers and employers had already created pensions schemes in the most dynamic industrial sectors of the economy.

The first public pension scheme was authored by Liberal's party leader Lloyd-George and in a similar fashion to Bismarck, attempted to counterbalance the rise of the labour movement and retain the social and political order through the establishment of a liberal pension provision. In 1908, Lloyd-George introduced a means-tested scheme financed by general taxation for people no longer able to work. The eligibility of the 1908 was quite strict since the applicant would be examined against any property (even furniture) or mutual help (family support) in order to receive the benefit (Blackburn 2002:29). Among the limitations of the 1908 scheme was that the level of the benefit was considered too low to provide adequate means of subsistence, while the 70 years age threshold was considered to be too high for the standards of living at the time.

Unions opposed the liberal proposals of Lloyd-George since means-tested benefits stigmatised the poor and provided disincentives for the channelling of workers savings to the friendly societies' schemes. Instead, unions and Labour party members demanded a universal flat-rate pension benefit that would be financed by taxation on land and wealth holders (Macnicol 1998). Despite the election of the Labour government in 1924, their term in power was short-lived and the unions' demands for universal flat-rate pension schemes therefore abandoned. In 1925 a contributory scheme was introduced and provided income for five years for all population that reached 65 years. After 5 years eligibility and benefits were based on the entitlements of the 1908 scheme (Pemberton 2006). The 1925 Pension Act would set the basis for the development of a liberal pension system through its contribution links and mediocre flat-rate benefits irrespectively of income.

6.2.2 The dominance of finance: the governance of occupational pension schemes before WW2

Apart from the establishment of the public schemes, the expansion of occupational pensions triggered a battle between employers and employees over the control of the savings. Within the union movement itself there was also a divergence of interests with TUC opposing the growth of occupational funds, while employees in local governments favouring their development. TUC regarded occupational pension schemes as a double threat for its interests and power. The schemes undermined unions' effort to establish their own funds and imperilled trade unionism as an action, since the participation of employees in strikes ended up in the curtailment of future pension benefits. For the employers the rise in taxation and contribution rates was seen as a burden to production costs while others (e.g. Rowntree chocolate factory, Austin motorcars) realised occupational welfare as necessary for the stability of the capitalist system of production and for enhancing the ties of employees with the firm.

“Many firms may hesitate to adopt a Pension Scheme... but it is possible that these very firms carry heavy costs in ‘hidden pensions’ without realising the fact. If a firm establishes a liberal pension scheme it will doubtless at the same time fix a definite retiring age and will thus never find itself with a number of old workers of low working capacity drawing full pay... but they are kept on because they have worked faithfully for a great number of years and the management dos not care to dismiss them” (Rowntree, quoted in Thane 2000:243)

Unions' ability to exercise power over the development of the pension schemes was further curtailed with the introduction of an institutional innovation of the Colmans' mustard industry; the enactment of 'trust' funds. The 'trusts' were introduced with the 1921 Finance Act as a way to reconcile the relation between employers and employees since it surrendered the control of the funds not directly to employers but to their appointed 'trustees'. Therefore employers were not legally allowed to control the decision-making over investments, but neither could the employees.

The trust law distinguished between nominal owners contributions and control over the capital accumulated, preventing thus the politicisation of the funds. For unions' this meant that employers were not able to invest the savings collected for their own purposes, while for employers meant that unions would not be able to control the pension funds. Savings therefore were handed to financial experts and their role as trustees was to secure their clients benefits and follow 'prudent' investment principles. This artificial separation of nominal owners savings and control of the funds, embedded from early on the governance of the occupational funds to the principles and logic of market liberal advocates that artificially distinguished between nominal owners and investment control of savings.

Apart from establishing a new mode of governance for the development of occupational welfare, the Finance Act also provided significant tax exemptions to both contributors and enhanced capital formation since the accumulated savings in the funds were not taxed. The Finance Act was an attack on unions' interests since it favoured the establishment of trust funds over the development of friendly societies' schemes through the abolition of contribution ceilings (the case for friendly societies schemes') and maximum benefits. In 1923 the *Association of Superannuation and Pension Funds* (ASPF) campaigned for further tax exemption in widow's pensions and occupational benefits. Their success nourished with the 1930 Finance Act. The popularity of these plans was such that the value of savings directed to insurance companies exceeded the value of the contributions in the occupational pension plans.

The 1927 Superannuation and Other Trust Funds (Validation) promoted investment in companies with high dividends and fixed-interest securities. The large employers such as the railway and municipalities invested their funds in their own securities. The 10%

restriction on investment on home firms diverted pension fund investments in fixed-interest securities of the British government and overseas public securities. The 1930 McMillan report on socio-economic development did not oblige funds to invest on firms neither did it introduce an industrial policy plan. The lack of adequate investment in industry and the economic crisis of the 1930s had a serious impact in the living standards of workers and unions' strongly opposed the lack of investment in production capital, since labour demand and job growth declined.

Overall, the Finance Acts established the role of the pension trusts and empowered the role of insurance companies and financial capital actors over the development of the British pension system. Thus from early on, trade unions were not able to control the savings of the occupational pension funds and raise power resources through the continuation of the friendly societies' pension schemes. Instead market liberal actors' interests prevailed and imposed their logic over the governance of the occupational pension funds already before World War II (WW2). At the same time, that TUC opposed private occupational funds, state pensions were seen with less hostility and unions concentrated their action in expanding the coverage of these schemes, creating thus diverse interests among workers in the private and public sector.

6.3 Embedding pensions and socio-economic policy in post-war Britain

The development of the pension system in post-war Britain was about to be epitomised by the famous Beveridge report and the introduction of universal pension and health plans. However, the development of the British pension schemes remained a crucial political battleground for all the key actors involved in the governance of the pension system. The chapter continues with an assessment of the key actors' power asymmetries and strategies over the development of pension systems and the socio-economic priorities in post-war Britain.

6.3.1 Power asymmetries and actors' strategies over socio-economic development

After the end of WW2, the power of organised labour was exemplified in the election of the Labour party in government in 1945. TUC declared as the main aim of its

socio-economic program, the achievement of full employment rates in order to avoid the worsening of living standards and declining membership rates as experienced during the 1930s. TUC program focused on the introduction of both new redistribution and ownership policies. While the expansion of the welfare state was deemed as necessary to provide a more fair redistribution of income, TUC also demanded the nationalisation of energy and transport companies, the enhancement of public ownership of industries, unions' participation over production control, free (from state interference) collective bargaining, funds available for manufacturing companies and demanded the public control of the 'Bank of England' (Bornstein/Gourevitch 1984: 22-3).

Unions' demands for the transformation of the market economy institutions and their inclusion in decision making processes challenged the institutional settings of the banking sector and the primacy of the market mechanisms to allocate investment. The lack of a unitary actor, able to exercise discipline over the labour movement rendered the Labour party as the most important channel of power for British labour (Bornsten/Gourevitch 1984: 24-5). With the Labour party in government, trade unions were optimistic that there would be major institutional transformations in the British political economy. Labour responded to the demands of trade unions with nationalisation of industries, increase of social spending and control of interest rates. However, the Labour government was less reluctant to adopt the radical proposals of TUC. The companies (e.g. coal industries) that were nationalised were not the profitable ones, while the management of public companies did not allow significant political intervention to shape their investment policies. The proposals for the co-management of the economy were not adopted and the Treasury was placed in charge of managing the economy.

Even with Labour in power, unions were not able to exercise significant structural power over the governance of the socio-economic growth, since as Zysman (1982: 183) notes, 'Keynesian economists' rather than 'socialists' were at the helm of the Labour government. Despite the hostility between Labour and financial capital interests, when Labour came in power the moderate party members started to come in terms with the role of the City of London. Labour did not impose any changes on the banking system but attempted to enhance productivity through the establishment of

new public financial institutions (e.g. the Finance Corporation of Industry, the Industrial and Commercial Finance Company) that would accelerate productivity growth and job expansion. However the public institutions were not able to acquire an institutional role within the British market economy, since they remained collectively owned by private financial institutions and the Bank of England (ibid 1982:197). Instead, the cornerstone of the demand management consensus that was achieved among Labour and Conservatives was the protection of the pound and its international role as reserve currency, protecting thus “the interests of financial capital [...] over industrial capital” (Bornstein/ Gourevitch 1984: 25).

Overall, the Labour party did not follow the radical agenda of the TUC to transform the institutions of the market economy, neither did establish corporatist institutions between workers and employers. Instead it enhanced the role of capital actors within the economy through the institutional reproduction of the market mechanisms as the most effective tools for managing socio-economic growth. In industrial relations, social partners were left to bargain at various levels (e.g. sectoral, plant level) with the state avoiding any regulative or legislative role over working environment conditions or payments, essentially leaving the determination of industrial bargaining to unions and industries. This form of ‘collective liberalism’ steered the volunteering of social partners in collective bargaining, without however prescribing sectoral bargaining a leading position among all workers and neither did it apply any binding conditions to plant or workshop level bargaining.

More importantly, despite their radical agenda and dynamism after the end of the war, unions’ were not able to institutionalise their power in the governance of the industrial and corporate relations, neither were they able to challenge managerial authority and property rights of capital actors. This dynamism instead was expressed as relational power at the plant level.

6.3.2 The Beveridge Report

Among the top priorities for organised labour was the expansion of the welfare programmes and in 1945, Labour enacted the National Insurance system that established basic health and pension plans for all British citizens. The enactment of

the Basic State Pension (BSP) was among the plans that Beveridge proposed in his famous report already by 1942 and strengthened the social rights of all British citizens though awarding a basic income in their retirement age. The constitution of universal flat-rate benefit and the lack of any reserve funds would end up in a PAYG scheme. The new scheme was under the control of the Ministry of Social Insurance and was financed with flat-rate contributions of employers, employees and the Treasury.

The Beveridge proposals have long been regarded as landmark for the expansion of social rights and the establishment of a basic universal pension plans. However, the establishment of the universal pension plan was a far cry from crowding out the market mechanisms. The Treasury strategically pressured for low replacement levels (Pemberton 2006,2008) in order to reduce the burden on the public budget and safeguard the interests of financial capital markets. Along with the liberal beliefs of Beveridge (Harris 2006), the new scheme offered the backdoor opportunity for middle and higher-earners to raise their retirement income through the private sector. The establishment of a flat-rate contribution affordable to lower earning-groups increased coverage and the funding of the scheme. Middle and upper income groups were able to look for more profitable solutions in the private sector. As Beveridge himself wrote in 1942

“In establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family” (Beveridge 1942 quoted in Whiteside 2003:23).

Apart from the low replacement rate, the BSP was effectively an illusionary social right since the scheme was linked with the contribution record of the workers. Despite its rhetoric as universal flat-rate pension scheme, the BSP was actually a social insurance scheme that was financed mainly from workers and employers' contributions and cash injections from the Treasury. The flat-rate contribution was a regressive form of taxation on wages since workers, irrespectively of their income, would provide equal contribution to the scheme.

The universal basic pension scheme established two different criteria that recognised eligibility for a BSP pension; labour market for men (considering the low female participation rates in paid employment) and marriage for women. Indicative of these

dual governing institutions is that unmarried women were entitled fewer benefits than the married ones (for more details on women's benefits see Thane 2006:80-2). In 1948, a new supplementary means-tested pension benefit was introduced for citizens with inadequate income and the scheme would be financed from general taxation (legislated in 1948). Among the beneficiaries, 638.000 women became eligible for the supplement (Thane 2006: 86). The contribution principle of the BSP granted men full pension rights while women had to rely on social assistance, stigmatising therefore their benefits and participation in the pension scheme.

6.3.3 Embedding labour in the market economy and the election of Conservatives

While the Labour government did not adopt the radical agenda of TUC for the transformation of market economy institutions, it nationalised the mining and railway companies and employed about two million workers (20% of the total working force at that time). The achievement of high growth rates and prosperity in the first years after the war diverted the interests of unions towards the preservation of the new Keynesian economic policies such as full employment and welfare state expansion. Trade unions dropped their radicalism while they maintained their key demand for non-state intervention collective bargaining. Unions' were able to raise significant power resources at the shop-floor level but lacked coordination at the peak level, hindering thus the formation of unitary interests over socio-economic developments and the pension system.

The major employers associations at the time were industrialists (Federation of British Industries), merchants (the British Employers' Confederation) and manufacturers (National Association of British Manufacturers). The *Confederation of British Industry*-CBI emerged only in 1951 and it hardly managed to bridge the different interests of the employers. It was only in 1965, that CBI managed to incorporate all the three major employers' associations. Thus, during the post-war era the British industrial relations did not have particularly strong actors and both workers' and employers' remained fragmented with negotiations taking place not at the peak level, but through layers of bargaining over wages and working hours, left to shop level actors.

At the same time that industrial relations remained fragmented and depended on plant level agreements, the Labour government attempted to retract the sluggish growth of exports and imposed wage restraints on unions. In 1951, organised labour was not willing to keep up with the moderation of wages and invoked its support from the Labour party. This was a severe blow in the relation of TUC and the Labour party, since unions' were disenchanted with Labour's leaders and their interference in wage bargaining. In the coming elections, Labour lost their electoral appeal and the Conservatives came in power.

The power asymmetries within the Conservative party reflected the struggle among at two least mainstream political discourses. The advocates of pro-liberal markets and 'laissez faire' suggested the reliance on means testing and private pension schemes. On the other hand, the 'state interventionists' admitted that minimum state intervention was important to meet the demands of full employment and economic growth with the expansion of the public welfare to compensate for the failures of the market. Still, both camps prioritised the protection of the British pound and the role of financial capital interests for socio-economic development (Bridgen and Lowe 1998).

The role of the City of London as an international clearinghouse and the role of the pound as a reserve currency did not make devaluation a popular tool to boost productivity growth. The City of London and investments abroad acquired a key role for the economic growth but this was not accompanied with job expansion since the lion's share of profits were reinvested in foreign financial markets and not domestic industries (Bornstein/Gourevitch 1984: 28-9). Institutionally, the finance market, industries and the state were separated; allowing therefore the segmentation of interests and the lack of state-bank led industrial strategy, similar to other countries across the British channel (Zysman 1982).

Already in 1950s, the economic growth was low due and the lack of an adequate investment to industries and the lack of any comprehensive industrial policy. This lack of investment weakened the industrial institutions and rendered the plant level as the bargaining site for employers and workers. It was clear that unions' attempted to increase their bargaining power within the labour market in two ways; first through the more capital investment in industries and second through plant-level bargaining.

Both strategies proved less successful than unions' hoped for, since the lack of any power resources at the peak level and the fall of the Labour government weakened their ability to produce a coherent plan for socio-economic development. The impact of these power relations among employers, financial capital, workers and the state would be soon exemplified in the development of the pension system.

6.4 The debated second pillar: challenging the primacy of the market

The shifting power asymmetries among the key actors were exemplified through the various attempts to regulate occupational and private pension schemes. By the 1950s and the 1960s the first signs of the pension system maturation were observed. The replacement rate of the BSP was estimated at 18-19% of average earnings (see Pilch and Woods: 1964: 120), providing thus equal benefits to the social assistance scheme. It was apparent that the BSP failed to deliver adequate income to prevent poverty among pensioners and the number of retirees that claims social assistance benefits increased to 1.1 million in 1961. In fact, social assistance claims (including pension, housing benefits) could prove more generous than the BSP (Shragge 1984). The BSP scheme failed to meet its social policy and financing aim to alleviate poverty among retirees and minimise the burden on the Treasury respectively.

The inadequacy of the BSP, however, rendered private pension schemes as a viable and attractive alternative to achieve higher income during retirement. Occupational pension schemes increased from 4.2 million in 1950 to rise by 1960 to 5.6 million pensioners and Hannah (1986:51) estimated that one third of all personal savings was transferred to the control of institutional investors²⁹ due to the grant of significant tax incentives. Schematically, the pension system had created two large categories of pensioners; middle and high-wage earners (predominantly men) enjoyed substantial more income through their BSP and occupational schemes during retirement while low-wage earners (esp. women) relied on means-testing.

²⁹ Institutional investors i.e. funds established for policy-holders, community interests (such as university or local authorities pension funds). The term 'institutional investors' can be used to describe significant capital actors such as mutual or trust funds. Further details are presented later in this chapter.

For the Conservative government this increase on the number of social assistance claimants was an additional financial burden on the public budget and for this reason, the Phillips Committee was appointed by Churchill (Glennester 2006). The committee published its proposals in 1953 and urged for an increase in retirement age for men (from 65 to 68) and women (from 60 to 63). The committee highlighted the importance of the contribution link and dismissed a higher flat-rate BSP since ‘such a pension rate would be an extravagant use of natural resources’ (Phillips 1954: 81). The committee did not oppose the 1946 Act but suggested the Conservative government an implicit privatisation of the public pension scheme through strengthening occupational schemes (Bridgen and Lowe 1998: 103). The committee’s proposals were rejected due to Conservatives’ fear of electoral costs. Still, both parties were aware of the future inadequacy of the BSP (Araki 2000) and formulated their distinct policy proposals. The examination of policy proposals provides us with a significant illustration of key actors’ attempts to exercise their power over the development of pension institutions.

6.4.1 The Labour proposals

The proposals of the Labour party working group that was chaired by Richard Crossman and based on the analysis of Richard Titmuss, Pete Townsend and Brian Able-Smith announced the revision of the BSP and a new public National Superannuation scheme that would be based upon lifetime earnings. The scheme would be universal, extending thus the coverage of occupational pension to all citizens. The financing of the scheme would remain tripartite with employers contributing 5%, employees 3% and the state 2% of earnings to the scheme. In combination with the BSP and full contributions to the Superannuation scheme would receive 50% of replacement income, extending therefore the role of public pension provision for adequate income during retirement. The scheme inserted a significant redistribution principle that favoured low-workers since it established a minimum contribution record for each participant, with high-wage earners bearing the cost.

The increase of the replacement and the extension of public pension programmes’ universal coverage was a blow for private pension providers (e.g. insurance companies), since a substantial amount of savings would be diverted to the public

scheme. Still insurance companies were unable undertake such a responsibility due to high operating costs (Pemberton 2006). Apart from insurance companies, the association of pension funds was also alarmed since Labour committee proposals aim to establish a public fund that would invest towards domestic equities (Whiteside 2006: 134) and provide export-oriented firms with a significant capital for productivity growth challenged their primacy over credit allocation (Pemberton 2008). The suggestion of the committee to hand control of the funds to ‘trustees’ did not calm the reactions’ of financial capital actors.

Effectively, the proposals of the Labour committee suggested the institutionalisation of a public earnings related scheme that would enhance redistribution and solidarity among wage-earners. While contracting out would be allowed, it would have to satisfy stringent conditions. The rationale of the Labour party was to achieve higher savings and enhance the role of the state not only as a provider of the benefits (rather than private occupational schemes) but also as an investor for national projects (Thane 2000). More importantly though, the public control of savings meant that the state could interfere more actively in the market while the contribution to the public scheme would discourage savings that could be directed to private personal plans.

The proposals of the Labour committee represented a coherent and comprehensive policy proposal that challenged the existing vested interests of the main private financial capital actors and their power over the development of the British pension system. These proposals can be realised as an attempt of the Labour party to exercise discursive power over the formation of interests and perceptions for the development of the pension system while it aimed to enhance the power of public pension funds as a tool for macro-economic growth and meeting the demands of the unions for additional investment in production firms.

6.4.2 The responses of key actors to Labour’s proposals

After the publication of Labour proposals, the Prudential Insurance company shares lost £2.4 million of their value in just four days (Schragge 1984: 93). The Association of Superannuation Pensions Funds (ASPF) and the ‘Life Office Associations’ organisation strongly opposed the establishment of a state-run scheme and organised a

counter-campaign that was lavishly financed by insurance companies. The campaign highlighted to high-wage workers that the public pension scheme would threaten their future benefits in two ways (Pemberton 2008). First the campaign undermined the redistribution element of the scheme and highlighted to existing members of private schemes that a switch to the public pension scheme, would effectively end up in financing low-wage workers' pensions. The second argument was that the introduction of the public scheme would eventually undermine occupational schemes ability to attract the necessary revenue to finance future benefits. Therefore, insurance companies strategically aimed in capitalising upon the entrenched interests of eight million members of private pensions in order to retain their power over controlling pension savings and the primacy of market-led credit allocation.

The Labour proposals were received with confusion, even from the party itself and especially both the implementers of the 1946 proposals; Beveridge regarded the scheme costly (see Harris 1997) and Bevan was concerned with the reproduction of income inequalities in retirement (Hannah 1986). The response of the organised labour was not warm either. Unions' along Bevin's argument, highlighted that the earnings-related schemes would create unequal pension benefits for workers and the architects of the Superannuation plan 'had lost sight of socialist belief' (Labour 1957: 115 in Shragge 1984). While radical unionists criticised Labour committee's proposals, the majority of union defended their established occupational pension schemes and rejected the plan (Pemberton 2008). Trade unions bargained with employers over their occupational schemes at the plant level and thus, the TUC could not agree with a compulsory scheme that would unify all occupational pension schemes since some unions managed to achieve better terms and conditions for their schemes (Glennister 2006). The lack of a centralised organised labour authority proved crucial for the preservation of the contractual logic of pensions.

Unions entered in talks with the Labour committee and the latter accepted workers' ability to preserve their occupational pension schemes as far as they met the requirements set by the Superannuation scheme. The battle was whether new entrants would be obliged to enter the Superannuation or retain their ability to contract out. For unions' the voluntary character of occupational pensions meant that new entrants in already existing schemes would finance the old members' pensions. However, the

voluntary participation of new entrants undermined the redistribution among blue and white, high and low-wage earners that the Superannuation aimed to achieve in the first place. Effectively the voluntary participation of new entrants further undermined the ability of the PAYG scheme to accumulate the necessary capital to initiate a public pension fund.

After consultation with the association of the pension funds (ASPF), the Labour party recognised that the existing private schemes would not be threatened or replaced with the state earnings-related scheme but rather complemented through the ability of all workers to contract-out of the Superannuation scheme. The proposals of Labour and insurance companies could be realised as two movements that aimed to promote redistribution and competition respectively. Essentially the final Crossman proposals were a watered down version of the original proposal and illustrated that the attempt of Labour for institutional innovation failed to transcend the power of financial capital actors in embedding competition as the prime principle for the development of the British pension system.

