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Financialisation meets collectivisation: occupational pensions in Denmark, the Netherlands and Sweden

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ABSTRACT
This paper analyses three cases where unions and employers have embraced financialisation in occupational pension provision. The widespread use of funded occupational pensions in Denmark, the Netherlands and Sweden is rooted in social partner agreement that collectively organised, capital funded pensions can be harnessed to generate secure income. External funding (legal separation of pension reserves from the employer) and administration were key elements in strategies to provide secure occupational pensions. The introduction of funded occupational pensions took place in the context of meagre and/or incomplete statutory provision and before the expansion of generous basic pension coverage starting in the 1930s. This sequencing had a 'crowding in' effect, because well-paid workers sought collective solutions to their pension gap. Over time, these arrangements came to encompass nearly the entire labour market. Unions and employers have developed distinctive strategies for limiting investment risks, limiting the involvement of private financial actors, and ensuring that the interests of plan participants and investment managers are aligned.

KEYWORDS Collective bargaining; comparative political economy; financialisation; funded pensions; organised labour

Introduction

What explains the high levels of financialisation in the occupational pension schemes of Denmark, the Netherlands, and Sweden? Dutch and Danish occupational pension assets exceed 100% of GDP and approach 60% of GDP in Sweden. These high levels of financialisation are surprising when we consider the dominant approaches to the study of the 'finance-welfare nexus' that emphasise the risks associated with the growing financialisation of welfare. As pension financialisation increases, retirement income is increasingly financed by income from financial assets rather than payroll contributions and taxes. This development generates distributional and political dilemmas: retirees face 'cohort risk' (lower pension income because of falling financial

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asset prices at the time of retirement); pension savers may lose a substantial share of their pension savings in a downturn; retirement income becomes more unequal; and commercial financial actors use their growing political clout to ensure light regulation (Burtless 2012; Langley 2006; Mabbett 2012) .

The comparative political economy (CPE) literature has long recognised that occupational pension schemes (whether they are capital-funded or not) can perform several functions. Employers may offer them to recruit and bind employers to the firm, whereas workers are more likely to view occupational pensions as deferred wages. Varieties of Capitalism (VoC) scholars argue that employers in coordinated market economies (CMEs) negotiate occupational pensions with unions to facilitate the acquisition of sector- or firm-specific skills (cf. Mares 2003). However, the CPE literature is relatively silent on the drivers of occupational pension financialisation, although there is a growing literature on 'pension fund capitalism' that analyses its non-market features (Clark 2003; Wiß 2015), especially in providing 'patient capital' to firms (Estevez-Abe 2001; McCarthy *et al.* 2016). The CPE literature thus points to the importance of funded occupational pensions in CMEs, but provides an incomplete account of institutional origins and maintenance (cf. Thelen 2004).

This paper draws on the CPE and financialisation literature to develop a novel understanding of the origins and development of funded occupational pension schemes in three small CMEs: Denmark, the Netherlands and Sweden. The paper argues, first, that external funding (legal separation of pension reserves from the employer) and administration were key elements in strategies to provide secure occupational pensions. In Sweden and Denmark, white collar unions in the private sector took the lead in demanding external funding and administration of occupational pensions in the early twentieth century. Workers demanded external funding to protect pensions from employer insolvency and guarantee portability. In the Netherlands, several high-profile cases of insolvency in the 1930s galvanised support among workers, employers and the state to require external funding and administration.

Second, the paper argues that in all three countries, the introduction of funded occupational pensions took place in the context of meagre and/or incomplete statutory provision and before the introduction of generous basic pension coverage starting in the 1930s. This sequencing had a 'crowding in' effect, because well-paid workers sought capital-funded, collective solutions to their pension gap. These arrangements gradually encompassed nearly the entire labour market, including public sector and manual workers. Despite initial resistance, employers accepted external funding and administration as central elements of negotiated pensions. Similarly, unions continue to support collectively organised funded pensions because they offer more generous benefits than book reserves or direct