6.4.3 The introduction of the ‘State Graduated Scheme’

“The SGS was a more of a fancy book-keeping device for the exchequer and a stimulus to private pension plans than a bill aimed at adequate provision for retired workers” (Schragge 1984: 98)

In 1959, the Conservative government addressed the need for a more adequate income during retirement years but feared that a state earnings-related component would undermine the role of the private sector. Despite the initial deadlocks due to the conflicting proposals of the Ministry of Pensions and the Treasury office, the political appeal of Labour party’s committee and the inadequacy of the BSP plan necessitated a pension reform. The Conservative party supported the idea of a compulsory private solution (Bridgen 2000) but the costs of operating such an extensive scheme remained high for any private providers. The Treasury suggested that the flat-rate contribution rate of the BSP should under no circumstance be allowed to create substantial burden on the public budget. The original proposals of the Minister of Pensions (John Boyd-Carpenter) fully endorsed the Life Offices’ Association of insurers proposals that recommended among others that state earnings-related scheme could play an auxiliary

role for the growth of private contracts (for details see Bridgen and Rowe 1998:104-112). For insurers, a modest earnings-related state scheme was welcomed as far as it relieved private sector from unprofitable contracts (with low-wage earners) and through public regulation could guaranteed the attractiveness of the private schemes for medium and high-wage earners.

After intense negotiations with the Ministry of Labour Affairs, the Treasury and insurance companies, the Conservative government introduced the *State Graduated Scheme* (SGS). The Minister of Pensions and the Chancellor of the Exchequer agreed that the new scheme would provide both incentives as well as responsibilities to occupational pension funds but in principle remained an auxiliary scheme that favoured private pension providers. The SGS provided a DB pension scheme but in stark contrast with Labour's proposal, the benefits was not indexed with any increase of inflation or wages, securing thus that employers would be able satisfy the conditions for contracting out (MPNI 1959, Lynes 1969). The scheme strategically promoted wage-earners' reliance on private providers through narrowing the earnings range for workers that are able to participate, allowing middle and high-wage workers to maintain their occupational pension schemes.

On its behalf, the Treasury achieved its aim to contribute only a lump sum for the enactment of scheme while the contributions were shared equally by employers and workers, estimated at 8.5% of average income on top of the national insurance contributions. The Treasury was successful not only in establishing a funding principle that would not be a serious burden on the public budget, it was also able to collect the new savings channelled to the SGS scheme and therefore use this money to cover the rising costs from the maturation of the BSP. Apart from the funding principles of the scheme, the Treasury realised the SGS as an opportunity to exercise its discursive power over the undermining of the universality principle of the social insurance scheme (i.e. BSP).

“The growth of private pension schemes is to be encouraged; it produces social stability. In the long run, moreover, it should reduce the individual's dependence on the Government scheme and perhaps even enable the Government to get away from the expensive doctrine of ‘universality’-and perhaps lead to the adoption of benefit payments according to need” (Treasury Memo 1960 quoted in Whiteside 2003:23).

The introduction of the SGS represented an outcome of power a struggle among the key actors since it institutionalised an earnings-related public scheme that favoured the channelling of pension to private providers. The scheme reflected the power imbalances among the key actors and how financial capital actors exercised their power through the governance of the pension reform in order to strengthen their role and control over pension savings. Insurance and pension funds associations played a crucial role for the demise of Labour's proposals and the introduction of the Conservatives' plan. In fact the Conservative plan included the creation of a public pension fund but this time private financial actors' did not oppose it since there was no plan for the creation of a surplus in the scheme (Schragge 1984: 98). At the same time, unions' failure to transcend the fragmentation of interests, continued to embed wage-earners within the contractual logic of private pensions schemes.

6.4.4 Critical reflection on the power asymmetries and the attempt of Labour to promote a different logic for instituting pensions

The original proposal of the Labour party's committee was an attempt that aimed to combine redistribution among wage-earners and shift pension savings towards industrial investment. The pooling of savings and interests under the Superannuation scheme allowed differentiation among pension benefits and enhanced the solidarity among social groups. These aims contrasted with the interests of high-wage earners and the already 8 million workers that developed their occupational schemes. Titmuss' proposals showed how the fragmentation of unions' interests prevented the expansion of the public schemes. More importantly, unions did not realise the plan as an opportunity to pool their power resources and turn the public pension system and pension funds into a channel of power that could enhance wage-earners solidarity and meet unions' demands for more investment in industries and job expansion. Unions' preference of maintaining the contractual relationships with occupational pension schemes meant the rejection of a publicly controlled alternative. This rejection exemplified that despite Labour's attempts, unions opted to maintain the logic of contractual pensions and reproduce the primacy of private pension providers and their interests over the development of the pension system. Effectively, the pension system retained its liberal path that provided social assistance benefits for the low-income groups and rendered pensions as a financial contract for high-income groups

The formulation of the pension agenda was an immense debate between the attempts of Labour's proposals to challenge the primacy of market institutions and the counterattack of private financial actors to render pensions' governance independent of any political control and promote individualism over redistribution. As an outcome of these power struggles over the control and channelling of pension savings and the redistribution of the public schemes, the British pension system was 'locked in' the logic and practices of financial capital interests. In fact insurers and pension funds were able to embed workers since the latter realised their interests within a logic of pension funds governance that was under private control and promoted financial investments (see table 6.1). The governance of the pension reform shows that insurance companies, pension funds' associations and the Treasury were able to prioritise their interests for future pension policy development.

Table 6.1: Governing the State Graduate Scheme

<i>Who is recognised to govern?</i>	Public and private financial actors (Life Offices', APSF, Treasury), Political parties
<i>Modes of governing</i>	Market liberal practices, not part of collective bargaining
<i>What is to be governed?</i>	Pensions as a social assistance for the low-income and as a financial contract for the high-income groups
<i>Power of the unions</i>	Structural : Lack of power resources at the peak level Relational: Power at the plant level(bargaining) Discursive: Strategically endorsed the contractual relation in pensions

Rather than isolating policy development of political parties or focusing in one institutional domain, the approach taken here emphasises the role of key actors and their power to shape the future of the British pension system. The role of asymmetrical power relations among key actors and the lack of coordination among unions, the embedded interests of financial capital and the perpetuation of plant level bargaining proved crucial for lost alternatives and the reproduction of contractual relations. The existing literature on pension development emphasises the political parties or state actors (e.g Hecló 1974, Pierson 1994, Pemberton 2006) as the

determinants of the pension development. However if this was the case, then how can we adequately explain the counter-campaign that insurance companies organised and financed against Labour's proposal, while the latter were not even in power at the time. More importantly, how can we understand the watering down of the original Labour proposals to comfort the worries of private pension providers? The argument put forward here is that this counter-campaign was a strategic attempt of the private financial capital actors to exercise their structural and discursive power for the reproduction of contractual relations and the embedding of workers within a discourse that did not render any politically controlled fund as a viable alternative.

6.5 Challenging socio-economic institutions: pension development in the 60s and 70s

The British 60s and 70s were marked by a struggle among labour and capital in challenging and shaping the institutions of the British market economy. This was exemplified in the attempts of Labour to establish public financial institutions that would promote the productivity growth and meet the interests of the unions' for more adequate investment and job expansion. Apart from enhancing industrial investment, Labour attempted to institutionalise a new pension scheme that revived part of Superannuation proposals. The chapter continues to examine the power asymmetries among key actors as well as their strategies over socio-economic development and pension reforms.

6.5.1 Contesting the primacy of financial interests for socio-economic development

If in the early 1950s trade unions invoked their support to Labour, by the end of the 1950s they realised that neither the Conservatives would forward the agenda of an industrial policy. Therefore the support of the Labour party and the election of Harold Wilson's government in 1964 spread new hopes among organised labour. Labour tried to counterbalance the power of Treasury with the creation of the new Ministries of Industry and the Department of Economic Affairs. The role of the latter was to promote the interests of the industry in economic policy making and sideline the financial capital interests of the Treasury (Zysman 1982: 214-5). However these new

institutions and Ministries lacked any financial resources to formulate new strategies or any power to overcome the obstacles that the Treasury and the City of London posed over the priorities of socio-economic development.

By the end of the 1960s, the economy was on turmoil and the pound suffered a series of runs. Despite the pressures of Labour party members for devaluation, the Labour administration defended the currency and restored the positive balance of payments (Schragge 1984). The government received \$14million from the IMF, which in return demanded low inflation rates and public spending. The Labour government followed the deflationary economic policy and managed to achieve positive trade balance by 1969, at the expense though of rising unemployment. It was clear that the Labour government was embedded within the socio-economic context that prioritised the interests of the City and the preservation of the international role of the Pound as a reserve currency (Longstreth 1979).

Apart from protecting financial interests, the Labour government attempted to challenge the power of unions in shop-floor level bargaining to achieve higher wage increases than the official recommendations. The plan as proposed by Minister Barbara Castle and Prime Minister Harold Wilson was not received with enthusiasm even among the members of the Cabinet. However, the attempt of the Labour government to tame the power and the demands of the unions' in order to maintain their deflationary policies, was indicative of the ability of financial capital actors to embed all key actors into a discursive framework that rendered the primacy of the pound as a point of reference for the formulation of future policy-making. Indicative of the shifting priorities within the Labour party was their attempt to reform the existing pension institutions.

6.5.2 The importance of the institutional legacy in framing the policy debate

The return of Labour in power was not only realised as an opportunity to enhance productivity investment but also to meet the challenges that the SGS scheme produced; the 'two states' in pension provision. The SGS institutionalised that high-wage earners would receive higher income during retirement through occupational schemes while low-wage workers and especially women with insufficient contribution

record would have to rely on means-testing. By 1967, out of 6.4 million pensioners, 1.3 million relied on supplementary pension and 1.5 million pensioners were just above the poverty line (see Kincaid 1968).

The eroding values of the BSP due to inflation increases undermined the adequacy of the benefit and therefore a new political debate enacted. Despite the fact that social security and pension reforms were at the heart of Labour's electoral campaign and 1964 manifesto (Craig 1975:265), Crossman was aware that an increase in the value of the BSP as the previous proposal suggested, necessitated higher contribution rates. The declining position of British exports pre-empted the possibility of increasing employers' contribution rates since it would harm employers' interests and it would be at odds with the attempt of the Labour attempts to boost exports.

At the same time, the growth of occupational schemes placed the governance of the pension system within a path that financial services and private pension providers could not be ignored. As Richard Crossman, head of the Labour's proposals back in the 1950s and the Secretary of the Department of Health and Social Security that was established in 1968, admitted

“it was obvious that if we introduced our scheme without any provision for contracting out, all the good private schemes would have to be cancelled and there would be a terrible row... They would tell their members that the wicked Labour government was depriving them of their pensions. This was politically very dangerous indeed... So I announced we wanted a genuine partnership between public and private pensioning” (Crossman 1972 quoted in Whiteside 2003:30).

The aim to achieve 'genuine partnership' was already stated in 1963 electoral manifesto, where Labour acknowledged the key role of the trust funds in "help(ing) our national capital investment programme" (Labour Party 1963, cited in Whiteside 2003:28). Politically, the acceptance of the basic premises of the private pension and market actors even by the Labour party is indicative of the attempt to address wider class interests than just workers (Hinton 1983). Still, the reproduction of the contractual relations in pension provision allowed financial market actors to exercise their power through a discursive framework that constrained any alternatives other than the reliance on private schemes.

The new Crossman plans were a watered-down version of his earlier proposals since redistribution was kept at a minimum level. The new Labour proposals did not require additional funding by the Treasury, sparking thus the opposition of public white-collar workers (NALGO) for retaining the 18% of total contribution principle intact (Kincaid 1970). The government entered in negotiations with the CBI and the insurance companies but despite their participation in the consultation process financial services organised a counter-campaign called STOP (Save The Occupational Pensions) to increase their bargaining power over the contracting out terms (Hannah 1983 : 60). This campaign exemplified the strategical attempt of financial services to prevent the creation of a discursive framework over the extension of public provision and secure the role of the market as the most effective tool for governing pension schemes.

After the negotiation process and the opposition of insurance companies, the new elections brought the Conservatives in power and the Crossman plans were abandoned. The development of the British pension system was at the heart of the power struggle of private vested interests in pension provision and the attempt of Labour to transcend the importance of private capital actors and enhance the role of the public state schemes. However, insurance companies played a crucial role in the governance of the pension system through their ability to mobilise and secure favourable terms and conditions in pension provision.

6.5.3 The failure of socio-economic policies to tame unions' power and the 'social contract' between unions and Labour

The return of the Conservatives came along with an attempt to undermine unions' power at the plant level, reform welfare institutions and liberalise credit markets. The introduction of the 1971 Industrial Relations Act imposed limits to workers' strikes and triggered unions' militancy through a series of massive strikes and demonstrations (Sassoon 1996). While Heath entered in negotiations with the unions, a move that Conservatives pro-liberal market backbenchers (notably Mrs Thatcher) strongly criticised, wage moderation came along with a time that the economy was boosted through the liberalisation of the credit markets. The falling unemployment rates shifted employers to offer significance substantial wage-drift to workers. Effectively

what Heath tried to achieve was to establish a voluntary agreements among unions, employers and financial capital and allow the market to govern socio-economic relations.

The failure of Heath administration was that his economic policy relied on the steering of voluntary economic behaviour that was not guaranteed by any bargained institutional settlement (Rhodes 2000). Effectively the lack of consensus or industrial bargaining rendered the British economy vulnerable in setting wages since neither TUC or CBI could exercise significant discipline over its members and wage drifts were a common output of shop-floor bargaining. The failure of the socio-economic policies was much a failure of the British socio-economic relations to establish institutions that could bargain a settlement among key actors in times of economic crisis.

After the attack of the Heath government on unions' power, TUC signed a 'social contract' before the 1974 elections with Labour. The contract referred to the continuation of Keynesian policies such as demand management, welfare spending and investment on industries at the expense of a voluntary income wage restraint on behalf of unions. The contract set a left-wing agenda and Labour party regained power in 1974. The return of Labour at helm signalled a series of attempts to challenge the primacy of the market institutions though public financial institutions, the introduction of conciliation board in industrial relations and a new earning-related pension scheme. However, all these institutional transformations aimed to enhance the power of unions in industrial relations and challenge the primacy of market institutions over shaping socio-economic policy. Ironically, all these demands occurred during the international financial crisis and a British economy that trembled between a large trade deficit and an unstable currency value.

Labour and TUC aimed to transform the National Enterprise Board (NEB) as a financial mechanism that would gain shares of industries and export-oriented firms as a way to boost productivity growth. The interference of the publicly controlled board over the allocation of investment met the resistance of capital actors and soon the Treasury curtailed NEB's budget and confined it to buy shares from declining British industries (e.g. automobiles). While the long-lasting demands of unions' for the

implementation of an industrial investment plan was postponed by Labour's leadership, the government abolished the Industrial Relations Act of 1971 and initiated a conciliation board (Advisory Conciliation and Arbitration Service –ACAS) that provided unions with certain powers over employment conditions and layoffs. Aside the lack of an investment policy, the first 18months of Labour's term satisfied all other key aspects of the social contract and the changes in the pension institutions epitomised the common ground between unions and Labour over the enhancement of the public pension provision.

6.5.3 The introduction of SERPS

Within the terms of the 'social contract' signed between TUC and the Labour party, unions demands evolved around four policy developments:

- ✚ The establishment of a generous minimum guaranteed pension indexed either prices or inflation.
- ✚ The burden of welfare state expansion would be transferred to the Treasury and employers.
- ✚ The new pension scheme would be based on equality and enhance income redistribution.
- ✚ The equal representation of unions and employers in occupational pension scheme boards.

Within the first eleven days of its election, Labour introduced the 1975 Social Security Act that indexed BSP benefit with price and earnings increases, increasing therefore the generosity of the benefit and lifted a number of pensioners out of poverty. Apart from increasing the generosity of the BSP, Labour replaced SGS³⁰ with the State Earnings Related Pension Scheme (SERPS). Barbara Castle, the Minister responsible for the introduction of SERPS aimed to expand the coverage of the public schemes and establish public occupational scheme as attractive alternative to private occupational pensions' dissolving thus "the two nations" in pension provision.

³⁰ The state graduate scheme was not abolished and it won't be until the last beneficiary dies.

The scheme would provide a full benefit after full 20 years of contribution and was financed by employers, employees and the Treasury. Employers and employees had to pay 16.5% of gross wages, with 10% of this paid by employers and 6.5% by the workers. The Treasury provided an 18% share of the total amount of contributions. Contracting out was allowed only to DB plans that could guarantee a minimum income to pensioners, indexed to average working income (Shragge 1984). ‘Contracting out’ followed more tight rules but the government provided also the opportunity to employers though increased tax rebate to ‘contract back in’ to the new public earnings’ scheme (Sass 2006).

The Labour scheme did not crowd out and the private alternatives neither it did challenge their investments strategy or the control of the private pension schemes. In fact, insurance companies did not strongly oppose the scheme. This was due to the crash of real estate values and industries productivity, affecting thus seriously the financing of the pension funds. While inflation peaked in 1975, private providers were not able to match the inflation-protected benefits of the public scheme and the financial services industry was one step from meltdown since the funds could not meet the contracting-out requirements of SERPS. With financial services and pension funds on the edge of collapsing, Barbara Castle accepted that the state would be responsible for covering the cost for inflation-proof benefits, for all occupational schemes that would not be able to match their the rise of inflation.

Therefore financial services and insurance companies did not raise any major concerns since the state provided its assurances for the benefits generosity and effectively enhanced the institutional reproduction of the role of occupational provision and the role of pension funds within the economy. The Conservatives approved of the Castle plan since they regarded it as a ‘tidying up’ plan that simplified the pension landscape.

“We have made it clear that we can accept the compromise reached last year. After years of chop and change, it is important to have a period of stability. Nevertheless, we reserve the right to improve the contracting-out arrangements so that the terms enable the pension industry to operate as effectively as it can” (Conservative Party campaign guide 1977: 426 quoted in Shragge 1984: 149).

The only key actor that retained their worries over the development of the pension system were the unions, since the TUC demanded higher contribution rates from the Treasury and strengthening the redistribution principle of SERPS. Most importantly, the ability of unions to participate in the governance of the pension system through their position on occupational pension board was not fulfilled. Labour's proposal in 1976 to establish an equal representation of trade unions and employers representatives in occupational schemes board was abolished as 'socialisation outcry' in an already tensed political and economically unstable institutional context.

Table 6.2: Governing the State Earnings Related Pension Scheme

<i>Who is recognised to govern?</i>	Political parties, Public and private financial actors
<i>Modes of governing</i>	Party proposals, labour market, financial contracts
<i>What is to be governed?</i>	Pensions as a deferred wage and as a financial investment
<i>Power of the unions</i>	Structural: lack of power over the governance of the pension funds
	Relational: Expressed in party politics via Labour and at the plant level
	Discursive: Over the formulation of the social contract agenda

Ultimately Labour's aim was to institutionalise a wider coverage and increase the generosity of the pension schemes. SERPS thus did not overturn the logic of contribution link and the reliance on the labour market but provided wider coverage and tougher regulations on private schemes. The state allowed occupational funds to retain their role by providing state assurance for possible insolvency and relieving employers from the cost of inflation. Effectively SEPRS safeguarded the reproduction of private and occupational pension by providing a tighter regulatory framework that was not however realised as a burden by private providers since the cost of inflation-proofed benefits was transferred to the public budget. In terms of stratification, SERPS rendered occupational and private scheme still popular for middle and high-wage earners since their benefits would be increased and the cost of this would be covered by taxpayers.

The governance of the pension system (see table 6.2) was still realised within the discursive reality that prioritised financial interests but also addressed the inadequacy of the public pension system. The BSP and SERPS provided inflation-proofed benefits that alleviated poverty during old age and strengthened the importance of the contribution link for the building of pension claims. Effectively the Social Security Act shifted the policy aim of the public pension institutions and aimed to provide pensioners similar income replacement levels as the working population, rendering thus pensions as deferred wage since even low-wage workers were entitled a pension benefit similar to average workers' income. Still the Act did not crowd out the signing of occupational and personal pension schemes. Unions were not able to increase their power over the development of the pension system but through the signing of the social contract they were able to increase the generosity of the pension benefits without crowding out middle and high-income workers' occupational schemes.

6.6 The attack on unions': Locking in' socio-economic interests

The break of the international economic crisis in the 1970s hit severely the British economy. Inflation reached 27% in 1976 and remained at 14% through out the rest of the decade while unemployment climbed for 1.2 million workers (Schragge 1984: 114) and actual GDP decreased (Bornstein/Gourevitch 1984: 46-7). In 1975, the British pound was attacked and there was not much trust from international financial actors that Labour could weather the economic storm. The International Monetary Fund provided a \$3900 million loan to the government and in response, IMF imposed strict monetarism and low inflation rates as the top priority for the Labour government and at the expense of unemployment levels. Effectively, international and domestic financial capital interests through the prioritisation of sound finance and liberal market policies in financial markets not only managed to protect the currency but more importantly attempted to consolidate the primacy of the market mechanism at the expense of political or wage bargaining for the governance of socio-economic relations. These pro-liberal market policies received strong support by the new leadership of the Conservatives party in its aims to tame unions' demands and power.

On their behalf, unions' accepted inflation as key problem but remained reluctant to accept that it was more important than the increasing levels of unemployment. The 1978 income policy limited wage increases below the levels that unions demanded. The 5% wage increase triggered a period of mobilisation and soon the battle over the determination of the British political economy would be marked by the increasing militancy of the British workers. These conditions found organised labour at its peak of membership rates and power resources. By 1979, TUC provided coverage for 90% of all trade unions, (historically the highest coverage ever achieved) and counted 13.3 million members (see Waddington 2000).

In 1978, rank-and-file members were disappointed with the austerity measures of the Labour government. Labour government managed to lower substantially inflation rates at the expense of high unemployment figures. Political pressures from the City of London, the IMF, the Treasury office and the financial media pushed the Labour government to pursue the protection of the Sterling and low inflation as its main target at the expense of unemployment levels. The radicalisation of the labour movement and the lack of support in the Labour government triggered serious tension among unions and the Cabinet office. During the 'winter of discontent' of 1978-9 unions in transport, mining, engineering, schools, hospitals, local governments went on strike. Militancy and the increasing number of strikes met the discomfort of the British public that despite the efforts of Labour and unions to play down their differences in 1979, the Conservatives returned to power.

The Thatcher administration strategically aimed in weakening the ability of organised labour to raise power resources and unions' relational power over the governance of British socio-economic growth. With the Employment Acts of 1980 and 1982, the Conservative government curtailed the ability of trade unions to mobilise resources, undermined industrial action and enhanced the ability of employers (prerogative) to layoff. The new government opted to develop a strict monetarist economic policy that emphasised on the preservation of low inflation and sound finance as its prime aims, while it established market control over wages and welfare provision. The advancement of the neo-liberal economic policies was supported by the changes in the tax system that redistributed money from the poor back to the rich (Mishra 1990, Agulnik and Le Grand 1998). The deflationary economic policies and the

strengthening of the Pound through high interest and exchange rates brought industries in a standstill, with unemployment levels soaring to reach 12 of the working population.

In response to Thatcher's attempt to seize the unions' savings and minimise their power at the plant level, the miners attempted to attain control over their pension funds only to meet the resistance of both the government and the employers. The peak of the political battle of trade unions and the Thatcher government was the Coal Miners strike in 1984/1985 where Thatcher showed her determination to break any power of unions. This lost battle for organised labour not only signalled the declining power of unions' but also pre-empted the ability of unions' to raise significant power resources in the future. Thatcher's attempt was strategic and aimed in reducing the power resources of the unions' through anti-union laws and institutionalised the exclusion of unions' from the governance of socio-economic development. These changes in power asymmetries ultimately rendered the neo-liberal market economic principles for organising social life as the dominant mode of instituting social life.

6.6.1 Pensions during neo-liberalism

While major shifts in terms of power asymmetries over the governance of socio-economic development took place, the new government aimed in weakening the role of the public schemes in pension provision and strengthen the role of private financial actors and private alternatives. Due to the popularity of the previous reforms that increased the generosity of the BSP and the extended the coverage of the public earnings-related scheme, any direct attack on the schemes endangered electoral costs. However due to the rising unemployment rates, a lot of workers were not able to maintain their occupational pension schemes and contracted back in SERPS and soon 'early leavers' became a crucial problem for the financing of the public pension scheme.

The initial response of the Thatcher government during its first electoral term was cautious and mainly focused on enhancing the role of individual rights and responsibilities. This ideologically-driven strategy came in conjunction with the

publications from several think-tanks and policy committees in 1982-83. The Adam Smith Institute (ASI 1983) brochure 'Privatising Pensions' and the Central Policy Review Staff (CPRS) argued in favour of replacing SEPRS with private pensions while, another neo-liberal think-tank, the Centre for Policy Studies (CPS 1983) as well as the National Association of Pension Funds (NAPF) did not unilaterally dismiss SEPRS but were more concerned with the costs that inflation bared on pensions and advocated the enhancement of personal choice (Nisbett 1995). While Thatcher originally endorsed the proposals of the CPRS, she immediately prevented their wide publication due to her fears for electoral costs.

The initial attempt of the PM Thatcher and the Treasury secretary Nigel Lawson to dismantle SERPS provoked opposition not only among CBI and the unions but also raised the concern of NAPF and life insurance companies (HMSO 1984). The political ideology of neo-liberalism through 'possessive individualism' (Beland 2005) was not welcomed by the Confederation of the British Industry. The latter remained reluctant to support the new schemes and the reliance on speculative investment (CBI 1985 in Waine 2006: 224). The rejection of CBI cannot only be attributed to the creation of two schemes that employers would have to contribute (see Bonoli 2000) but also that SERPS provided a regulation of occupational funds. On their behalf, the financial services opposed the responsibility of providing personal schemes to low-income workers due to lower profitability margins.

Instead of replacing SERPS, the White Paper 'Programme for Action' (DHSS 1985a) reduced substantially its replacement rate by shifting the calculation formula from the best 20 years to lifetime earnings and reduced the maximum average income replacement rate from 25% to 20% (Bonoli 2000: 72). Essentially the government strategically undermined SERPS in order to re-direct pensioners' savings towards private personal schemes. In order to consolidate this shift in 1986, Norman Fowler chaired a committee on personal pensions. The members of the committee included among others, representatives from insurance companies and financial managers, with CBI and TUC representatives absent. The outputs of this committee were incorporated in the 1986 Social Security Act that allowed members of SERPS to contact out to private pension schemes while new workers were not allowed to be contracted in SEPRS. The 1986 Act liberalised the conditions for the private pensions

provision since building societies, friendly societies, merchant banks were now allowed to offer private pensions. However, not all these actors were well-prepared to undertake such a responsibility, neither were they to provide immediate financial products to attract future pensioners.

More incentives for the contacting of pension schemes were provided by 1987 Personal and Occupational Pension Schemes Regulation Act provided 2% tax rebate to pensioners' contributions (Blake 2000). In order to render personal pension schemes more attractive to employers, the government provided a 3.8% tax rebate of National Insurance contributions for all employees contracted in personal schemes. The government was surprised by the number of personal pension contracts that switched from SERPS to personal pensions (originally 4 million plans), exploding thus the cost of the tax rebates to £9.3 billion (Nisbett 1994).

In 1988 the conservative government abolished the compulsory participation of the employee in the employer occupational scheme. In a time of high unemployment levels and the low inflation, final salary schemes became unnecessary and costly to employers. The government supported the closure of final salary schemes and actively promoted money purchase (defined contributions) schemes. From 1988 employees could choose to create their own *Approved Personal Pensions* (APP) and the government provided tax rebate on National Insurance contributions. It is interesting to note here that all these tax rebates effectively came in contradiction with the zero-contribution principle that the Treasury strongly advocated during the process of pension policy making. The question why the Treasury accepted such a burden can be identified on the ideological and political attempt to strengthen neo-liberal policies of personal freedom and market based-solutions that empowered private pension providers.

6.6.2 Critical reflection on the power asymmetries and the attempt of Labour to promote a different logic for instituting pensions

The institutional changes that took place within the British system and under the Thatcher era did not represent merely cutbacks on social programmes but more importantly aimed in weakening the role of the public and collective pension

programmes in favour of private personal schemes. With the 1985 pension reform, Conservatives strategically imperilled the generosity of SERPS and its capacity to meet future pension demands, causing therefore an 'institutional drift'. This 'implicit privatisation' as Pierson (1994) puts it, promoted the role of the market and weakened the political and financial support of middle-income groups to state earnings-related scheme and shifted savings to the private financial actors.

The empowering of the personal freedom within the market was expressed among think tanks, policy committees' members but ultimately they main aim was to institutionalise the logic of the self-regulated markets as the dominant principle and pensioners as financial actors that would seek to maximise their profits. The effects of instituting such a logic was important in demising the already existing collective schemes and the formation of common interests among workers; instead it institutionalised individuality and competition among pension actors. Indicative of this attempt to institutionalise a different logic for the development of the pension schemes was the burden that Treasury accepted in order to ensure the growth of personal pensions. Effectively with the 1986 SSA, Thatcher attempted to institutionalise a market for pension provision, whereas only people that are contributing to private schemes would be able to be rewarded, transferring exclusively the responsibility and the risk of poverty during retirement to individuals.

The public programmes not only retreated to a residual welfare system but also strategically aimed to render pensioners as financial investors and pensions as a financial product. The neo-liberal element on Thatcher policies' was that the government institutionally pre-empted the ability of workers to collectively control their savings and at the same time provided significant tax subsidies for enhancing personal choice with then a market of pension providers.

The governance of the pension schemes was dominated by the market liberal actors such as think tanks and research institutes that had tight links with insurance companies and pension funds managers (see table 6.3). Indicative of their power and the strategy of the Thatcher administration was the appointment of policy committee that did not include any representatives from the employers and more important from the pensioners' themselves, whether this meant pension groups or the TUC. Thatcher

strategically aimed in excluding TUC from the governance of the pension schemes, while the neo-liberal think tanks and proposals that dominated discursively the framework for the development of the pension policies advocated neo-liberal market policies that aimed to render pensions as a financial market and every pensioner as a financial investor.

Table 6.3: The governance of the pension system during the 1980s

<i>Who is recognised to govern?</i>	Neo-liberal advocates, think-tanks, private financial capital actors
<i>Modes of governing</i>	Expert committees, financial market practices, individualism
<i>What is to be governed?</i>	Pensions as personal investment opportunity
<i>Power of the unions</i>	Structural :Lack of any power over the governance of the pension system, Relational: weakening bargaining power at the plant level Discursive: excluded from the committee

In his seminal work Pierson (1994), attributes political parties’ ‘blame avoidance’ policies as the main determinants for the curtailment of social programs. However, this perspective downplays power relations and adopts a narrow view for the governance of the pension system. The ‘new politics of the welfare state’ (NPWS) approach prioritised politician’s short-term political horizon (Pemberton 2006), but neglected the importance of neo-liberal financial market actors and their role in pension provision. With the undermining of the BSP, SERPS and collective occupational schemes, Thatcher attempted not only to implement cutbacks but more importantly institutionalise a new mode of instituting power relations for the governance of the pension system. If cutbacks were the main aim of Thatcher then why would the Treasury accept to provide such generous subsidies?

The NPWS approach therefore is able to capture the attempts to cutback on institutionalised welfare programmes but neglects the importance of shaping the future of the institutional landscape and the attempt of the Thatcher government to institutionalise a new instituting logic over the development of the pension system.

The effects of the Thatcher policies were significantly played down by Pierson and the NPWS approach since these reforms not only transformed the welfare institutions but mainly affected the stratification and the shaping of interests since workers were transformed from ‘collective industrial actors’ into ‘individual investment decision-makers’ (Nisbett 1994: 117). The promotion of personal stakes in the market, the reliance on private actors, and the shift of responsibility from the state or the employer to the individual was accompanied with a deconstruction of collective schemes that set in motion a mode of instituting that embedded neo-liberal interests and practices as the main logic of the British pension system. This logic was conclusive in its aim to weaken the role of the unions and should be realised historically as an attempt to restore the power of employers in industrial relations and demise any collective attempt of workers to exercise control over socio-economic growth.

6.6.3 The governance of “pension funds capitalism”

The growth of company pensions represented a substantial collection of savings and capital accumulated at the hands of private actors. The growth of these funds requires special attention in terms of how the savings are channelled to the pension schemes, who controls the pension funds’ investment and what are the implication in terms of power relation not only within the governance of the pension funds but also their role as financial actors within the economy.

The development of the privately controlled pension funds disproportionately favoured middle and high-income workers who benefited from generous tax exemptions and regulations (Sinfield 2000). The growth of company schemes and the channelling of savings represented the accumulation of a substantial capital that is under the control of private capital actors. The nominal owners of the savings (i.e. pensioners) were not able to exercise any control over the funds and the investment decision-making. The decision for investment was under the discretion of financial advisors since the employees did not have any legal stake apart from appointing, along with employers, trust board members (Minns 1980). This artificial separation between nominal ownership and control of the funds, pre-empted the politicisation of pension savings investment and illustrated the logic of financial capital system, through the rationale that pension are commodities and they should be treated as such.

This mode of governance transferred pension funds' control to the logic of financial market and hindered the politicisation of decision making and the availability of alternative investments (e.g. social, community) from public debate. More importantly pension schemes departed from their primary aim of providing adequate income and were locked within a path that highlighted high returns from investment.

Table 6.4: The governance of British pension funds

	Occupational schemes	Insurance companies
<i>Who controls</i>	Trustees- Private managers	Private managers
<i>Savings channelled</i>	Trust funds	Insurance companies
<i>Investment towards</i>	Financial capital	Financial capital
<i>Investment in</i>	Restricted investment on parent company, real-estate	Fixed income securities (i.e. government bonds)
<i>Aim</i>	Profit-making	Profit-making
<i>Power of unions</i>	Participation in trust board, no power to shape investment-policy making	None

Pension funds, either in the form of trust funds or insurance companies' plans created strong domestic actors and competition merged and established powerful actors in the financial market (see table 6.4). The National Association of Pension Funds (NAPF) and the Association of British Insurers (ABI) represent powerful actors for the governance of the British pension system. Historically financial services were able to create significant power resources through the contracting of private schemes, providing thus the ability to capitalise upon their resources and contracts to exercise their power over the determination of the pension system and pension funds' governance. Even during Labour governments, insurance companies' participated in the process and of the decision-making and were recognised as a key actor for the

governance of the pension system, in stark contrast with unions that remained excluded from the policy-pension process during the Conservatives reforms.

The lack of restriction especially under the Thatcher government enabled the funds to invest internationally. Pension insurance companies as well as trust funds experienced a tremendous growth with total pension funds assets in UK reaching 93% of the proportion of the British Gross Domestic Product (GDP). The ability of pension funds to control such great assets has rendered them as institutional investors or as Clark (2000) has named it, the cornerstones of 'pension fund capitalism'. British funds direct their 80% of their investment in equities, from which one fifth is directed to international stock markets (Clark 2000). The returns of the funds depend heavily on the performance of domestic and international stock market.

The several failures of the financial markets are realised within the perspective of the 'pension fund capitalism' (Clark 2000) as problems of information and restrictions upon investment decision making. The under-performance of trust funds between 1973 and 1995 was to be blamed on portfolio restrictions that managers were facing (Blake and Timmerman 1998) or due to information asymmetries. However, as Minns (1980) showed the gap between trustees and beneficiaries is not to be attributed to the lack of information or coordinated action alone but mostly on the process of investment in total where the nominal owners lack substantial power to shape the invest policy-making. This lack of power was exemplified in the inability of unions to achieve majority on the trust boards and in their failure to provide an alternative investment policy.

6.6.4 Regulating neo-liberalism: The Major Government

After an era of strict monetarism and neo-liberal policies, the Major government inherited an economy that lost 40% of manufacturing jobs, with high unemployment and a lower average income comparatively to other advanced countries (Blackburn 2002). The low economic growth and the stagnation of capital investment had caused serious problems in the British economy that in 1992 received the blow of the European Exchange rate Mechanism with the ejection of the British pound from the exchange agreement. Apart from rising unemployment and poverty levels among

pensioners, the Major government had to deal with two major scandals in pension provision; the ‘mis-selling’ and ‘Maxwell’ scandals. In the first case, 500.000 members of occupational schemes switched to personal pension plans based on wrong and misleading marketing adverts, while in the latter case Robert Maxwell invested the savings of his company scheme to boost his shareholder value.

In order to deal with these problems, the Major government assigned an expert committee to produce proposals for tighter regulation of the pensions’ market. The ‘Goode committee’ (named after his chairman) did not question the market-led principles of pension funds governance neither empowered the role of the schemes’ nominal owners to control their savings (Mullard 1995: 211). The ‘Goode committee’ suggested the current ‘trust law’ needed no major revision and recommended among others, the creation of a supervisory authority of the existing legal framework (see Fawcett 2002). The government followed the committee’s proposals and introduced the Occupational Pension Regulatory Authority (OPRA) that along with the Financial Services Authority (FSA) regulated occupational pension schemes.

The Pensions Act of 1995 established the *Minimum Funding Requirement* (MFR) that would be used as a compensation fund in case a company bankrupts (Blake 2003: 345) and also established the *Statement of Investment Principles* (SIP) to monitor the assets against liabilities (Blake 2000: 227). The MFR estimated a fixed allocation in equities and government bonds as a benchmark for investment and CBI was mostly worried for the additional burden that employers would pay since

“many pension schemes are following significantly different investment strategies from those which they would otherwise adopt, with substantially lower levels of investment in asset categories such as venture capital and emerging markets” (CBI 2001: 3).

In response to these pressures, the Major government abolished the inflation-proof indexation link that SERPS imposed on contracted out schemes, reducing thus employers and insurers financial obligations. Effectively the Major government maintained the neo-liberal legacy since through the introduction independent financial regulators for occupational pension schemes, exemplifying thus how pensions were still realised primarily as an purely economic product separable from political control.

6.7 The coming of the New Labour

The coming of the 'New Labour' in government did not mean a departure from the neo-liberal policy agenda. In fact, New Labour disjuncted the coalition with TUC and repositioned their political repertoire towards the 'Third Way' i.e. the acceptance of the 'free markets' and 'individual responsibility' (see Giddens 1998). New Labour did not retract the anti-union legislation but introduced a consultation with social partners and an Employment Act that allow firms with at least 20 workers to vote for union representation. While New Labour's economic and tax policies did not depart significantly from the scope and the logic of neo-liberal labour market policies that the Thatcher administration launched, it introduced a minimum wage and guaranteed work for youth unemployed. Still, the establishment of the minimum wage should be realised as an attempt to increase the wage rates that employers offered at the time (Rhodes 2000) and reduce the unemployment benefit claims.

By 1997, 60% of pension income stemmed from public schemes and 40% from private schemes with New Labour stating that their aim was to reverse these outcomes in favour of more market and private provision. In order to achieve this target, the Blair government introduced a series of reforms that affected the social assistance schemes (Pension Credit), the BSP (White Paper), the state-earnings related scheme (State Second Pensions) and occupational pensions (Stakeholder Pension). The British pension system was already complicated and the additional reforms and pension programmes that the Labour government introduced added further complexity to the pension landscape.

Among the main aims of New Labour was to boost the channelling of savings to the economy and expand the coverage of pensioners through private provision. Therefore in 2001, New Labour introduced the 'Stakeholder Pension' in order to provide more coverage for low-income employees in small and medium enterprises. The 'Stakeholder Pension' is a company pension that is organised on an individual basis and the organiser of the schemes could be banks, insurance companies or any a collective actor that co-operates with financial services (e.g TUC). The scheme is

organised on a funded basis, controlled by independent trustees and provides a DC benefit. Employers that are not providing any occupational schemes are obliged to enrol their employees to the stakeholder pension but they are not obliged to contribute. The scheme's popularity and take up ratio remains lower than the original expectations since only 400.000 people entered the scheme instead of 5 million the government aimed for (cited in Hodge 2002).

In 2002 New Labour introduced the *State Second Pension* (S2P) in order to replace SERPS³¹. The S2P provides redistribution from middle to low-income workers but at the same time it does not provide adequate incentives for middle and high-income groups to join the scheme, undermining thus the redistribution logic of the scheme (Agulnik 1999). In 2003, the government introduced the Pension Credit in order to provide over 65 years old pensioners with a supplementary income. The means-tested character and the complexity of the Pension Credit are indicative why more than the 30% of the entitled pensioners do not apply for the benefit (DWP 2006). The means-tested supplement remains problematic and poorly delivered due to its complicated eligibility claims (DWP 2006b). The introduction of public programmes attempts to improve the living standards for all those workers that are close to retirement and on low-income or part-time jobs, though the combination of the means-testing and low-income earnings-related pension provision blurs whether pensioners are better off saving or not.

6.7.1 The end to 'pension fund capitalism'?

Apart from the introduction of new schemes, the Labour government introduced new regulatory actors and attempted to provide tighter regulation for occupational pensions in case of company closure (Pension Protection Fund and Financial Assistance Scheme) while it reserved the Pension Regulator as monitoring authority for the operation of the company schemes. The major financial reform of Chancellor Gordon Brown over occupational pensions was to reinstate corporate taxation on pension funds. This 'pension raid' caused several worries over the future of the pension funds that along with low investment returns reduced their assets (Clark 2003: 234). In response to these worries, New labour introduced a new accounting

³¹ The beneficiaries of SERPS will get their benefit until the scheme exhausts its promises.

rule ‘FSR17’ in 2000 that allowed employers to use the available funds as part of their company assets and increase their ‘shareholder value’. However, the new accounting standards addressed the lack of transparency over their commitments to the beneficiaries (see Shaoul 2000a, 2000b) that calculated liabilities as a short term deficit that need to be covered (Hodge 2002).

After the 2000 stock market downfall, the FTSE100 companies faced an aggregated deficit of £100bn while the non-financial corporations faced a deficit of £160bn (CBI 2003a,2003b) while half of them had closed their DB schemes to new employees (Clark/Hu 2005).Therefore many company funds’ faced immense pressures and deficits in their pension funds. The decline of companies’ pension funds’ assets was estimated around -11.9% in 2001 and -18.1% in 2002 (Langley 2004: 542) while occupational pension scheme take-up rate declined by 2 million members(see figure 6.1, DWP 2006b).

Figure 6.1: Final salary schemes to new members



Source: DWP (2006b)

Many corporations have not been able since to recover and the burden of DB schemes on their balance sheets is affecting their ability to increase their shareholder value. The common practice among the firms is that employees could remain in their DB schemes only if they accepted lower wage rates or increased their contribution share to the scheme while most firms offered only DC schemes to new workers³². The low take up rates for private pension as well as the declining of new occupational pension

³² Many corporations such as the food chain Sainsbury’s, ‘Tesco’, banks like ‘HSBC’, ‘Halifax’, ‘Alliance & Leicester’, telecommunications giant ‘BT’, the largest pharmaceutical seller ‘Boots’ have closed their final salary schemes to new employees. Companies like ‘Dixons’ and food-chain store ‘Iceland’ closed their DB schemes even for existing members (Langley 2004).

schemes is realised by employers and financial services as a lack of sufficient and clear incentives for channelling savings in an over-complicated pension system (Glennister 2006: 71, CBI2006b: 4).

The 2004 Pensions Act tried to increase the confidence for the occupational pension schemes. Among these efforts was to provide a regulatory framework for the occupational pension funds in case of company insolvency and therefore the government introduced a *Pension Protection Fund* (PPF) that will compensate for any companies closure and loss of pension income since 2005 (Kemp 2005). The *Financial Assistance Scheme* (FAS) was also introduced to address company closure for firms before 2005. The compensation of the FAS is provided by the state and is up to 80% of their original entitlements (Treasury 2007: 119) while employers will have to finance PPF. Employers' response was not welcoming and CBI (2003b) argued that the burden of the cost should be shared with the pensioners in the name of 'shared responsibility' (CBI 2003b: 7).

The Treasury Office recognised that part of these regulation efforts and the new accounting standards, there will be a higher demand for long-dated bonds (Treasury 2007: 41) that could guarantee a satisfactory rate of return. The implications of these pressures as well as the instability and the short-termism of the financial market would unfold in January 2006. The increase in the price of long-dated gilts caused a decline in long gilt yields and created a spiral effect, previously unforeseen for pension funds (FT 2006: 3). This spiral effect caused an increase of £20 billion in companies' pension schemes liabilities. As a result of the gilt bubble, pension companies reduced the annuity rates that pensioners would draw, transferring thus the cost of financial investments' low returns to lower pension benefits.

It is indicative that the while pensioners and individuals are meant to be more responsible and carrying the risk for their own protection, financial capital actors were able to control the savings and pass the risk to pensioners. The financial crises and the decline of pension funds' assets have resulted in lower pension benefits and clearly undermining the trust of pensioners towards the financial markets. The attempts of New Labour to increase the channelling of savings remains embedded within the discursive framework that prioritises privately controlled funds and market-led

investment for the governance of pension funds. Questioning of the market liberal policies and role of financial investment remains silent while the current and future pensioners will receive lower benefits due to the volatility of the financial market. It is interesting to note that the major question and challenge for the British pension system is the restore of trust (Hyde and Dixon 2004, Hyde et al 2007), not only in the markets but mainly in the privately controlled pension funds.

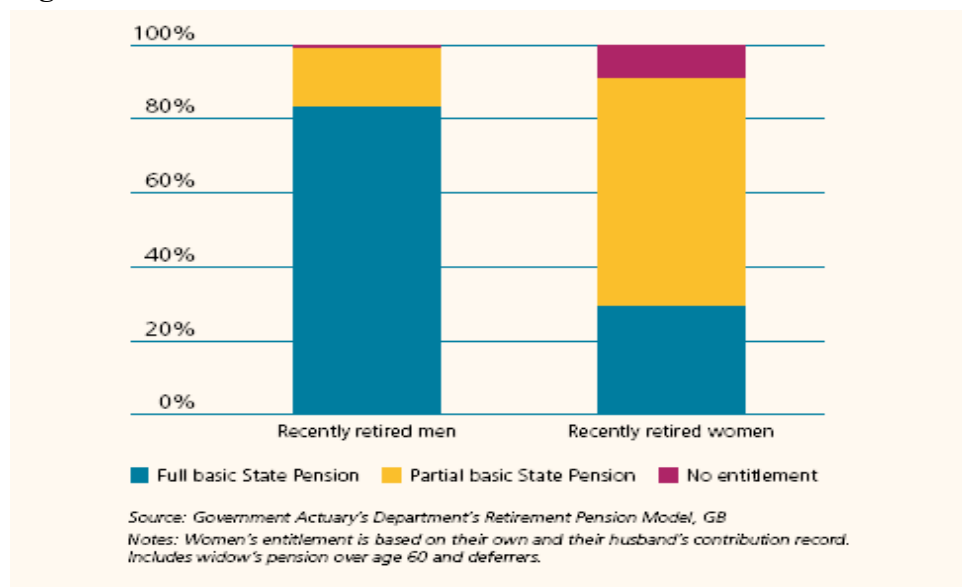
The channelling of voluntary savings to the pension system according to pension finance experts (Blake 2000, Clark 2006) will remain problematic as long as there are disincentives to save due to means-testing and the complexity of the pension system. However an additional challenge that many authors have neglected is that the British pension system requires a financial market literacy and knowledge of risk-return assessments that as the previous years have shown, workers and current pensioners' lack (Rowlingson 2002). The financial services have failed to provide generous benefits to those that needed it the most while during pension financial crises they transfer the cost to pensioners. In response to market failure, voluntary savings could only be enhanced if they are channelled to schemes that are publicly controlled, i.e. where nominal owners would be able to exercise their power over the investment-policy making. Still an alternative investment policy remains to be formulated and it is here that the absence of pension organisations or the union movement demonstrates the importance of power resources for the formulation of a policy alternative.

6.6.2 The governance of the British pension system: the 2006 White Paper

The key challenges for the British pension system is the continuation of poverty levels among pensioners since the BSP is currently providing 15% replacement rate of average income, with the majority of women not able to draw a full BSP benefit (see figure 6.2). The White Paper suggests that among the recently retired, only 28% of women receive a full pension benefit without relying to pension credit or means-tested schemes, in stark contrast to 82% of men that receive a full benefit. At the same time around 55% of men and women are members of occupational pension, with men however overrepresented in private pension schemes (Fansworth 2004). The British pension system continues to rely on the contribution link and all citizens in non-paid employment have to draw social assistance benefits. Therefore the British pension

system retains its liberal welfare system that does not link pensions to citizenship and depends heavily on social assistance schemes to alleviate poverty.

Figure 6.2: Basic State Pension entitlement for men and women



Source: DWP (2006b: 13)

In order to meet with these challenges, New Labour appointed an expert committee that would be chaired by Lord Turner, an ex-CBI chairman. New Labour appointed the committee in order to achieve consensus among the various actors as well as prevent the politicisation of the public debate. Interestingly, while the Labour party in the late 1950s wanted to create a consensus with the trade unions now it aimed for a consensus with private pension providers. The priorities for the pension development were also set clear by the Treasury Office, with Chancellor Brown reluctant to accept any major costs or future financial burden on the public budget.

The Turner Committee aimed to enhance personal responsibility and the role of financial capital markets, and in line with the proposals of the CBI (see CBI 2006d: 4), proposed the introduction of the new personal accounts. The only difference between the commission and the CBI was the compulsory clause. The Association of British Insurers (ABI) pressured for the creation of personal accounts that would be directly linked with insurance companies, while the National Association of Pension Funds (NAPF) lobbied for the savings to be incorporated in their trust funds (CBI 2006d). The new scheme will collect money from the contributions of employees (4% of wage), employers (3%) and state in the form of tax relief (1%). The savings would

be controlled by pension funds managers and employees will be able to choose among pension funds' with a default option for those that do not exercise their choice (McKay 2007). In essence, since New Labour could increase the channelling of savings through voluntary means, it used compulsion. New Labour's 'personal accounts' scheme resembles the attempt of Thatcher government to render private personal pension schemes as compulsory. The reform provides a "free choice" over the selection of pension funds but it does not provide the freedom for the nominal owners of the scheme (employers, employees) to control the investment of the funds.

CBI was critical of the compulsory contribution of the employers to the scheme and proposed lower wage increases in the future to compensate for their loss (CBI 2006b). Small business raised serious concerns about the new compulsory contribution since the cost is disproportionately high for small enterprises (FSB 2006a,b). The proposal for the personal pensions is on top of BSP, means-tested benefits, Pension Credit and parallel to the S2P maintains the complexity of the British pension system rather than simplifies it (see table 6.5). The attacks on the public and compulsory character of the NPAS (Clark 2006) were accompanied with the demand of the financial services for a simpler system with flat-rate pensions that would provide adequate income (Whiteside 2006) and more importantly will create incentives to direct savings into financial services. The demands of the NAPF to establish a citizenship pension as a way to simplify the pension landscape was early dismissed as expensive by the Turner committee (Guardian 2005) since the Treasury would not undertake such a responsibility.

The Turner Report proposed several changes in the BSP and the restoration of the BSP benefit's index with earnings. The Treasury strongly pressured for a delay of the BSP earnings indexation and achieved to postpone it for 4-6 years. Both retirement ages and contribution years would be equalled for men and women (65) that have a 30 years contribution record. In line with Turner Report, the White Paper attempts to minimise means-testing and is suggested that by 2030, the S2P would be become a "simple, flat-rate weekly top-up to the basic State Pension...[that] will become completely flat rate around 2030 or shortly afterwards" (DWP 2006b: 17). The restoration of the BSP benefit with earnings is postponed and therefore the White Paper has not adequately dealt with the alleviation of poverty for current pensioners.

Table 6.5 The existing pension schemes in Britain (2008)

	Pension Credit	BSP + S2P (*)	Personal accounts***	Stakeholder pensions	Occupational schemes	Personal schemes (APP)
Eligibility	Poverty	Employment	Employment	Employment and contract	Occupation	Contract
Contributions	Public budget	Employers (11%), employee (13,8%), state (4%) of average income**	Employees (4%), Employers (3%), State (1%) of average income	Employee	Under bargaining, employers and employees	Minimum 4%, Employees (tax rebate 2 %), Employers voluntary)
Calculation & Replacement Rate	At least 45 income / wealth - related estimates	30 years of contribution, 15% replacement rate		Depends on financial returns	Depends on financial returns	Depends on financial returns
Responsibility	State	Employee	Employee	Employee	Employer	Employee
Funding	Public budget	PAYG	Funded	Funded	Funded	Funded
Who controls the savings	Public budget	State	Pension fund managers/ public default	Pension fund managers	Trustees/ Pension fund managers	Insurance companies

The S2P has not yet produced any benefits and it will be combined with the BSP to provide a flat rate benefit so the column refers to the current BSP institutional characteristics.

** The contribution varies according the income levels of the employee. Employees earning less than 100 per week pay no contribution while employer contributes £13.8 per week (HMRC 2007).

***The personal accounts refer to the personal accounts as designated by the White paper 2006 and will become effective in 2012.

Overall the proposals of the policy committee and the 2006 White Paper have enhanced the channelling of savings to the financial markets through compulsory character of the personal accounts. The introduction of the personal accounts on top of the BSP and the S2P has not helped to simplify the pension landscape neither for pensioners or private pension providers. In total the White Paper has not been able to deal with the challenges of the British pension system and instead has opted to direct more savings to the financial markets and retain the cost of the Treasury at low levels. Effectively the scheme prioritised the demands of the Chancellor of the Exchequer while it strategically aimed to channel savings to the financial markets and enhance the private control of the funds.

Effectively the boundaries of public and private, state and market schemes remain so blurred that even NAPF, CBI and ABI have been worried by the introduction of the personal accounts. According to Pemberton et al (2006) the lack of a 'consensus' among the government and the various actors governing Britain's pensions and the dominant role of the Treasury has 'degenerated pension politics into a technical debate' (Pemberton et al 2006: 15). However it is not solely the Treasury or the government that are to be blamed (e.g. Whiteside, Pemberton 2006). Pension governance should be treated more holistically and be linked with the political economy of Britain. The vested interests of private financial actors and the institutionalisation of contractual relations allowed financial capital to raise significant power resources and exercise their power over the development and the logic of the pension system, through its reliance on private provision. Therefore the lack of consensus should be, in retrospect, be attributed on the role of financial capital actors and their strategic attempts to weaken the role of nominal owners and especially unions in running their own schemes or exercising any power over the governance of the pension system.

6.8 Institutional continuity, power asymmetries and the governance of the pension system

The governance of the British pension system remains embedded within the logic of liberal welfare system where survival pension income would have to be drawn from social assistance and adequate benefits are drawn from private pension schemes. The contrasting interests and aims of the 2006 reform however illustrated the power asymmetries among the key actors in the process of the decision making. The committee entered into negotiations and talks with private financial actors and adopted the CBI programme with the only exception of the compulsory participation of the workers in the personal accounts. The Treasury was able to define the terms of the future proposals since it deferred the increased replacement rate of the public scheme, despite NAPF and insurance companies' vocal worries.

From the pension policy process, unions along with pensioners groups were absent and Turner dismissed TUC proposals as 'inaccurate' and 'unhelpful' to the debate (Guardian 2005). The discursive attempt therefore of TUC to exercise power over the process-policy making failed, exemplifying the lack of any power on behalf of the unions to voice the demands and more importantly to be part of the policy-making proposal. TUC is acquiring a lobby status as a pressure group and not as political entity able to contest policy developments. The declining membership and density rates in previous industrial sectors and the low membership in financial services (see Waddington 2000), did not allow TUC to gain any significant economic and power resources that it would allow organised labour to 'voice' its interests and priorities over pension development and socio-economic growth.

The effort of all the last three governments to institutionalise the logic of the financial markets was accompanied with the promotion of individualism. The closure of DB schemes is indicative of the changing nature of working patterns, while managers and firms achieve high profits. The power among actors is favouring financial capital and its rules are used by actors such as the CBI while organised labour remains strong only in the public sector. The reluctance of the government to create significant state funds or increase the replacement rate of the BSP despite the extra rebates is indicative of the political orientation of the Treasury and the New Labour

government. Far from preserving any status quo (Pierson 1994) or continual change (Pemberton 2006), the British pension system is being governed by the increased power of the City of London and corporations that manipulate pension savings to achieve increased profits and shareholder values.

In contrast with the Varieties of Capitalism thesis, that welfare states in liberal market economies face more pressures to change, I argue that once the logic of financial capital was established it has not been questioned and therefore institutional continuity in pension systems has remained. This was possible through the institutional reproduction of contractual relations in pension and the power of public and private financial actors to embed unions within a mode of instituting that preserved intact the private control of the pension funds and invested the savings to financial products. The British pension system has been under constant reform but always according to the same principle: reliance on the market and control by financial actors.

Table 6.6: The governance of the pension system during New Labour

<i>What is to be governed?</i>	Pensions as a financial investment
<i>Who is recognised to govern?</i>	Public and private financial actors (Treasury, NAPF, ABI, CBI)
<i>Modes of governing</i>	Expert committees, artificial separation of economic and politics, individualism
<i>Power of the unions</i>	Lack of any power over the governance of the pension system,

This mode of instituting attempts the marketisation of pension rights through the depoliticisation of pension making and the establishment of ‘independent’ and yet ex-CBI chaired pension committee that promoted the reliance on private provision, financial products and individual contracts. Pension governance object thus remains strictly technical, while the actors that are realised to govern are mainly public and private financial actors (see table 6.6). Thus in contrast with the argument of Larsen et

al (2006: 646) that “outsiders have more influence on the details design of policy in terms of practicalities and improving service levels rather than the direction of British pensions policy”, I argue that financial capital has exercised significant power over the means and the ends of pension reforms.

Indicative is the suggestion of the previous Minister of Work and Pensions to let the ‘Bank of England’ regulate pension governance (Field 2006). Rather than handing pension savings to an independent financial institution that prioritises financial monetary interests over the adequacy of the pension benefits or job growth, the British pension system need to strengthen the power of nominal owners. Pension fund investment could be diverted to social and community development but still have to empower the role of their nominal owners *vis a vis* the funds’ managers. The investment of the pension funds is not a strictly economical decision but is implicitly a political issue that is determined the power struggle among key actors. Still, Britain’s pensions are characterised by inadequate income and extreme complexity while pension funds –originally employees deferred wages- are acquiring the role of institutional investors that pressure for downswing and high shareholder values domestically and internationally.

Chapter 7: From democratisation to marketisation; a comparative perspective on pension systems and funds

7.1 Introduction

The chapter continues with a comparative assessment of pension development and the importance of power asymmetries for the direction of institutional change as well as shaping the content and the logic of the pension institutions. This chapter aspires to identify differences and similarities that could provide causal explanations with regard to the variation of pension institutions' development in three countries and place the findings of the diachronical analysis in a comparative perspective.

In section 7.2, I present the challenges that researchers face when they undertake diachronical and comparative analysis. I argue that the major challenge is the treatment of 'time' and what essentially constitutes 'a case' in each of these two research strategies. While these challenges pose significant questions to our ability to undertake comparative diachronical research, I suggest two ways to overcome these challenges.

Moving on to section 7.3, I comparatively assess the introduction of the first post-war pension programmes (late 1940s) and then, in section 7.4, the power struggle over the institutionalisation of earnings-related pension schemes (late 1950s). In section 7.4, I comparatively assess the role of pension funds within the national market economies and explore their similarities and differences during the 1960s and early 1970s. The next section (7.5) moves on to explore the developments in the late 1970s and 1980s and reflect on key actors' shifting power imbalances.

In section 7.6, I present a comparative assessment of the recent pension reforms (late 1990s -2000s) and the role that pension funds play within the market economy. In it I analytically compare the changes within the institutional complementary domains and provide the key similarities among the recent pension reforms, I argue that the marketisation of pension rights can be identified in all three pension system, both in terms of the logic and the content of pension institutions. Finally, I present an

overview assessment of key actors' power over the governance of the recent pension reforms and suggest that despite the institutional variation among the three pension systems, what has been a common factor is the empowerment of financial capital actors. The chapter concludes in section 7.7 with a brief reminder of the key findings of this comparative assessment.

7.2 Shifting levels of analysis and aggregation: the challenges for the comparative approach

The thesis has so far focused empirically on the development of the three pension systems and will now move on to the comparative assessment of what explains the variation of pension development across these pension systems and the role of pension funds in the economy. However, before we discuss our findings in a comparative perspective, it is important here to provide several clarifications regarding the analytical strategies of this thesis.

This thesis began by posing two sets of research questions. The first set had two main aims. The first aim of the analysis is to *uncover the role that power asymmetries play in institutional development* (innovation, reproduction, change) and the second aim is to *identify what accounts for institutional development, when and by whom*. The diachronical analysis of the development of the Swedish (Chapter 4), German (Chapter 5) and British (Chapter 6) pension systems and funds integrated time as an essential part of the empirical analysis and posited sequence and temporality as key aspects of it. In order to avoid any functionalist accounts, the selection of cases was based on actors' attempts to institutionally innovate or change the path of pension institutions. Consistent with the ontological premises of this thesis, the exploration of the cases included all attempts at institutional innovation, failed and successful ones.

The diachronical analysis allows the researcher to identify empirically the causal links that are responsible for the direction of institutional change or reproduction. Instead of relying on deductive theoretical accounts, the research focused both on actors' attempts to trigger institutional change or introduce institutional innovation regardless of their successful result or not. The main benefit of this analysis is that it allows researchers to avoid epistemological fallacies such as the examination of policy outcomes, realised only from their effects. The examination of failed policy proposals

allows the research to account for actors' strategies and power asymmetries as part of the empirical analysis. The analytical gains from this endeavour are twofold; first it allows causal process to be realised as open-ended rather than structurally or functionally determined, and second it provides an identification of possible similarities and differences that could generate new inductive and empirically-based causal hypotheses.

The second set of questions that this comparative research aims to clarify therefore is *why the three national pension systems followed different trajectories*, and whether these trajectories maintain their different routes or converge. The second aim is to explain *why the three national pension funds followed different investment strategies*, and whether these strategies continue to differ across the instituted actors. The analytical aim is to inductively identify causal similarities and differences among the cases as well as deductively test the existing theoretical approaches' ability to predict and explain institutional development.

Still, the crucial challenge for a researcher that undertakes such a research strategy is how can one shift from a 'dis-aggregated' (e.g. pension reforms) into an aggregated (pension systems) level of analysis and maintain both the possible gains from within-case analysis and also account for the explanation of the varied paths that pension system and pension funds followed in three countries. To give a picture of this challenge, I will provide the main differences and challenges that arise from such a research enterprise. The first difference is realised in the concept of time between diachronical and comparative analysis, since in the former time is realised as an empirical category (e.g. sequence) and in the latter as an analytical category (e.g. periodisation). The second main difference is that by shifting the level of aggregation there is automatically a shift of what constitutes a case. In the diachronical analysis 'case' represented attempts to shape pension institutions (regardless whether they were successful or not), while in the aggregated comparative analysis the case is not anymore pension reform but the pension system as a 'whole'.

Table 7.1 Challenges for diachronical comparative research

	<i>Diachronical research</i>	<i>Comparative research</i>
<i>How is time treated?</i>	Empirically (time, timing and sequence)	Analytically (periods, eras)
<i>What constitutes a case?</i>	Attempts for institutional innovation and reform (disaggregated)	Pension system as a whole (aggregated)

The main challenge therefore is how can we maintain the rich informative context of the within-case analysis and shift into an aggregated level of analysis without conflating epistemological premises and analytical perspectives. The ontological premises of this thesis identify the relation of power and causality as an ‘open-ended process’ that explores actors’ power asymmetries and strategic attempts to institutionalise their modes of governance over pension systems and funds. However, shifting the analytical strategy from diachronical research into an aggregated nominal level of measurement, endangers an epistemological conflation since our comparative methodologies cannot account for causal inference as part of actors’ power to strategically act within the institutional context they operate, since these institutional contexts nurture different power asymmetries and ideas to actors. For example, do (Swedish, German, British) unions have similar demands at any given point of time? And are they deploying their strategies within the same socio-economic context?

As Hall (2003) has rightly argued, our methodologies for the pursuit of causal assessment in historical institutionalism have been outrun by emerging ontological and epistemological premises that reject the possibility of a universal, ‘one-size fits all’ causal law for the assessment of social process. The exploration of power relations, the role of ideas in shaping strategies and the importance of structures in constraining, enabling and favouring these strategies can therefore be captured within a research framework that remains context-sensitive and explores actors attempt to mobilise resources and exercise their power structurally, relationally and discursively.

However, does this indicate that such a comparative research endeavour is impossible? As I will show, there are at least two ways to overcome this challenge. The first aims to identify common actors' operating at different institutional contexts (here Sweden, Germany and Britain) that share similar aims; for example the formulation of a basic universal pension scheme. Identifying common actors and targets allows researchers to prioritise the importance of institutional contexts within which actors operate and provide a comparative assessment of actors' power asymmetries and strategies to achieve their common aim. In this sense this strategy is favoured by the thesis 'most similar systems' comparative design since the selection of cases was based on the identification well organised unions and popular left-wing parties.

This strategy however is more plausible when researchers attempt to identify the necessary and sufficient conditions for the appearance of a new institutional arrangement, such as innovations (Moore 1967, Skocpol 1979) or the introduction of the first basic pension scheme or a new actor; pension funds. The problem arises when we try to explain not only institutional innovation but also institutional evolution of these institutional paths. While therefore the aggregated comparative analysis is able to explain the origin of an institution, after the elapse of time it becomes quite problematic to explain the evolution as the institutional landscape gets increasingly complicated and as further institutional layers (as in the case of pension systems) are build on top of previously existing ones and new actors are introduced.

This problem is aggregated not only due to the increasing complexity of the social world but also due to the fact that once we explain how actors' power asymmetries account for institutional development, we have to consider that –by definition– institutions once established gain causal properties, since through feedback mechanisms they structurate power asymmetries, institute new actors and condition discursively what (else) is possible. While feedback mechanisms and loops can be adequately explained within the diachronical analysis, how can comparative analysis account for the role of these feedback mechanisms in structuring actors' power asymmetries and conditioning actors' strategies?

The understanding of causation within the existing methodologies for comparative quantitative analysis do not account for actors' strategies as part of the empirical world but rather focus on theoretically informed analytical categories (independent variables). Even in the more sophisticated qualitative comparative analysis in the work of Ragin, actors' strategic attempts to mobilise resources and exercise their power is not part of the analytical strategy. Despite its well claimed advantages, the existing qualitative comparative methodologies treat actors (e.g. unions, employers, financiers) as holding similar causal properties across all cases (pension reforms or pension systems). To give an example, the power of the British and Swedish unions to implement a union-controlled pension schemes were severely curtailed after the introduction of the SGS in Britain but became a valid option after the adoption of ATP in Sweden.

The second solution to this problem, therefore is to provide a theoretically derived analytical tool that can account for the institutional complexity of the modern pension systems. The theoretical premises of this research focus on the process of marketisation and the power struggle between two competing logics for organising socio-economic life; one that adheres to the market principle and one that defends the substance of society and economy from being subordinated to the laws of the market. The struggle of the various movements and the strategies that they follow to produce institutional innovation or trigger institutional change remain embedded within the context they are operating.

Analytically the institutional legacy is realised as important for the structuration of power asymmetries and whether institutions enable or constrain certain strategies over others. Therefore, while the relation between power and institutions remains at the heart of the research, this comparative approach focuses on the importance of 'governance' as a process that is not strictly focusing on the policy-making process (how are pensions governed?) but also explores who are the subjects (e.g. unions, employers, financiers, state actors) that are able to determine the object of governance (what is to be governed?) (see Carmel/Papadopoulos 2003). Here actors' power asymmetries and strategies are realised from their attempts to shape the institutional content (e.g. eligibility, redistribution, generosity) as well as to strategically prioritise

their mode of instituting pension systems and funds (e.g. privatisation, individualisation). In our case therefore, pension institutions are realised as the object of governance that remains to be determined by the way each national political economy shapes actors' power and constrains or enables their strategies and ideas.

Providing therefore a comparative assessment of the actors' ability to identify the nature of the object of governance (i.e. pension systems) and the modes of governance (i.e. bargaining, expert committees) employed as part of actors' power struggle, the comparative locus of this research shifts from the empirical world into a more abstract analytical concept that allows researchers to maintain the comparative tool of their analysis constant across the increasing complexity of the social world. The use of time in this chapter becomes analytical and formulates periods of time within which pension system and pension funds are compared.

Following the periodisation of the empirical chapters, I comparatively assess the development of pension institutions in four eras. First I comparatively assess the introduction of the first post-war pension programmes (late 1940s) and then the power struggle over the institutionalisation of earnings-related pension schemes (late 1950s). At this particular period, I comparatively assess the role of pension funds within the national market economies and explore their similarities and differences. Then the research moves on to explore the developments in the late 1970s and 1980s and reflect on key actors' shifting power imbalances. The last period under comparative assessment is the neo-liberal era of pension reforms (late 1990s -2000s) and the role that pension funds play within the market economy.

This periodisation does not negate the findings of diachronical research and the emphasis on timing, sequence and temporality from the case chapters. The identification of similarities and differences in the object, the subjects and the modes of governing pension system and pension funds does not provide a universal or eternal causal law but rather attempts to designate the power dynamics that divert or reproduce the direction of institutional paths for pension system and funds. In this sense, causality is not restricted to few variables but rather is contextualised in actors' strategies (successful or not), their power resources and the role of institutional legacies.

7.3 Power and institutional development in the national pension systems

The comparative assessment for the development of the pension institutions focus on attempts to institutionalise a basic universal and earnings-related pension scheme. Interestingly, the timing for these policy innovation attempts coincided so it allows the research to compare these innovations across similar point of time for the development of the pension systems. The aim is to identify key similarities and differences not only in terms of the *content* but also in the *logic* of instituting pension schemes. The comparative perspective continues to rest on the ontological premises of ‘critical realism’ that realises causation neither as eternal or universal law but as open-ended process where actors’ strategies are constitutive for both intended and unintended consequences. Still, this does not neglect our ability to identify sufficient and necessary causes for the development of the pension system and attribute key actors’ strategies and power asymmetries a significant role in shaping the future of European pension systems.

7.3.1 Power and institutionalising the basic pension schemes

Turning to the institutionalisation of the basic universal pension scheme, the approach adopted in this thesis highlights the importance of institutional complementary domains and the role of the key collective actors such as workers, employers, state actors and financiers for the development of the pension programmes. Addressing the attempts of unions and left-wing parties to develop a universal pension scheme, the comparison here examines why some unions were more successful than others to implement a generous public pension scheme and what accounts for this difference. The comparison will be based on the identification of possible commonalities and differences in these attempts. The application of the methods of agreement and difference at a nominal and ordinal level of analysis would be used to address whether the power resources approach account for the explanation of these attempts. In this way, the thesis apart from identifying matching patterns, it can control for theoretically derived causal accounts. I now move on to present the institutional context in the late 1940s and identify similarities and differences across the three cases.

Table 7.2: The institutional context in the late 1940s

<i>Pension reform in the late 1940s</i>	Sweden	Germany	UK
Institutional legacy of previous pensions schemes	Universal, social assistance scheme, means-testing	Occupationally segmented schemes	Social assistance schemes, means-testing, private pensions
Political parties	Dominant SAP-alliances	(Post WW2) SPD –no alliances, CDU	Labour party, powerful governments
Corporate governance	Export-oriented firms, concentration of ownership	Dense relations with banks, export-oriented firms, inclusion of workers (councils)	Industries, Financial services, Firms linked with credit providers, spread ownership
Financial system	Bank based, long term interests	Bank based, long term interests	Credit based, short-term interests
Industrial relations	Historical compromise (LO-SAF)	DGB-BDI leaders, segmented peak organisations, collective bargaining	‘Collective liberalism’ (voluntarism)
Pension reform: Coverage, Replacement rate, Eligibility	Basic pension, all population, ca 50%, citizenship	Basic pension failed, labour market participants equal replacement rate contributions	Basic pension, all population, ca 20%, contributions

As table 7.2 shows, despite the significant variation in the development of the neighbouring institutional domains and the role of key actors, in all three pension systems during the 1940s, unions retained their strong links with left-wing political parties. Both in Sweden and UK, in stark contrast with Germany, the new basic

pension schemes were legislated during an era of SAP and Labour governments and unions were in agreement to put forward an agenda for a universal pension scheme. A popular labour movement (TUC, LO) with a dominant left-wing political party (Labour, SAP) in power both in UK and Sweden respectively, institutionalised basic pension schemes that expanded the role of public welfare state provision and extended the social rights of their citizens.

A focus strictly on the development of the pension system would provide the power resources approach certain explanatory credentials. Applying the method of agreement in order to explain why the British and Swedish pension systems established a basic pension scheme that provided coverage to all citizens, we are able to identify that despite the differences at the various institutional domains, the combination of a popular and united organised labour and dominant left-wing party in power were the *causal similarities* for the successful implantation of the public basic pension scheme. The common result in terms of formal operation, i.e. the basic pension scheme, confirms the argument of the power resources approach. However, it remains crucial to distinguish between the two pension schemes since the Swedish scheme provided pension benefit regardless of the participation in the labour market, while for the British pension scheme, the labour market mechanisms were the dominant principle for qualifying for pension benefits. In Germany, the failure of the unions to agree on the Allies' proposal for a universal pension programmes was realised as a revival of the old pension scheme that reproduced the occupational segmented interests for the development of the pension programme.

The two important differences in the institutional logic of the Swedish and British pension schemes regard their entitlement criteria and their replacement rates (see table 7.2). The Swedish pension system granted a social right that remained independent from the market forces, since all Swedish citizens regardless of their labour market participation records were entitled a basic pension that provided 50% of the average income. In stark contrast, the British public pension system granted a 20% replacement rate of average income to those who obtained a full contribution record. Therefore the striking difference in the content of the two systems reproduced a different logic that recognised pensions as a 'social right' that provided adequate

income during retirement in Sweden and only as a meagre income in Britain that was conditioned on the social insurance principle topped with social assistance.

While power resources were able to determine what matters for the implementation of basic pension schemes, the approach could not account for the differences in their institutional logic. These different logics nurtured accordingly different interests and power asymmetries since effectively the meagre replacement rate of the British basic pension allowed the growth of private alternatives and perpetuated the role of private provision within the governance of the British pension system.

From a different standpoint, Swenson (2002: 260-7) argues that the development of pension system is determined by the demands of the employers and the existing labour relations. In a time of labour scarcity, employers would be unwilling to promote competition over the rent of labour power (wages) or competitive pension schemes. As Swenson demonstrated, Swedish employers in order to avoid competition over private schemes strategically endorsed the institutionalisation of the tax-financed universal public pension scheme. However, if we realise that the British labour market could not have been experiencing flourishing labour supply just after WW2, then how can we again explain the difference between the substantial and the insufficient replacement rate in the Swedish and British pension system? How such a high replacement rate became acceptable for employers in Sweden but not in Britain?

The answer can be found if we pay attention to the major actors in pension systems and their power asymmetries. While Britain and Sweden shared similar formal institutions for old-age pensions, there was a difference in the logic of the system. The attributing reason here is that the power of Swedish unions but also of British financiers. In Britain, the power of financial capital actors was established early through the signing of private pension schemes with insurance companies while the Treasury remained reluctant to provide higher replacement rates for the public scheme. The growth of privately controlled pension schemes benefited from tax exemption, rendered alternatives (e.g. unions' schemes) unattractive and strengthened its power over the governance of pension institutions. The financial institutions in Sweden were not able to exercise any power over the pension systems since they had not developed vested interests among pensioners in the market economy prior to

1940s. Timing and institutional legacies therefore do matter not only in a static sense but also as the diachronical analysis showed in a dynamic way that prescribes actors' with asymmetrical power resources.

The lack of private alternatives and strong financial actors therefore become a necessary cause that is able to adequately explain the development of the basic pension schemes and their institutional features. Applying the method of agreement in order to identify what distinguished the three pension systems in their ability to implement a basic pension scheme and the application of the method of difference to understand the different power dynamics (see table 7.3), the research identifies both sufficient and necessary conditions for the institutionalisation of a universal basic scheme that render pensions as a social right and protect pensioners from market forces.

Through the application of the methods of agreement on the left column of table 7.3, I identify two *sufficient* conditions across the three attempts to institutionalise a universal basic pension scheme during early 1940s; namely the election of a dominant left-wing part and a unified organised labour. At first sight, the findings of this comparative research confirm the argument of the power resources approach but how can we explain the difference in terms of generosity and entitlement condition between the universal pension schemes?

Through the application of the method of difference on the two positive cases, listed on the right column of table 7.3, I demonstrate that the existing literature has been neglecting the importance of institutional legacy in nurturing different power asymmetries identified here in particular in the role of British financiers. Comparing the similarities and differences among the positive cases, identifies the lack of private alternatives as a *necessary* cause for the implementation for a generous basic pension scheme, since the growth of private alternatives in the British pension system empowered the role of financiers and their ability to prevent a more generous basic public pension scheme.

Table 7.3: Applying the method of agreement and difference for the development of the universal basic schemes³³

Method	AGREEMENT			DIFFERENCE	
	<i>Sweden</i>	<i>Germany</i>	<i>Britain</i>	<i>Positive Case (Sweden)</i>	<i>Negative Case (Britain)</i>
Causes & Context	<i>Strong left-wing party in power</i>	Allies forces in power, then CDU	<i>Strong left-wing party in power</i>	Strong left-wing party in power	Strong left-wing party in power
	<i>Strong union movement</i>	Strong union movement	<i>Strong union movement</i>	Strong union movement	Strong union movement
	Historical compromise	Sectoral collective bargaining	Collective liberalism	<i>Lack of private alternatives</i>	Growth of private alternatives
	Bank-based financial system	Bank-based financial system	Credit-based financial system		
Institutional Outcome	<i>Basic Universal Pension Scheme</i>	Failure to implement a Basic Universal Pension Scheme	<i>Basic Universal Pension Scheme</i>	<i>ca 50% replacement rate, Based on citizenship</i>	ca 20% replacement rate, Based on contributions

³³ With brown colour I highlight the sufficient causes across the cases and with green colour the necessary cause.

This finding complements the power resources approach through the identification of both sufficient and necessary conditions for the protection of pensioners from market forces; namely a left-wing party in power, a united organised labour and the lack of power on behalf of the financiers to offer market alternatives. This new causal hypothesis remains context-dependent and it provides a starting point for future research on the historical development of the welfare state programmes.

By the implicit use of the methods of agreement and difference, the thesis argues that social researchers can exemplify causal hypotheses based on nominal and ordinal analysis but still their findings would not be able to explain the power dynamics that evolved for their formulation. Instead, following the ontological premises that identify causation as an open-ended process and by disaggregating the level of causal inference to ‘within case analysis’, this thesis contributes with the realisation of the power struggle between the various actors as an open-ended causal process. As table 7.3 illustrates, British financial capital actors were able to utilise their vested interests prior to adoption of the BSP, undermine alternative schemes, embed workers’ interests within the financial capital market and empower their role over the governance of pension institutions.

7.4 Power and the direction of institutional development in the late 1950s: the case of the earnings-related schemes

The institutionalisation of the earnings-related schemes in all three countries happened at a similar time, however despite the formal similarities in the establishment on the earnings-related pension schemes, there were substantial differences in their implementation and the institutional logic of the new schemes. These differences were conditioned by the institutional legacy and the power imbalances among key actors. Institutions do not defend *per se* their legacies or are able to reproduce their logic just by their existence; actors are seeking to alter institutional characteristics based on their power resources and through the channels of power that the institutional setting is offering them. The direction of the institutional change therefore is at stake and it is here where the power asymmetries become essential to understanding why some unions, employers, state actors or

financiers have been more able to shape the future of the pension institutions than others.

7.4.1 Comparing pension systems, actors' power and modes of governance

The pension reforms in this second period were crucial since they epitomised the conflict over welfare redistribution and crystallised the logic of the pension systems. The power asymmetries among the union movement in three pension systems differed substantially in their ability to mobilise their power resources and channel their power through political or labour institutions. The channels of power for each union movement differed; in Sweden it was through SAP, labour institutions (peak collective bargaining) and unemployment funds. In Germany it was through labour institutions (plant level and sectoral bargaining) and through SPD, while in Britain it was through plant level bargaining and the Labour party. The common channel of unions' power was the dominant left-wing political parties, an assumption that resembles the power resources theory. However, power cannot only be isolated in mobilisation and election results but also on the control of institutions, in shaping the institutional context, the conduct of agents and the role of ideas.

For the earnings-related schemes there were various strategic attempts of Swedish peak labour association (LO), German DGB and SPD, the British financiers and Labour party to institutionalise their policy proposals and logic over the pension system (see table 7.3). Unions in Sweden quickly realised that the development of the pension system could not only serve to enhance the redistribution policies and the solidarity among wage-earners but also more importantly could serve the demands of the unions for full employment and welfare state expansion. This attempt of the Swedish unions was an institutional innovation that was based on unions' discursive power to formulate a socio-economic plan and their relational power to mobilise their electoral resources over the governance of pension institutions.

In contrast with the Swedish pension system, the most serious challenge that the SPD and DGB pension proposal faced, was the occupational segmentation of unions' interests. DGB and SPD failed to provide a coherent set of proposals that could encompass the interests of white collar workers (DAB) and unions finally opted to

support the reproduction of the social insurance principle. Instead, it was employers and the CDU that prioritised the ideas of ‘social conservatism’ and introduced a high replacement rate social insurance schemes while in Britain, financial capital along with the Treasury and the Conservative government retained the primacy of the market as a pension provider and restricted the role of public provision. Despite the effort of the Labour party to strengthen the role of the public provision as well as enhance the redistribution among pensioners, their proposals were rejected by the unions. This rejection was indicative that unions opted, to strengthen the plant-level as the site for bargaining over pensions and reproduce the contractual character of British pensions, instead of promoting redistribution and solidarity.

Addressing actors’ power asymmetries and strategies to institutionalise their logic over pension systems, the comparative perspective here realises that there was a significant variation over the governance of the three pension systems. The modes of governance of the pension system differed across all three pension system since in Sweden, the institutional legacy that established pension as a ‘social right’ and the mobilisation of the electorate over the pension reform allowed pensions to be politicised (see table 7.4). Collective bargaining was prominent both in the Swedish and German pension system, placing the labour market mechanism and especially industrial relations at the heart of pension development and as determinant of pension benefits. Especially in Germany and partly in Sweden, the object of governance (i.e. pensions) were realised more as a ‘deferred wage’ since the social insurance principle of the earnings-related pensions meant that a part of the labour wage was directed for the establishment of pension claims.

Apart from unions, employers, political parties, financiers also played a crucial role for the governance of the pension schemes. While German financiers were not able to exercise any significant power over the development of the German pension insurance reform since the latter epitomised the interests of employers and the discursive power of the CDU’s to entrench ‘social conservatism’ as the norm for pension governance. The difference was that British financiers were able to create vested interests in the British pension system and mobilised their discursive power resources through campaigns and consultations to the Conservative party.

Table 7.4: A comparative assessment over the governance of pension systems in the late 1950s

Pension systems	Swedish	German	British
<i>Who is recognised to govern?</i>	Open to political struggle, political parties, collective actors (LO-SAF)	Work councils, Unions (DGB,DAB), Employers, Political parties (CDU, SPD)	Public and private financial actors (Life Offices, APSF, Treasury), Political parties
<i>Modes of governing?</i>	Politicisation of pension reforms, Mobilisation of organised labour and capital expressed via party politics	Collective bargaining	Pro-liberal market practices, not part of collective bargaining
<i>What is to be governed?</i>	Pensions as a social right- Citizenship pensions, Earning related pensions (ATP)- bargaining over AP funds	Pensions as a deferred wage	Pensions as a poor-relief for the low-income and as a financial contract for the high-income groups

Table 7.5: An overview of the pension reforms during the 1950s in Sweden, Germany and Britain

	Sweden		Germany	Britain	
	Basic Pension	ATP	Public Insurance	BSP	SGS
Eligibility	Citizenship	Employment	Employment	Employment	Employment
Contributions	Employers (5.86%), general revenues (2%)	Only employers (13%)	Equally shared among employers & employees	Employers (11%), employee (13.8%), state (4%) of average income	Equally shared among employers & employees
Calculation	Flat-rate	30/15	Lifetime earnings	Contributions	Contributions
Replacement	48%	Maximum 77%	70-80%	20-25%	Varied (low)
Responsibility	State	Employers	State	State	Employers
Funding	PAYG	PAYG+ funds	PAYG	PAYG	Funded
Payment	DB	DB	DB	DB + means testing	DB (no indexation)
Administration	State	Social partners	Social partners	State	Trustees

Table data combined from chapters 4,5,6 and Ebbinghaus (2000)

Whether the institutional context and timing in Sweden favoured unions and SAP and not Labour's or the DGB's proposals in Britain and Germany respectively, the comparative analysis here offers some insightful findings. First, the ability of actors' to mediate a politically constructed discursive framework which other actors use as a reference for the formulation of alternative policy proposals represents an ability to exercise a form of power that remains neglected from the main welfare state literature; that is the power to discursively frame policy alternatives. While Korpi and Swenson attribute unions' relational power and employers' structural power respectively, as a way to explain welfare institutional development, the comparative analysis shows that the ability of actors' to exercise their discursive power through the mobilisation of relevant resources (e.g. campaigns, publications, consultations) also played a crucial role for the content (e.g. generosity) and the logic (redistribution) of the earnings-related pension schemes.

The second finding of this comparative research is that the united Swedish organised labour was able to mobilise resources at all three levels of power and therefore able to render pensions' governance closer to their logic and interests. For example, while the introduction of the labour market as a mechanism for determining eligibility of the earnings-related pension schemes was common in all three pension systems, the proposals of the LO incorporated the publicly controlled pensions within a political economy (Rehn-Meidner) plan that aimed to secure full employment, enhance redistribution and reproduce the dominance of the market economy institutions. Therefore, in times of full employment, the earnings-related scheme would guarantee a high coverage of male and subsequently female workers along with elements of redistribution among the workforce. The aim therefore of the Swedish unions was not only to govern pension systems *per se* but also to provide a holistic plan that would determine the conditions upon which pensions would be calculated and granted.

Therefore the three pension systems and especially the earnings-related schemes differed in terms of their institutional features such as eligibility and generosity but also according to their ability to promote redistribution, solidarity and competition (for an overview see table 7.5). It is apparent that the Swedish pension system was far more generous towards its citizens and wage-earners since they both received middle or high income replacement rates especially in relation with their low contribution

rates. In stark contrast, the replacement rates in Germany favoured civil servants that received 80% replacement rate with minimum contributions while the rest of the labour force was sharing contributions with employers. Both the Swedish and German created vested interests in public pension schemes, with social partners being able to participate in the administration of the earnings related pension schemes.

Essentially the institutionalisation of the pension schemes in the late 1960s conditioned the power resources of all key actors' as well as constrained and enabled certain ideas over others. The importance of power asymmetries, identified here through the mobilisation of power resources at all three levels, becomes essential in order to understand the ability of key actors' to shape institutional development and the structuration of power asymmetries within the national political economies. In a sense instead of identifying a pattern for the development of the earnings-related pension schemes, the comparative research identifies the importance of institutional legacy and complementary institutional domains in empowering key actors in the three political economies. What the comparison shows here is that the actors who mobilised power resources at all three levels such as unions' in Sweden, employers' in Germany and financiers in UK were able to deploy their strategies in implementing their aims and objectives over the governance of the pension system. This is not to undermine the power of other actors (especially employers in Sweden and Britain) but it highlights that at least according to their strategies, unions and financiers (to use the same example) were far more successful in mobilising their resources and shaping the logic (redistribution – universality, competition- marketisation respectively) of pension institutions.

7.4.2 Pension funds as institutional actors during the 1960s

So far the development of the pension systems focused on the role of reforms and the importance of political systems, industrial relations and policy legacies in framing the ability of key actors to raise and capitalise on their power resources. However, apart from realising pension institutions as 'structurations of power and as residues of conflict', it is essential to compare their ability to *institute actors*; in our case pension funds. This insight becomes crucial to highlight the lack of sufficient theoretical understanding for the link between pension reforms and funds, especially when the

latter are becoming key actors within national and international political economies. The creation of pension funds, the channelling of savings as well as their investments provides us with a privileged point of analysis for the power asymmetries among key actors and allow us to explore their strategies for shaping the institutional context within they are operating.

The realisation that pension savings could represent a significant sum of money (capital) that could be collected within the control of pension fund managers sparked a series of debates in Sweden and Britain for the creation of publicly and privately controlled pension funds. Apart from controlling pension savings and gaining significant resources through the participation in the boards, the investment of these savings were at the heart of the power struggle. Therefore, pension reforms should not be realised strictly as a 'power struggle over redistribution' (Korpi 2001) but also as a 'struggle for institutional innovation' and the introduction of new actors within the economy. To give an example, the endorsement of the Labour party proposals for the creation of a publicly controlled pension fund would seriously challenge the power of private financial actors to shape investment policy-making and provide capital to industries; a target that British unions pushed for many years.

The power struggle over the control of pension funds was illustrated in the Swedish and British pension reform through the competing logics of the societal actors. The contrasting results were conditioned by the institutional legacy of pension system and other complementary institutional domains, affecting thus actors' power asymmetries, strategies and ideas over the control of pension savings and the institutionalisation of pension funds as mechanisms for instituting socio-economic life. The Swedish and the German pension funds reproduced the institutional logic of 'patient capital' and 'productivity growth' whereas the British pension funds nurtured the logic of market-liberal capital actors that aimed for 'profit-maximisation'.

The historical comparative analysis shows that the power struggle over pensions is neither natural nor neutral but politically contested since the institutionalisation of a new market actor within the political economy signals the attempts of actors to shape the very foundations upon which their operating and formulating their ideas. Analytically these aspects are captured by the exploration of the institutional features

of the pension funds in terms of administration, channelling savings, investment practices and finally their aims (see table 7.6).

The participation within the administration boards designate the ability of unions, employers, financiers and state actors to create power resources, gain experience and exercise their relational power over decision making. Whether the savings are channelled into government bonds, bank accounts, pension funds or employers' reserves illustrates the ability of actors to utilise these savings in order to reproduce their institutional role. The investment of these pension funds goes hand in hand with their aims and illustrate their strategies to shape the socio-economic context within which they operating.

During this period the administration of the funds differed since in Britain the savings were under the control of private managers of pension funds and insurance companies and the savings were invested to government bonds and equities other than those of parent company. In Germany the vast amount of pension savings where under the control of employers that invested the savings internally to boost the productivity growth of the sponsoring firm. Small firms externalised the control of the pension savings to insurance companies that faced serious investment restrictions (esp. in equities). In Sweden, the control of the three public pension funds was under tripartite representation board with unions and employers reaching a compromise to fund productivity growth and job expansion.

Effectively, in the Swedish pension system the funds were invested for social development and export-oriented firms, reflecting thus the demands of unions for welfare expansion and productivity growth that secured full employment. In Germany, the occupational pension funds were organised as 'book reserves' that provided a cheap source of capital to be internally invested in the firms. This logic exemplifies the premises of the 'social market economy' i.e. reconstructing and safeguarding economic growth, German capital creation, job growth and welfare redistribution. In Britain, the funds boosted British financial interests and the City of London as an international house for financial exchanges, with pensioners' savings invested in financial products and real estate (see table 7.6).

Table 7.6: A comparative overview of pension funds in the end of 1960s

<i>Pension funds in the end of the 1960s</i>	Swedish AP funds	German book-reserves	British pension funds
<i>Who controls</i>	Tripartite representation	Employers	Artificial separation- trust law, managers
<i>Pension contributions channelled</i>	Banks, Government bonds, promissory loans	‘Book-reserves’, Insurance companies (fewer savings)	Insurance companies, pension funds
<i>Investment in</i>	Social development and industrial capital (esp. export-oriented firms)	Export-oriented firms (within the firm)	Financial markets & government bonds
<i>Aim (political economy project-how is growth to be achieved)</i>	“provide business with more equity capital for the benefit of industrial expansion and increased employment”	“reconstructing and safeguarding economic growth, German capital creation, job growth and welfare redistribution”	high returns, strengthen financial capital & the City of London
<i>Unions ability to control</i>	Limited Structural - no direct control or challenging managerial prerogative or property rights, Relational: participation in the board Discursive- retaining its power over prioritising the premises of socio-economic development	Limited Structural: Decision-making only in case of company closure Relational: at the plant level, monitoring, work councils, gains through job expansion Discursive: coordination with employers	Limited structural: Participation in trust board, Relational: minority representation on boards Discursive: no power to shape investment-policy making

While the British pension fund governance prioritised the separation of nominal owners' economic and political control through 'trust laws' and handing the management of the funds to insurance companies, in Germany the dominant mode of collecting occupational pension savings allowed unions to monitor the investment of their savings and secure that they are aiming towards productivity growth. The revival of work councils therefore provided German unions certain power over the governance of pensions funds, while in Sweden, unions participated in the funds' boards and diverted investment according to their aims and objectives; social and productive development.

The establishment of pension funds as actors within the economy represented an important addition of a market player in capital markets and linked pension funds' nominal interests with the market economy. The differences in the ability of the nominal owners to participate in the control of funds investment, monitor the investment process and shape the overall framework of pension funds investment aims precipitated different governance practices that either empowered the role of collective bargaining over financial investment (as in the case of Sweden and Germany) and either empowered the role of financial capital interests over investment policy-making (the case of Britain).

7.5 The battle over institutional development in the 1970s and 1980s

Until the 1970s, the three pension systems crystallised the power asymmetries among key actors and the priorities set for each national political economy. The challenges faced by the three pension systems differed. The Swedish political economy needed further savings to boost productivity growth while the German case, the political economy demanded the replacement of old with new labour force. In the British case, the financial turmoil in the early 1970s left pensioners with inadequate income during retirement and firms' unable to provide the promised DB benefits. The responses to these challenges differed but the power struggle for pension development remained an open-ended process that did not dictate certain strategies over others and the proposals that dropped on the table highlighted the competing logic among unions, parties, employers and financiers.

By 1973, the response of the Swedish union movement was the introduction of two types of pension funds (i.e. AP 4, wage-earners fund) that would increase the channelling of savings to the economy but in return posed two radical aims; the democratisation of corporate governance and gradual socialisation of listed companies. However, the proposal disenchanted the moderate wage-earners and also triggered the redeployment of the employers to weaken collective wage bargaining. In Britain the establishment of SERPS was an attempt of the Labour party to honour the social contract signed with unions. Unions were able to exercise their discursive power over the creation of an agenda that prioritised the expansion of welfare programmes and increased the generosity and replacement rate of public pensions. While the Swedish and British pension system were at the heart of actors' power struggle, the German pension system maintained its premises to support the growth of exports and the job growth since early retirement schemes were used as a tool to renew the labour force and introduce the new technologies at the plant level. This was indicative that the German pension system remained embedded within a framework that prioritised the interest of export companies and the safeguarding of the income replacement levels for workers during retirement.

A valid question then is why mobilisation of power resources at all three levels proved an effective strategy for Swedish unions in the 1950s and not in the 1970s? Does this mean that attempts of the unions to institutionalise any radical aims and objectives as the logic of the pension system are doomed to fail? The answer depends on the context and in the ability of unions and societal actors to maintain their power over institutions, to discursively mediate alternatives and mobilise their power resources in order to challenge the boundaries of what is plausible within the market economy. The crucial difference within the Swedish pension system was that during the 1950s, the struggle was over institutional innovation that did not undermine the structural power of capital (i.e. managerial prerogative, property rights) within the market economy, whereas in the 1970s, the radicalisation of the labour movement clearly aimed at transforming the market economy institutions. Interestingly, the finding of this comparative analysis demonstrates that apart from the counter-mobilisation of employers in Sweden and financiers in Britain, the radicalisation movement was clearly realised as a threat for some workers (e.g. Swedish metal

workers in the 1970s, British workers in the 1950s) that had vested interests (e.g. higher wages, better pensions) in the reproduction of the market economy institutions.

With the international liberalisation of the financial markets and emergence of right-wing governments in Sweden and Britain there was a shift of power that favoured capital actors. As a result of these shifts, discussed in detail in the case chapters, the empowerment of financial capital actors with the emergence of short-term oriented private banks in Sweden and the City of London in Britain resulted at the channelling of new capital to the financial markets. The emergence of the international liberalised financial markets and the empowerment of financial capital actors were therefore crucial conditions that triggered institutional innovations in both pension systems.

In Sweden this was possible through the establishment of privately controlled mutual funds. Unions opted to endorse these mutual funds as an opportunity to participate in the wealth creation and gain control over an actor within the market economy that would increase their relational power within the financial markets. Schematically, instead of transforming the 'rules of the game', unions' opted to maximise their relational power resources and 'play by them'. In Britain, the coming of the Thatcher government attacked organised labour and strategically promoted the signing of personal private pensions that apart from channelling pension savings to private capital market actors, attempted to decrease the redistributive and collective character of occupational pensions. The aim of the Thatcher administration was not only to empower financial capital actors' role in the British political economy but also to deconstruct collective schemes and instead embed pensioners within the logic of market individualism and competition.

The question that arises thus is to understand the conditions under which actors are able to innovate or shape the direction of institutional change for the role of the pension funds within the market economy. As the research findings show, not all actors share the same power of introducing institutional innovations, merely due to their asymmetrical power resources. Therefore, what becomes apparent is that the institutional attempts of the pro-market actors to institutionally innovate were more successful than the proposals of the unions or their affiliated parties that were against the primacy of the markets. Interestingly, any institutional innovation that aimed to

undermine existing contractual relations or the vested interests of the market, required substantial mobilisation of power resources at the discursive and relational level, whereas the attack on the already institutionalised market interests created opposition even within the union movement itself (also the case of the Labour proposals in the 1950s).

7.6 Identifying similarities and differences during the neo-liberal era

So far the development of the pension institutions both in terms of their content and their logic varied across all three pension system and the pension funds. The maturation of the pension systems and the shifting socio-economic contexts are meant to placing modern pension system under fiscal constraints and budgetary challenges. However, while most of the recent publications tend to highlight the fiscal cost of public pensions, the welfare state literature has focused either on the politics of pension reform, the exploration veto points and the importance of political partisanship for understanding of pension reforms (Myles and Pierson 2001, Bonoli and Toshimitsu 2005, Anderson and Immergut 2007, Korpi and Palme 2003). At the same time that political scientists highlight the importance of political institutions and welfare institutions as mediators of the challenges that pressure pension systems, a growing literature on ageing, not exclusively but predominantly from economists, focus on the importance of ageing populations, low fertility rates, ‘demographic challenges’ and threats for public deficits as the major pressures for restructuring public pension institutions (Marin and Zaidi 2007, Zaidi 2008). However, I argue that the pressures stemming from the demographic challenges are rather over-estimated and there is more than ageing populations that triggered the recent pension reforms.

Using our cases as examples, during the 1990s the challenges between the German and Swedish pension system differed from the British one, since the former systems aimed to consolidate sound public budgets and therefore reduce the generosity of public pensions while the latter remained over-complicated and provided inadequate public benefits. The responses to the different challenges along with variation of welfare state institutional features, the logic of the pension reforms was similar across all three pension systems; channelling of savings to privately controlled funds, the introduction of means (or income) testing and the individualisation of the pension

system. The thesis moves on to identify who are the main subjects that shape the governance of pension systems, what are the means (mode of governance) they are employing and how do they manage to discursively mediate the necessity for pension reform restructuring (object of governance). Prior to this enterprise, it is necessary to understand the shifting power asymmetries in the institutional complementary domains for pension development.

7.6.1 Power asymmetries in the institutional complementary domains

Before examining the recent pension reforms and the particular aspects of pensions' governance, it is necessary to present an overview with the development in the institutional complementary domains. In the institutional domain of industrial relations, employers and market-liberal governments attacked the relational power of unions. In Sweden and Germany, two countries where exports and manufacturing remains an important motor of economic growth, employers' were able to pursue decentralised wage bargaining (Sweden) or enter into wage agreements with workers that were not institutional represented by labour organisations (Germany). Effectively, employers' were able not only able to introduce competition in the labour market but also to divert their investment abroad, undermining thus job growth domestically. These strategic attempts of employers' aimed in using the market tools of the labour market (i.e. unemployment, competition) as a disciplinary force to consolidate capital power and perpetuate the profitability of their firms.

Employers in both Sweden and Germany strategically attacked the labour institutions that provided unions with their power resources. The attempts of the Swedish employers' were more successful in decentralising wage bargaining and introducing a series of neo-liberal reforms in the Swedish political economy. The key difference between Swedish and German employers was that in Sweden industries and banks owners developed strong links that were able to be recognised in the name of just few families. This high concentration of ownership allowed Swedish capital to transform the market economy institutions and promote economic liberalism as the prime norm for the governance of socio-economic growth. Swedish unions were still able to preserve the control the Ghent unemployment funds as well as provide extensive

coverage for sectoral wage bargaining and therefore retained their high membership and density records.

In Germany, the employers' offensive strategy to withdraw from collective bargaining triggered a serious rivalry among employers themselves, since unions' were able to exploit the diffused ownership structures of the German political economy and the existence of several production sites across local states. Employers that faced labour disruption, quickly conceded to unions' demands with generous wage and benefits increases and maintained therefore their tight relations with their employees. Interestingly, large firms were able to privilege their skilled and loyal workforce but these plant arrangements were not applicable to other production sites, effectively creating a dichotomy between privileged core-workforce and peripheral workers in Germany³⁴. This dichotomy is apparent especially between the West and East Germany, since in the latter many workers were denied work councils rights or accepted longer working hours and wages below the levels of their unionised counterparts.

Apart from the changes in terms of power asymmetries, employers' strategies pre-empted the ability of unions and other societal actors to increase their relational power within the labour market but also clearly undermined their ability to exercise any form of power over the governance of the labour markets and maintain the target of full employment. The impact of these changes was crucial for the pension systems since the labour market remained the most important governing mechanism for establishing and granting pension claims. The increase of unemployment and the investment abroad not only reduced the bargaining power of workers but more importantly sharpened the inequalities that the labour market produced for pension claims between workers.

The empowerment of financial capital actors was possible through the both domestic and international changes, since private banks and insurance companies were able to exploit the path opened through the international liberalisation of the financial market.

³⁴ The contrast of core and peripheral workforce here refers to workers employed by large export-firms within Germany and their outsourced production elsewhere, respectively. Firms' practices such as outsourcing as well as the increase of service-sector jobs necessitate a reconfiguration of analytical tools for global labour analysis (see Standing 2000;2009, ft 22).

Table 7.7: The development of complementary institutional domains before the pension reforms in the late 1990s

	<i>Sweden</i>	<i>Germany</i>	<i>UK</i>
<i>Industrial relations</i>	<i>Decentralisation,</i> Sectoral bargaining, union fragmentation, employers unity, investment abroad	Undermining of collective bargaining & work councils, Employers' association disputes, SMEs, unionised & under-unionised workers	40% of Manufacturing jobs lost, lack of industrial bargaining
<i>Political parties</i>	SAP elites adopting ' third way ' & pro-EU	SPD in power, adopting a market liberal agenda, Pro-EU, " Neue Mitte "	New Labour launch the ' Third Way '
<i>Corporate governance</i>	Emergence of shareholder value , Favourable taxation for export-firms, MNs dominations	Emergence of ' shareholder value ', insurance companies take over as partners, banks reduce ownership, work councils	Domination of ' shareholder value ', DB into DC schemes, Private managers, financial services
<i>Financial system</i>	Emergence of private credit actors, Ministry of Finance and Central bank empowered	Short-term interests, Insurance companies empowered, Ministry of Finance & Bundesbank	Financial services, Independence of Bank of England , pension funds as institutional investors

While in Britain, financial capital and especially the City of London were among the dominant motors of economic growth already before the liberalisation of financial markets, in Sweden and Germany it was banks that owned most of the firms' shares. In both economies, the dominant role of the banks was supplemented by foreign direct investment in Sweden and through the rise of insurance companies as 'corporate shareholders' in Germany. The emergence of 'shareholder value' on top of corporate strategies is fundamentally crucial in directing investment towards profit-seeking enterprises that try to minimise labour costs and intensify the labour process.

Interestingly, during the recent pension reforms, the political parties that were in power were the historical political allies of unions, SAP, SPD and the Labour party. Still, the three parties endorsed pro-liberal market policies that highlighted the importance of the market tools for organising socio-economic life, individual responsibility, labour supply measures and finally competition over welfare services delivery. It was clear that all three previously left-of-centre political parties shifted towards a market liberal agenda that did not anymore represent unions' demands but aimed in boosting the economic and financial performance of domestic capital actors within Europe.

All these changes at the institutional domain of corporate governance, financial markets and industrial relations signalled the empowerment of short-term oriented capital actions that seek to maximise; 'shareholder value'. While the changes in the financial markets were not similar in all three countries, it is certain that private financial actors acquired significant roles within the national political economies, challenging thus the prioritisation of social partners' interests. As I have argued, the pension system should be analysed holistically and in relation with the developments of the complementary institutional domains. The question that arises thus is whether an institutional change in the complementary institutional domains triggers an institutional change for pension systems (Deeg 2005).

An initial response is that institutional change is not straightforwardly or functionally triggered. However these changes designate the different power asymmetries among key actors and the shift in their strategies. Whether they would be successful cannot be pre-determined but as researchers we are able to grasp that the recent changes in

the complementary institutional domains of all three pension systems further empowered the role of financial capital actors, increased the inequalities and insecurities within the labour market and therefore within retirement. The recent attempts for pension reform placed pension savings at the centre of the power struggle. Who gets to collect the savings, decide upon its investments and gain the profits was not merely a matter of redistribution struggle but also for power within the financial capital markets.

7.6.2 The institutional separation of political from economic control: the role of 'expert committees' and 'independent governing bodies'

The argument of Pierson and Myles (2001) that future pension reforms will have to be based on consensus and the appointment of pension committees was verified in all three cases. However the appointment of 'expert committees' has two implications in terms of power struggle. First not all key actors are equally represented in the committee affecting thus their ability to exercise relational power while the committee itself. Second, not all actors have equal power outside the expert committee itself. For example, in Sweden the pension committee was a 'top-down' attempt of political party representatives, state actors and pension experts to propose the reform. In Germany, the SPD deliberate exclusion of the unions from the committee ended into a 'negotiated' bargaining. In Britain the committee 'excluded' workers or pension groups representatives from the policy making and referred to them as one -among many- interest groups.

The first finding from the comparative analysis and the relation between the leadership of left-of-centre political parties with unions and pension groups is not without tensions. To provide a more schematic picture, whereas in the past unions' were able to pursue their demands through class politics and mobilisation of power resources, all recent pension reforms were attempts of political parties to avoid or weaken unions' power over the governance of pension system and funds. The two actors differed also in their strategies over instituting the content of pension with the three parties abandoning their redistributive policies to adopt a more 'realistic' and 'competition-enhancing' market liberal policies. Therefore as part of the changing modes of governance over the pension reforms, it is no longer unions and 'bottom-

up' approaches that are mediated through political parties but rather the reverse, i.e. political parties and experts mediate their demands through a 'top-down approach' over unions' interests.

The implications of this changing relation between the two actors, indicates that the politicisation over pension reform is not to be opened to the grass-root movements but rather to remain within the authority of independent boards and 'experts'. I argue that this was possible through the adoption of a market-liberal mode of governance that artificially distinguished between economic and political interests. Effectively, the three pension reforms have removed the administration from the state (Sweden) and the social partners (Germany and Sweden) and transferred the administration as well as the monitoring of these schemes to 'independent bodies'. The artificial separation of *economic* and *political control* over the governance of the pension schemes was accompanied with the introduction of independent governing bodies such as the regulating authorities for the occupational (German, Britain) and public pension schemes (Sweden).

This shift in the governance practice of the pension schemes is not just a practical manifestation for more efficient governance practices but entails a specific normative assumption for the superiority of market tools and the necessity of 'independent bodies' as the most effective tools for the governance of pension systems. Both the appointment of expert committees and the introduction of 'governing independent bodies' is neither democratic nor representative of nominal owners' interests; there are in fact '*top-down*' *modes of governance* over pension institutions.

Effectively, this mode of governance goes hand-in-hand with the discursive ability of market liberal actors to establish a discourse of a 'looming pension crisis' on top of the recent pension reforms and the political agenda. However, whether one agrees or not with the identification of such a crisis, it is certain that there are other alternatives- to privatisation and individualisation- to deal with the crises. Interestingly this mode of governance in all three pension systems went apace with a process of individualisation and enhancement of privately controlled pension funds. It is the implications of these modes of governance for the content and the logic of pension institutions that we now turn to.

7.6.3 Converging towards a residual pension system? The marketisation of pension rights

While the appointment of pension committees was a characteristic of the policy process of all three pension systems, the reforms themselves triggered substantial changes in the institutional features of the schemes. The thesis examines the institutional features of the pension system and shows that there have been both parametric policy changes as well as paradigmatic reforms. The parametric reforms affected eligibility conditions, calculation formulas, retirement ages and tax incentives while the paradigmatic reforms refer to the introduction of new schemes or the privatisation of existing ones.

To start with, *eligibility* on all the new pension schemes strengthened the links between pensions and labour market performance and tightened the conditions for rewarding a full pension. This reliance on the labour market however is no longer based on the existence of full employment. Therefore, effectively it does not only reproduce the inequalities *in* the labour market during retirement but also between workers with unstable career patterns and inadequate contribution record (e.g. women, low-skilled workers, unemployed). The marketisation of the pension rights therefore is first and foremost mediated by the participation and the performance within the labour market and the removal of citizenship as a condition that entitles retired people to a minimum guarantee income.

At the same time, the replacement rate of the public pension schemes was seriously curtailed in Sweden and Germany and despite the recent promises for an increase of the BSP in Britain, it remains the lowest among the three pension systems. The most effective tool for lowering the replacement rate of the public pension schemes was the introduction of *demographic formulas* that control for labour market and demographic changes for the determination of the pension benefit at the time of retirement. This “rationalisation” of the pension system found strong support among economists and market liberals that favoured the reliance on the market. However it is essential to point out that while pension systems are “rationalised”, their ability to meet their social policy targets is seriously undermined.

The introduction of the calculating formulas punish pensioners if they retire early or lack the necessary contributions or even if there are not many entrants in the labour market to contribute towards pensions. While this is presented as ‘actuarially fair’, it is a mistake to neglect that employees are not those who control the opening of jobs or shape labour market demand. The automatic calculating components favour the rationalisation of pension budgets but at the same time penalise workers for a condition that is beyond their control, with employers and financiers left untouched if they hinder job growth by diverting investment abroad and pressure firms to increase their shareholder value through downsizing jobs. This explicit link with the labour market that prioritises labour supply and flexible arrangements enhances pensioners’ exposure to risks.

Another set of similarities can be found in the funding and payment features of the new pension schemes since the recent reforms increased employees’ *contributions* share while employers’ contributions were either reduced (Sweden), remained stable (Germany) or increase at lower rate than their employees (Britain). All pension systems despite their institutional variation, introduced or provided generous *tax incentives* to wage-earners to channel their savings in the financial market. These tax incentives were provided along with substantial paradigmatic policy reforms and especially with the introduction of new pension programmes that remain privately-controlled and are organised as funded DC schemes.

The introduction of such programmes was common in all three pension systems but what differed was their role and character. For example in Sweden, these schemes replaced the previously public and earnings-related pension scheme, whereas in Germany it was added as another option for the organisation of occupational pension funds and finally in Britain it was introduced as a compulsory auxiliary pension programme. However it is not solely employers that enhance DC schemes, since the new Swedish public pension schemes as well as the British public ‘Stakeholder’ scheme also introduced DC benefits as way for state actors, such as Ministry of Finance and Treasury respectively, to avoid any costly commitments of the public budget to the pensioners.

As the financing burden shifts towards the employees, the question whether DC schemes would provide adequate income to pension remained unchallenged (until the recent financial crisis) and linked with the performance of the financial markets. While for market-liberal advocates these changes represent a way to boost private savings, the lack of generosity and failure to promise an adequate income in retirement would probably not undermine workers incentives to save but also expose them to lower income during their retirement. The introduction of compulsion as exemplified in the introduction of the Swedish and British personal accounts aims to secure the channelling of savings towards the financial capital markets.

In order to reduce the problem arising from the strengthening of the labour market mechanism over granting pension claims, both Sweden and Germany introduced *social assistance* schemes to deal with poverty alleviation for workers or citizens with low or inexistent employment records. The combination of these changes highlights the shifting logic in the Swedish and German pension system towards a market-oriented model whereas citizenship or labour market performance alone cannot guarantee poverty alleviation or income replacement rate but effectively pensioners with low contribution records would have to rely on means-testing, a policy that is mainly adopted by welfare systems that intervene after the market fails. While the cost-effectiveness as well as the poor and problematic delivery of means-testing in Britain have been well recorded (Ginn 2006, Pemberton et al 2006), the introduction of social assistance should be recognised as serving the logic of market liberals that designate state provision only for those who fail to achieve protection through market tools.

The result of these parametric changes and paradigmatic reforms, is that the logic of the three pension system *shifts the risk* for an inadequate pension to employees and links retirement income not only with the performance in the labour market but also with the investment of pensions savings within the financial markets. At the same time, the demise of collective schemes or redistribution among pensioners enhances a logic of instituting pension relations that renders *individuals* responsible for their inadequate retirement income and inserts choice between pension funds managers as if pension savings are realised purely as financial market investment.

Institutional development therefore varied across the three pension systems but the *direction* of the institutional changes and innovation was towards the empowerment of market provision, the shift of risk towards the employees and the introduction of means (or income) testing. Essentially the recent changes in all three pension system highlight the recent institutional innovations (the PPM in Sweden, ‘Personal Accounts’ in Britain) and institutional reform (Public Insurance Schemes in Germany) rely on pension programmes that further enhance individualisation as well as the role of market in pension provision. The marketisation of pension rights therefore is enhanced across all pension systems but the interesting point is that this dynamic is mediated through different set of institutional complementarities and power relations. It is the role of the latter that the thesis now turns to.

7.6.4 Embedding power over the governance of pension funds: a comparative perspective

So far the analysis identified the similarities across the recent pension reforms and highlighted that all three pension systems enhanced the role of markets through parametric policy changes that reduced the generosity of the existing pension schemes and the introduction of paradigmatic reforms that increased the reliance on private pension programmes and shifted the responsibility to individuals. We now move on to compare the recent institutional changes across the governance of pension funds and the importance of power and institutional complementarity.

The recent pension reforms represented an opportunity to channel more savings to the financial markets and the question *who* would control these savings was at the heart of this power struggle. As it has been already demonstrated, the recent pension reform enhanced the channelling of savings to privately controlled pension schemes that divert savings according to liberalised investment portfolios. The Swedish pension system for example has set a series of guidelines that allow the majority of the savings to be invested in domestic and foreign equities. At the same time the German pension reform introduced a new pension savings vehicle that allows the creation of an Anglo-Saxon type of pension funds that faces no investment restrictions (‘pensionfonds’) while the internally controlled ‘book-reserves’ were replaced by the adoption of externally managed pension funds (‘CTAs’). In Britain, despite the difficulties of

pension funds and insurance companies to meet their liabilities, a significant proportion of pension savings is still under the investment control of private managers.

The replacement of the famous 'book-reserves' came under strong pressure from international financial actors since they did not provide shareholders with the necessary transparency regarding the firms' liabilities. Therefore the endorsement of 'Anglo-Saxon' pension funds was linked with developments in corporate governance and the pressures of international investors to prioritise 'shareholder value'. While this replacement was an outcome of international pressures, the introduction of the CTAs at the plant level was an outcome of power struggle that relied heavily on the importance of corporate governance and labour institutions at the plant level. The introduction of the CTAs represents an institutional innovation of the employers that revives the importance of labour institutions and especially the work councils' agreements.

At the peak level, unions' in Germany benefited from CDU's withdrawal from the policy process and seized the opportunity to use their relational power and bargained with the SPD/Green coalition. The Schröder government granted collective bargaining schemes precedence (*Tarifvorbehalt*) over private schemes, allowing unions to participate in the governance of occupational pension funds (*pensionfonds*). Effectively, the lack of any labour law for collective bargaining over occupational pension schemes provided the opportunity for unions and the government to introduce an institutional innovation which provided the opportunity for unions to maintain their power and secure an eight (8) years tax rebate for their occupational pension funds.

The revival of collective bargaining at the sectoral level through the adoption of 'pensionfonds' and at the plant level through the adoption of 'CTAs' suggests that in countries where labour institutions remain in place, collective bargaining actors could still maintain their key role over the governance of the pension funds. While both Swedish and German union retain part of their strength in the labour market, it is valid question then to explain why did the revival of collective bargaining occur in Germany and not Sweden? The answer would have to focus therefore on the importance of power and institutions over pension funds' governance.

First, the Swedish unions were not recognised as social agents within the policy process over the governance of the pension systems and therefore unable to enter the power struggle. The governance of pension funds therefore differed insofar as the ability of unions to enter the power struggle and the policy making process. In comparison with the German unions, Swedish unions were not able to exercise their relational power and bargain over the creation of the new actors. Second, the Swedish occupational pension schemes were not under any substantial pressure to be reformed. Therefore, the established institutions of collective bargaining were not mobilised, leaving intact the existing arrangements at the second tier of the Swedish pension system. Essentially, the ability of actors to participate in the pension reform process as well as the institutional legacy constrained the ability of Swedish unions and enabled their German counterparts to exercise their relational power over the governance of the pension system. The important differences in terms of power relations over the governance of the Swedish and German systems was essentially the inability of Swedish unions to discursively defend their symbolic status as social agents.

Another crucial aspect is that there was a significant difference among the attempts of employers in both Sweden and Germany to attack unions' power and labour institutions. The high concentration of ownership allowed Swedish capital to transform the market economy institutions and promote economic liberalism as the prime norm for the governance of pensions, whereas in Germany, the employers' offensive strategy to attack the existing labour institutions that represented their core workforce failed, preserving thus the ability of German organised labour within large firms to gain significant bargaining (relational) power over the governance of occupational pension funds.

In Britain, unions remain one among the many interest groups that are providing consultation for the expert committees without however achieving to challenge the primacy of insurance and pension funds associations. Their ability to exercise any discursive power and be recognised as social agents for the governance of pension funds remains low, or perhaps minimal. The demise of collective bargaining and the domination of 'shareholder value' over the British corporate governance institutions does not allow unions to mobilise resources and represent collectively organised labour interests over pension institutions. Instead, most of unions power is

concentrated within the firms' pension fund boards but as other studies have already shown, (Minns 1980, Clark 2000), unions fail to challenge financial market practices and discursively mediate alternative investments. The British pension funds therefore reproduce the primacy of 'pension fund capitalism' and continue to embed the interests of pensioners' within the logic of the market.

The changes in the power asymmetries among the key actors across the three pension systems demonstrate the importance for unions' to establish institutions, either as a way to maintain high membership rates or even as actors within the economy. Employers on their behalf managed to reduce their share of contributions and especially in Britain replaced DB with DC schemes. Still, extensive investment on the financial markets renders pension funds or firms saving schemes vulnerable to the volatility of the financial market. However, the striking similarity across in all three cases is that unions were not able to challenge the fundamental discursive power of financial capital actors and the investment of pension savings towards the financial capital markets. The empowerment of private (e.g. banks, insurance companies) financial actors along with the support of public ones (e.g. Ministry of Finance, Treasury, Central Banks) is the major similarity across all three pension systems. The pressures to shift the burden from of the public schemes and channel more savings towards private capital markets necessitated the strong support of public financial institutions and represented the main aim of private capital actors.

Tables 7.8 highlight the ability of the key actors to capitalise on their power resources over the governance of pension funds. The similarity across all three cases remains that private and public financial actors have been able to increase the amount of pension savings that is invested in the financial markets. Unions' power resources across all three cases vary. The British organised labour demonstrates weak ability to exercise any power over the governance of pension funds. The Swedish unions maintain their high membership but remain excluded from the control of the funds while the German unions maintain their power through the perpetuation of labour institutions over pension fund governance. The logic of the investment as well as the channelling of savings differs, since for example Swedish and German regulations remain extensive with both adopting an insurance law regulatory framework that monitor liabilities and assets.

Table 7.8a: Power of key actors over the governance of the pension funds in Sweden, Germany and Britain (2000s)

	Unions	Employers	Financiers	Political parties
Sweden	<i>Structural:</i> Lack of control over the funds	<i>Structural:</i> Participate in mutual funds' control, Multinational firms challenging unions' power, emergence of share holder value	<i>Structural:</i> (Managers) Control pension funds investment, channelling of pension savings liberalisation of financial markets	SAP in power <i>Structural:</i> Participation in the expert policy committee
	<i>Relational:</i> Locked in within the interest of SAP, able to develop mutual funds	<i>Relational:</i> Shift investment abroad, minimise their pension contribution, favourable taxation	<i>Relational:</i> Private Banks have corporate control	<i>Relational:</i> Top-down relation with unions, collaboration with other parties
	<i>Discursive:</i> Embedded within the interests of productive and financial capital	<i>Discursive:</i> Able to prioritise pro-liberal governance practices and ideas	<i>Discursive:</i> (Ministry of Finance, private banks): low public deficits, less reliance on the state, primacy of privately controlled funded schemes, 'personal choice'	<i>Discursive:</i> Universality through funded schemes, SAP increasingly pro-European, elites adopt 'Third way'

Table 7.8b: Power of key actors over the governance of the pension funds in Sweden, Germany and Britain (2000s)

	Unions	Employers	Financiers	Political parties
Germany	<p><i>Structural:</i> Included in the policy process</p> <p><i>Relational:</i> Peak level collective bargaining, plant level work councils, mobilisation of resources Segmentation of interests and representation between unionised & under-unionised workers</p> <p><i>Discursive:</i> Negotiations of work councils in CTAs, unions in 'Pensionfonds'</p>	<p><i>Structural:</i> Adjustment to 'shareholder value' interests, decentralising bargaining,</p> <p><i>Relational:</i> Avoid contribution increases, weakening labour institutions in new production sites,</p> <p><i>Discursive:</i> Failed attempt to liberalise collective bargaining, contestation of labour institutions</p>	<p><i>Structural:</i> (Ministry of Finance and Economic Affairs, Bundesbank): Consolidating lower public deficits, Banks adopt short-term interests Allianz takeover corporate control</p> <p><i>Relational:</i> (Insurance companies): enhancement of private pension schemes, liberalisation of investment practices (still heavily regulated)</p> <p><i>Discursive:</i> 'Personal choice', market liberalism</p>	<p>SPD/Green in power: <i>Structural:</i> participation in the policy committee, deliberately excluding unions</p> <p><i>Relational:</i> Seek alliances with other parties, eventually unions</p> <p><i>Discursive:</i> Enhance 'market liberalism' and weaken 'social conservatism', 'Neue Mitte',</p>

Table 7.8c: Power of key actors over the governance of the pension funds in Sweden, Germany, and Britain (2000s)

	Unions	Employers	Financiers	Political parties
Britain	<i>Structural:</i> Excluded from policy making	<i>Structural:</i> Participation in the policy making and participation in funds board, Domination of shareholder value	<i>Structural</i> (NAPF, ABI): Control the investment of savings, (Treasury): reluctant to increase contributions Pension funds as institutional investors	‘New Labour’ in power <i>Structural:</i> willing to promote private alternatives, dropped the political affiliation with unions, endorse middle-income groups,
	<i>Relational:</i> lack of power either at plant or peak level	<i>Relational:</i> minimise contributions	<i>Relational:</i> Vested interests of workers and pensioners	<i>Relational:</i> Seek consensus
	<i>Discursive:</i> As an interest group	<i>Discursive:</i> CBI, NSE among the strongest groups	<i>Discursive:</i> Dominating the agenda, by far the most powerful interest group in the policy process	<i>Discursive:</i> ‘Market liberalism’, ‘Third Way’

7.7 Conclusion

The comparative chapter aimed to identify similarities and differences across the development of the pension system and explain what accounts for the institutional development of pension system and the role of pension funds within them. It showed that the differences that were exhibited in the governance of pension schemes and the role of pension funds varied according to the priorities that social actors set for the economy. Still the control and the investment of these funds remains at the heart of the power struggle with social actors' competing and mobilising their resources at the relational, structural and discursive level of power.

The adoption of a specific set of policy options in the recent pension reforms reflects the ability of private financial capital actors to exercise not only their structural power at the labour market or the corporate governance but also in their ability to embed pension policy-makers and key actors' within a discursive framework that prioritised financial markets as the motor of socio-economic growth. This marketisation both in means and the ends of governing pension institutions is based on the assumption that financial capital investment would provide high returns. This process is effectively rendering pensions as an opportunity to invest in the capital market and wage-earners become shareholders through the purchase of 'equities'.

In all three pension systems, the object of governance was realised as part of a financial contract that necessitated the adoption of market-based criteria and means for its governance (see table 7.9). Competition and individualisation became the prime norms for instituting pension relations in Sweden and it was enhanced through the state intervention in Britain. The actors that are realised to govern are increasingly domestic and private financial institutions that shape the future of the pension development. Interestingly, both the Swedish and the German pension systems undermined their 'solidaristic' and 'productivist' logics due to the lower replacement rates, changes in indexation and calculation formulas. These developments provide clear indication that despite their extensive regulation of both the Swedish and German pension system, there has been a departure from their previous institutional logic.

Table 7.9: Comparing objects, subject and modes of governance between the recent pension reforms
Sweden **Germany** **Britain**

	Sweden	Germany	Britain
<i>What is to be governed?</i>	Pensions as financial contract	Pensions as ‘bargained’ financial contract	Pensions as financial investment
<i>Modes of governing?</i>	Artificial separation of economics & politics, Market-based criteria for investment (competition, individualisation)	Risk-returns assessment, Market-based criteria for investment, Insurance Law (occupational solidarity in CTAs and Pensionfonds, competition and individualisation in personal schemes)	Expert committees, artificial separation of economics and politics, (competition, individualisation)
<i>Who s recognised to govern?</i>	Political parties representatives, exclusion of wage-earners	Private managers, external to the firm, workers raising ethical investment considerations	Public and private financial actors (Treasury, NAPF, ABI, CBI)
<i>Unions power</i>	Institutionally excluded	Revival of collective bargaining	Lack of any power over the governance of the pension system

After the political creation of a market for pensions, retirees were not anymore realised as nominal owners of the savings but as market players that had to be embedded within the discursively mediated reality of the financial markets. The celebration of personal freedom to invest and choose among market providers, resembles the illusionary freedom within the market where one is regarded as able to choose within the market but it is not allowed to contest the market itself. This 'marketisation' of the pension system will seriously challenge pensioners' ability to maintain an acceptable living standard since the pension system is not anymore addressing social policy but financial targets.

Despite the regulatory framework that places German pension funds under extensive regulation, both CTAs and 'Pensionfonds' in stark contrast with the previous practices, are externally controlled and invest their collected capital in domestic and international equities. Both the governance and the investment of pension funds mimic the governance practices of the financial market, with the channelling of savings towards equities rendering pension funds as 'shareholders' that seek profit and high returns. Apart from the Sixth AP Fund (2008) in Sweden, there is no guaranteed commitment among the pension funds examined here, in boosting new technologies and productive investments. The only major regulation that effectively restrains the investment of pension funds, is an 'ethical investment conduct' that funds, especially in Sweden, have to apply to (see AP-Fonden 2008,). Still, the investment in financial services should not be realised as an apolitical shift in pension fund governance but rather an institutional change that is increasingly linked with the empowerment of private and public financial institutions and their ability to control the investment of pension funds' savings.

The common denominator of all pension reforms was the individualisation of risk, since the employees bear the risk twice. First individuals bear a risk in establishing a pension claim within a labour market, with the latter not guaranteeing full employment anymore but rather highlighting labour supply measures and flexible arrangements for employees. The second risk that employees and pensioners carry is the investment of their savings within the financial market, since it remains a responsibility of the pensioners to choose among pension fund managers and

insurance companies that would assess the risk of investing their savings and therefore achieving adequate income during retirement.

Overall the comparative chapter identifies that the recent pension reforms strongly promoted the *individualisation* of risk, the enhancement of *privately managed* funded schemes and the investment of the pension savings in *equities*. The ‘equitisation’ of pension savings referred not only to the increasing investment in domestic and foreign corporate equities but more importantly it represented a mode of governance that enhanced the use of market tools and logic (e.g. competitions and individualisation) over the governance of pension systems. Instead of prioritising therefore social and productive development, the recent pension reforms boosted the power of financial actors and their ability to embed pensions and pensioners’ interests within the financial markets. The continuation of the institutional arrangements not only continue to expose pension savings to the stormy financial markets but more importantly represent a substantial shift of power away from unions and savings’ nominal owners in favour of capital actors.

A substantial question is whether the current financial crisis will place the ‘equitised’ pension systems under the scrutiny and the serious challenge of societal actors. With the pension funds assets invested in the stock markets, the failure of the market to provide the benefits will exacerbate the political pressures for state intervention due to the poor returns of financial investments. Already in the midst of the financial crisis, occupational pension funds, face serious losses and they seem unable to meet their liabilities (OECD 2008). In a sense, while the recent pension reforms advocated reliance on the market and private alternatives, there would certainly be a questioning whether the market can provide adequate retirement income to pensioners.

The perpetuation of this mode of governance and the prioritisation of financial capital interests over the social policy targets is already showing how the dependence on the volatile financial markets is bound to fail in delivering its promises but also designates the shifting of power relations between the actors involved in the governance of pension institutions. The unions remain an important actor as long as the institutional framework and the governance practices enables organise labour to participate over the governance of pension institutions.

Chapter 8: Concluding remarks

8.1 Introduction

This chapter concludes the thesis, both summarising its empirical findings and also discussing its contributions for comparative social policy literature. In chapter two and three I discussed the importance of power and time within welfare state literature but also as analytical tools for social research. Chapters four, five and six provided a historical approach for the development of the pension systems and funds within Sweden, Germany and Britain respectively. The empirical chapter assessed continentally the importance of actors' power asymmetries and the importance of institutional legacy in framing future path for pension institutions. In chapter 7, I provided a comparative assessment of the pension reforms and the role of pension funds within the different market economies. This chapter summarises the two key arguments of this thesis. First, that pension institutions do not merely represent benefits programmes but effectively create financial capital actors within the political economy. Second, research should focus on the importance of power and time for understanding and analysing change in pension institutions.

The thesis contributes to social policy and historical institutionalism literature through the theorisation of power and institutional change. Methodologically, the thesis contributes through the analysis of complementary institutional domains that provide a holistic approach for understanding the shifts in actors' power asymmetries. Analytically, the diachronical approach and the explicit pursuit of 'systemic process analysis' are innovative attempts that posit time and sequence as part of the empirical reality. Finally, the thesis contributes empirically in identifying the role of financial actors as conducive for the development of pension institutions.

The chapter continues with a brief presentation of its main contributions; theoretical, methodological, analytical and empirical. In section 8.2, I summarise my findings from the recent pension reforms and relate their institutional transformation as part of the strategic attempts of market liberal actors to promote the individualisation of risk,

the enhancement of privately managed funded schemes and the investment of the pension savings in equities. In section 8.3, I argue that in order to adequately capture the process of institutional change, researchers need to focus on the importance of power in determining the direction of institutional change as well as explaining the shifts in the logic and the contents of the pension institutions.

The chapter continues in section 8.4 and it shows that time is as an essential tool for social research. In it, I demonstrate the usefulness of the ‘systemic process analysis’ such as the inductive observations for the necessity to incorporate financiers among the key actors for the development of pension institutions. In section 8.5 I discuss the various approaches that highlight the importance of institutional continuity and I argue that changes in the institutional complementary domains of pension systems can be conducive in shifting the power imbalances among the key actors realised to govern pension institutions.

In section 8.6, I argue in favour of a three dimension power perspective; structural, relational, discursive. I argue that the mobilisation of power resources at all three levels can be an important indicator for understanding the process as well as the direction of institutional change. In section 8.7, I highlight the importance of discursive power for understanding how the eruption of critical junctures could be analytically identified. After these points, I conclude my contributions and findings by moving beyond the inductive and deductive approaches undertaken within the systemic process analysis and suggest that social policy development is not solely a struggle for redistribution but also ‘a struggle for institutional innovation’(section 8.8). The chapter ends in section 8.9 with the limitations of this thesis and suggestions for future policy research.

8.2 The marketisation of pension rights and funds governance

In the analysis presented in chapters four, five and six, I argued for the importance of institutional legacies not as conclusive but as constitutive to actors’ power in shaping pension development. Therefore the thesis explored historically the development of pension rights and the role of pension funds within the national political economies.

The findings of the thesis identify that there has been an important shift in terms of power relations among employers, unions, financiers and state actors and along with these changes, the empirical findings suggest an empowerment of the market rationale and the use of market tools for governing pension systems and funds. The argument of the thesis holds that institutional legacies of pensions systems retain their importance in framing policy solutions and responses but at the same time recognises that paths alone cannot explain the process of institutional development. Instead, I argue that institutional legacies should not be understood as path dependent drivers that nurture inertia or stability but instead as actively reproducing power dynamics that either enable or constraint actors' ability to mobilise resources and exercise power.

In regard to pension systems, these power imbalances have been accompanied with an empowerment of the market rationale and the intensification between labour market performance and rewarded benefits. The marketisation of pension rights is realised both in terms of the reduced generosity of public pension benefits as well as the tightening of the link between pension benefits and labour market performance. As the study showed, all pension systems have reduced the generosity of public pension benefits, by tightening eligibility rules and reducing their replacement rate. The incorporation of demographic formulas aim to 'rationalise' social spending and are effectively placing 'sound pension finance' as a top priority over social policy targets.

The lower generosity and reliance of public pension programmes was accompanied by generous tax incentives for strengthening the role of private occupational and personal schemes. In occupational pensions, there is an increase of defined contribution over defined benefit pension plans along with an increase of employees' over employers' share of contributions for financing pension schemes. Both these changes essentially transfer as well as intensify the risk that (prospective) pensioners hold, since it is the latter that are increasingly held responsible for achieving adequate retirement income. Interestingly, this transfer of risk towards the individuals is not accompanied with their empowerment over determining the labour market conditions.

Apart from the aforementioned parametric policy changes, the replacement of social citizenship schemes with the introduction of social assistance programmes exemplifies paradigmatically the empowerment of market rationale that designates

minimum support for those who fail to achieve adequate pensions through the market. The parametric and paradigmatic pension reforms in all three pension systems observed at the end of the period under review highlight empowerment of private provision.

For some authors the increased significance of private schemes is realised as ‘complementary’ rather than ‘substitutive’ to public schemes (Seeleib-Kaiser 2008, Leisering and Brener 2005). According to the authors, the rationale as well as the content of the pension system is not under substantial pressures, neither is it threatening its ability to meet social policy objectives. Methodologically, the complementarity thesis results to regard ‘private’ and ‘public’ as merely descriptive analytical categories rather than substantive to the ability of actors to mobilise resources and exercise their power in shaping pension institutions. Pension institutions play a crucial role for channelling savings to the capital markets and who gets to control these savings designates which actors are able to shape and determine investment practices as well as empower their role within the financial markets. Whether the funds are channelled therefore into a public or private fund and are controlled either by tripartite representatives or by capital actors is of key importance, since it not only affects investment aims but mainly empowers social actors asymmetrically. Indeed, as I argue in chapter 2, the relation between public and private should not be realised as static but as a dynamic one. Empirically this argument was verified through the various struggles, actors’ strategies and counter-campaigns (e.g. British financiers in 1957, Swedish employers in 1980s) over who would control pension savings.

The struggle over collecting and controlling pension savings has been a key issue throughout the empirical analysis. In the last two decades, the process of marketisation was not only apparent in the content and the logic of the pension systems but is also exemplified in the introduction of pension funds with liberalised investment portfolios. The Swedish and German pension funds shifted away from their ‘solidaristic’ and ‘productionist’ logic and institutionalised investment vehicles that are controlled by profit-driven pension fund managers and financial capital actors. Despite their regulatory differences, all pension funds followed a liberalised

investment portfolio that directed pension savings to financial capital markets products (e.g. equities).

Overall, the comparative chapter identified that the recent pension reforms promoted the individualisation of risk, the enhancement of privately managed funded schemes and the investment of pension savings in equities. Pensioners therefore are more exposed to market risks while at the same time private managers are able to control the bulk of pension savings. The changes both in the content as well as in the logic of the pension systems highlight the necessity to understand both the causes for these institutional changes but also to account for the direction of these changes.

8.3 Power and institutional change

Historically, the direction of institutional changes and innovations followed paths that either promoted the market-liberal rationale or subordinated markets in order to meet social policy targets (Polanyi 2001[1944]). The thesis examined historically these shifts in power imbalances and identifies how actors' power relations translate into modes of instituting the logic and the content of pension schemes and funds. These findings are linked with the literature on institutional change which until recently neglected the importance of power relations as a determinant of institutional change. Therefore the thesis offers an important contribution towards the theorisation of power and institutional change. This relation is explored in two ways; first to understand when and how are actors' able to trigger institutional change but also account for the direction of this change.

For this reason, it is essential to identify first the key actors that shape the path of pension institutions. The first contribution of this thesis was to move beyond usual suspects for welfare state development, i.e. unions, employers, state actors and to empirically explore *the role of financiers* as agents of institutional change for the pension systems. In order to capture the complexity of pension reform and the main institutions that affected its development, the thesis explored historically the development of institutionally complementary domains of corporate governance, financial systems, labour relations and political parties as conducive for the ability of these four actors' power to shape their strategies. Applying the method of difference

and agreement, I demonstrate that the role of financial capital actors remains neglected within the strands of comparative welfare state literature but as the case of the British pension system shows, it became an enduring causal factor in framing policy solutions.

In order to assess the *direction of change*, the thesis rendered power as an analytical tool that examines the capacity of social agents to exercise structural, relational and discursive power. Power is characterised by the creation and mobilisation of resources by social agents and is spatially and temporally crystallised into modes of governance that are translated both in terms of *the content for pension institutions and also a mode of instituting them* (Carmel and Papadopoulos 2003). All three dimensions of power are mutually constitutive and are only analytically distinguished.

These empirical examples demonstrate that the development of pension institutions did not follow a similar logic across the three pension systems, reflecting therefore on the importance of complementary institutional domains in contextualising the power imbalances among unions, employers, financiers and state actors ability in setting the institutional context for pension development. Therefore rather than limiting the analysis of power in relational terms, the thesis offers a multi-dimensional approach that analytically explores the ability of actors' and their power in shaping pension institutions (table 9.1). The thesis therefore identifies that the mobilisation of resources in all three levels is the necessary condition for actors to shape pension futures. This *pattern* therefore could be used inductively as an initial assumption for theorising power and institutional change.

Table 8.1: Power of actors over the governance of the Swedish, German and British occupational pension during the late 1950s³⁵

	Unions	Employers	Financiers	Political parties
Sweden (ATP)	<i>Structural:</i> participation in unemployment fund control	<i>Structural:</i> managerial prerogatives, property rights	<i>Structural:</i> (Private Banks) Participation in corporate governance	<i>Structural:</i> (SAP in power)
	<i>Relational:</i> party politics, challenge private accumulation of savings	<i>Relational:</i> loss in party politics, avoid pension competition	<i>Relational:</i> lack of power (private banks) to undermine public pensions	<i>Relational:</i> class and political party alliances
	<i>Discursive:</i> maintaining the premises of the Rehn –Meidner Plan	<i>Discursive:</i> failure to challenge publicly controlled pensions	<i>Discursive:</i> Lack of alternatives	<i>Discursive:</i> solidarity, redistribution
Germany (Social Insurance Reform)	<i>Structural:</i> Segmented unions (DGB-DAB)	<i>Structural:</i> managerial prerogatives, property rights	<i>Structural:</i> (Private Banks) Participation in corporate governance	CDU in power:
	<i>Relational:</i> at peak level bargaining	<i>Relational:</i> avoid pension and wage competition	<i>Relational:</i> Bundesbank unable to constrain the replacement rate	<i>Relational:</i> occupational segmentation
	<i>Discursive:</i> place pension reform in the agenda	<i>Discursive:</i> ‘social market economy’	<i>Discursive:</i> ‘Monetarism’	<i>Discursive:</i> ‘social conservatism’
Britain (SGS)	<i>Structural:</i> Lack of power resources at the peak level	<i>Structural:</i> managerial prerogatives, property rights,	<i>Structural:</i> Insurance companies, Pension funds- control the investment of savings	Conservatives in power, pro-market solutions
	<i>Relational:</i> at the plant level	<i>Relational:</i> entered pension competition	<i>Relational:</i> growth of private plans	<i>Relational:</i> ‘contractual pensions’
	<i>Discursive:</i> Strategically endorsed the contractual relation in pensions	<i>Discursive:</i> CBI not as powerful – struggle with financiers	<i>Discursive:</i> counter-campaigns, policy proposals, dominating the agenda	<i>Discursive:</i> ‘ (Labour): Pension agenda, failure to unite unions

³⁵ I use bold to highlight actors’ ability to mobilisation power resources at all three levels and the party that was in power.

8.4 ‘Why time matters’: methodological explorations

In order to capture the importance of power asymmetries and institutional legacies, I adopted a historical perspective, that would not only provide an adequate number of cases for institutional changes but more importantly explore empirically how institutions reproduce power imbalances. A key challenge for this research endeavour was to identify an approach that would be in line with the ontological and epistemological premises of this thesis that define social reality as contingent, complex and an open-ended process. The use of ‘diachronical analysis’ prescribed this research the foundation for a comparative study that places the development path of pension systems and the pace of change as important features of the analysis. Policy legacies are realised as conditional for prescribing power asymmetries and shaping actors’ strategies but by no means are realised as conclusive to actor’s conduct.

Methodologically, the application of diachronical analysis provided an innovative research attempt that retains the path of pension development as open-ended, exploring therefore both successful paths as well as rejected alternatives. In this way the research avoids any functionalist accounts or theoretically derived arguments for the process of change and instead opts to identify any patterns for the development of pension systems.

Empirically, this research approach enables us to understand ‘what is possible’ or ‘what else is possible’. Analytically, this research endeavour aimed to identify a causal assessment that could link power and institutional change. Following what Hall (2003) calls ‘systemic process analysis’, the thesis applied the methods of agreement and difference in order to test deductively whether the ‘power resources approaches’ prediction are verified in the various cases and whether the comparative analysis can identify inductively some patterns for explaining causal assessment. The application of the method of agreement and difference showed that while the power resources were able to explain the content of pension institutions, it failed to explain the different logics and replacement rates in the introduction of basic universal pension schemes. It is here that thesis identifies the role of (British) financial actors as

conducive for the development of pension institutions, since by insisting on lower replacement rates for the public schemes they perpetuated their empowered role in the governance of the pension institutions.

The incorporation of the financial actors along with the other “usual suspects” (e.g. unions, employers, state actors) in triggering institutional change therefore prescribes this research with an inductive observation and explores its importance through time. It is interesting to note that despite the well documented literature on welfare state development, few studies explored historically **and** comparatively the role of financial actors. The thesis explored empirically the importance of the financial actors in shaping pension development and identified their ability to dominate the British pension policy development even before WW2, while in the German and Swedish pension systems, they only gained substantial power over pension policy development within the last two decades.

This research approach explored also the ability of societal actors’ to introduce their own union-controlled pension funds that recognised the role of financial capital actors and aimed to undermine their structural power of collecting and controlling capital investment. However, as the attempts for the union-controlled pension funds in Sweden and Britain showed, unions’ were limited in their ability to mobilise resources and exercise significant power over the future of the pension institutions if capital actors’ structural power (e.g. property rights and management prerogatives) was threatened. More importantly, any radical transformation such as the proposal of union-controlled pension funds would effectively not only undermine the structural power of capital but also of some parts of the labour movement that were in favourable position within the (labour) market economy (e.g. British TUC in 1959, miners in Sweden, Germany).

8.5 Questioning institutional continuity: inertia, hybrids, complementarity

The empirical findings of this research argue that the process of marketisation of pension rights and funds' governance is intertwined with changes in power asymmetries. This argument comes at odds with the mainstream new politics of welfare approach that states that pension politics are a 'locus classicus' for policy inertia (Pierson 2001). The thesis refutes Pierson's prediction as well as the analytical tools that he opted for to explore recent welfare state transformations. The narrow focus of the "new politics" literature fails to address the importance of power relations not only within the institutional domain of the political system but mainly within the political economy of the welfare state.

I argue that there is a substantial limitation in the traditional welfare state literature and in particular the work of Paul Pierson since they do not incorporate the role of financiers in their theoretical arguments and analytical assumptions. In contrast, the VoC approach suggested that welfare institutions in LMEs and CMEs would be more subject to change or 'able to resist' the pressures that stem from the liberalisation of financial capital, respectively. Based on the findings of this thesis, the VoC prediction is dismissed since both German and the Swedish pension systems (typical examples of the CMEs) faced a substantive institutional change that clearly departed their 'solidaristic' and 'productivist' logic.

Recent studies on the relation between corporate governance, financial markets and the German pension reform (Vitols and Jackson 2001), argued that despite the pressures stemming from the capital markets and the shifting practices of corporate governance, the recent pension reform does not represent a substantial institutional change but rather the hybridisation of the German pension system. The 'hybridisation' thesis identifies the changes that occur within the pension system not as full blown transformation but as responses and adaptations. Interestingly, what analytically distinguishes a transformation or an institutional change is not clear and remains a subject of further empirical investigation.

Analytically, the question however remains, how many hybrids does it take to realise that a substantial change has taken place? Does the hybridisation of corporate governance and financial markets mean that there are only small-size changes in the pension system as well? The changes in the complementary institutions such as the ‘emergence of shareholder value’ in corporate governance, the liberalisation of investment for the financial system, the decentralisation of wage-setting in labour relations and the adoption of economic liberalism principles by Social Democratic parties, have shifted the power dynamics of key actors within the institutional complementary domains. I argue that these changes were then conducive to the ability of financial capital actors to undermine existing pension institutions and prioritise the importance of privately managed pension funds. The relation between institutional complementary domains is neither linear nor could it be immediately identified. Therefore, shifts in power imbalances necessitate a longer time-frame for understanding the process of institutional complementarity.

8.6 ‘Why power matters’: Explaining the direction of institutional change

In the past, unions, employers and financiers’ ability to control pension institutions framed the institutional development by deploying and mobilising their resources at all three levels. This differentiation provided distinctive institutional paths for pension institutions in terms of their aims; social and productive development in Sweden and Germany and financial development in Britain. In the case of the most recent pension reforms the empirical findings suggest that the institutional changes that occurred both in terms and the content and the logic of pension institutions have been framed by the power of financial capital actors to introduce their logic as the prime norm for the governance of pension reforms and funds.

The literature on institutional change has either neglected the role of power relations in determining institutional change (Streeck and Thelen 2005) or narrowly conceived power as a game among rational actors (Korpi 2001). What derives from the comparative analysis is that the ability of actors to institutionally innovate or trigger change is not equal and neither do all actors share equal resources. I argue that the

direction of institutional change is determined both by the institutional legacy of pension institutions but also by the ability of actors to mobilise resources and place their logic of instituting (artificially separating politics from economics) as the prime norm (e.g. competition) for the governance of pension institutions. However, the comparative assessment of the recent pension reforms designated that although unions that are able to control labour institutions (e.g. collective bargaining, corporate governance) are better-placed to shape the development of pension funds (see the differences between the German *Pensionfonds* and Swedish AP funds), they were not recognised symbolically as social partners within the pension policy-making process.

Focusing on power relations, the thesis shows that workers, who were collectively organised and controlled labour institutions, were able to bargain and participate in the administration of the pension schemes e.g. the revival of collective bargaining for the governance of the German occupational schemes (Ebbinghaus 2005, Trampusch 2007). On their behalf, labour institutions represent significant ‘fountains of power resources’ that enhance the ability of workers to bargain and prioritise their interests in socio-economic relations. The undermining of these institutions and the empowerment of financial capital actors was clearly on display in the recent German and Swedish pension reforms and will be of key importance for future policy debates. In Britain, the failure of unions to be recognised as a key actor for the development of the pension system is indicative for their lack of discursive power, since they are realised as an interest group among others.

Focusing on the power resources approach, the first point is that the relation between political parties and unions do not necessarily hold as tight as before, neither are they both now necessarily committed in extending social rights, redistribution and universality. The second and more important point is the realisation that the analytical use of power would have to be broadened. The thesis expands the study of power analytically by adopting a three dimensional theoretical approach; structural, relational and discursive. The importance of these three dimension helps us understand power not only as relation among two actors but also helps us to explore how the existing structures and ideas constitute actors’ ability to mobilise resources and shape their strategies.

I will briefly elaborate this point by discussing this approach with the key contributor in this field, namely the power resources approach and Walter Korpi. For Korpi (2001) and his 'augmented rational choice approach', institutions represent 'the prevailing balances of power' and are accordingly the outcomes of power struggle that in return are able to 'structurate' power asymmetries among actors. Institutions therefore lack their own autonomy to change priorities and logics but rather reproduce the same power asymmetries similar to the time of their inception. In this way, institutions could be instrumental to the winners of the power struggle and therefore create virtuous circles for the reproduction of power imbalances. Still, what remains obscure in Korpi's schema are the mechanisms of identifying institutional change as well as how shifts in the balance of power are explained.

As Korpi suggests, the optimum way to trigger the institutional change is when the power asymmetries gap is narrowing between the actors. To put it simply, in the power struggle over determining welfare state institutions, unions would be able to challenge the prevailing power of capital actors, only when the 'power gap' is narrowing. However, reflecting on the recent pension reforms, the power asymmetries in all complementary institutional domains between capital actors and unions instead of narrowing, were widening. If we maintain that institutions are instrumental and at the same time able to structurate power asymmetries, then how is it possible to narrow the gap? How do actors realise that the gap is narrowing? Therefore, while Korpi recognises the asymmetrical power between the various actors, his analytical schema appears unable to explain how institutional change is possible when the power relations are widening, relationally, structurally, and discursively.

As the empirical findings from all three recent pension reforms show, unions were deliberately excluded from the policy making process in Germany and Sweden or as in the British case remained one interest group among others. This exclusion and negation for unions to participate in the policy making process is linked with the attempt of various actors to prioritise particular modes of governance and to 'economise' (in the strictly narrow sense) the governance of pension systems and funds. The application of governance as an analytical tool designated the ability of financial capital actors to render the 'object of governance' (pensions) as a market, where pensioners were 'free to choose' among pension funds and investment

opportunities. The adoption of expert committees and the exclusion of unions' interests aimed to mimic the norms and logic of the market-liberal rationale in artificially separating 'economics' from 'politics', with the latter realised as a risk and the former as the most efficient tool for governing pension institutions.

Essentially the process of marketisation of pension rights and funds' governance not only increased the links with the labour market performance and invested the pension savings in the volatile financial capital markets but essentially aimed to replicate the market rules and norms as the most effective tools for governing pension institutions. Analytically the power of financial capital actors was captured by the creation and mobilisation of resources that were spatially and temporally crystallised into particular modes of governance. The latter embodied a particular *content for pension institutions* (privatisation, individualisation) and *also a mode of instituting them* (artificially separating economics and politics, expert committees). In this context, capital markets subordinated national pension systems and social policy objectives.

8.7 'What else is possible': Linking discursive power with institutional change

More importantly, the debate on power and institutional change has completely neglected the importance of ideas for triggering institutional transformation. The application of the diachronical analysis demonstrates the ability of actors to shape the institutional context or trigger path breaks. Social scientists cannot afford to neglect the role of ideas and especially the ability of different actors to exercise their discursive power through the formulation of agendas, ideas and proposals for instituting socio-economic reality. No other example than the discourse on the 'demographic crisis' that haunted the recent pension reforms could be better to understand the ability of capital actors popularise the so-called 'demographic crisis' as a problem for which policy-makers should find solutions.

Linking the findings of this thesis with the historical institutionalism and path dependency literature, the points of contestation or formulation of alternatives are not only important during the eruption of 'critical junctures' but could effectively represent 'critical junctures' themselves. As this historical study showed, the Swedish unions did not wait for the opportunity to arise with the ATP scheme; instead it was

their proposal that was incorporated in LO's socio-economic plan in the mid 1950s that triggered the mobilisation of power resources. Even with the case of the 'wage-earners funds' or 'Titmuss' proposals' in Britain, actors' were able to create a new agenda that had to be met and contested by capital actors. These examples offer an alternative identification for how critical junctures could be identified, based on actors' power and mobilisation of resources.

Therefore the thesis provides an alternative way to identify 'critical junctures', rendering the latter not external to the analytical schema but as part of the empirical world. The benefit of this approach is that it allows researchers to identify the possibility of critical junctures based on the actors' strategic conduct. The success or failure of these strategies to trigger critical junctures are not pre-determined but are able to be realised as part of the empirical analysis. By no means such a research endeavour can be exhaustive or fully explain the rupture of such a critical moment but it prescribes actors the potential to question the institutional status quo.

8.8 The struggle for innovation

This research not only aimed to test deductive theoretical assumptions and explore inductively empirical patterns; it also aimed 'to interpret and recontextualise individual phenomena within a framework or set of ideas in a new way by observing and interpreting this something in a new conceptual framework' (Danermark et al 2002). This *abductive* process links actors' power and institutional change with what I came to call a 'struggle for innovation'. So far welfare states have been focusing on issues of redistribution, neglecting the importance of institutional innovations.

As the empirical findings of this thesis demonstrate, the struggle over the development of pension institutions is also linked with attempts at institutional innovation, e.g. the role of pension funds within the economy and the introduction of pension programmes. The ability of unions to participate in the governance of pension funds and exercise their power over the process of institutional change and innovation therefore remains conditioned within the institutional context in which unions operate but also in their ability to shape strategies and alliances with societal actors. As the Swedish and British cases demonstrate the ability of unions to innovate differed and

was circumvented by the ability of market actors to mobilise power resources and retain their discursive power for ‘what is possible’ or perhaps better ‘what is desirable’. In this way, the market economy narrows the space for institutional innovation when capital actors’ structural power is threatened and when societal actors remain ‘locked’ within the market institutions.

Summarising the findings as well as the theoretical and methodological contributions of this thesis, the question whether path dependency can explain institutional development remains a matter of empirical investigation. The thesis provided an innovative approach that aimed to link the importance of power and institutional change over pension institutions. It is certain that these findings are neither exhaustive nor conclusive for the development of pension institutions. However, the thesis demonstrated the necessity to consider the role of financial capital actors for welfare state development and comparative research agendas. The adoption of diachronical analysis provided the opportunity to realise time as part of the empirical world and exemplify how institutions and their legacies either enable or constrain future policy demands. The thesis argues in favour of a power theoretical research approach that highlights not only who are the winners and losers of the pension reform but mainly which actors’ logic and norms are determining the content of institutions and also the modes of instituting them. The existing power approaches should not neglect the importance of ideas and discursive attempts to mediate reality that is interlinked with the structural and relational capacity of actors to shape the content and the logic of pension institutions.

Whether the recent financial crisis undermines the role of structural power of financiers and other capital actors remains to be seen. It is certain though that the realisation for the necessity of a structural, relational and discursive mobilisation of resources would be needed in order to effectively shift the power imbalances in favour of societal actors. If the last 100 years of pension development teaches us something, it is that the future remains contingent and an open-ended process. Pensions therefore should not be realised only as benefits but also as investment vehicles and economic actors that could prioritise different demands and institute different logics than the current ones.

8.9 Conclusion

In the previous section I summarised the various contributions that this thesis makes to the existing welfare state and historical institutionalism literature. In order to make this research project feasible, I was aware that there is a theoretical as well as an analytical limitation to this thesis. The theoretical limitation is that the thesis remains focused on the pension systems and its complementary institutional domains within the nation state. The thesis does not explicitly explore the role of the European Union and could have been benefited from the role that EU actors and pension directives played for the development of national pension institutions. The aim here would be to uncover the ways that national pension systems are linked with the developments at the EU level as well as identify how the creation of the European social space empowered asymmetrically the ability of key actors to govern pension institutions.

The second limitation of the thesis is that the historical approach of this research prescribed documentary analysis as the main method for the collection of data and events that referred to the origins as well as the consolidation of pension systems. In a sense, the material collected has been organised by other authors, limiting thus my ability to raise my own empirical questions. Furthermore the limitation of financial resources did not allow me to conduct interviews with the key actors evolved in the recent pension reforms and therefore gain from their insights. Finally, one more important limitation of my research is that I had to rely on papers, reports and analyses that were written (translated) in English. With the exception of some German texts, my reading as well as the selection of my material in the case of the Swedish pension system relied exclusively on translated documents. Still the vast literature, which is available in English, on the Swedish and German pension system allowed me to cross check and gather the necessary information for my doctoral research.

The timing of this thesis could not have been better, since in the last few months the financial crisis dominated the discussions of both public and academic communities. With this thought in mind, what is missing from this thesis is the role of international financial actors and an explicit link with the investment and management of (nationally financed) pension funds. Ironically the work of Karl Polanyi was the guiding spirit of this thesis but the breakdown of the international financial system

reminded us the necessity to move beyond methodological nationalism and link scale and spaces of governance that transcend local and national borders.

Recollecting the various contributions that this thesis makes, the obvious choice for future research would be to apply this theoretical and analytical approach to more cases and test whether my suggestions need to be reformulated and applied in a broader scale. Moreover, the complexity and unpredictability of the social world, as exemplified with the recent financial crisis, places the power dynamics of pension finance at the heart of future social policy decision-making.

The last but most important research project is to study the importance of time and power within social research. The thesis provided new pathways and understandings for time and sequence for comparative research as well as suggested the analytical use of the three-dimensional power approach. The aim is to clarify the various ways that time and power are incorporated within the social research and provide a theoretical framework that regard these two key issues not only as analytical tools but also explicitly render them as objects of analysis.

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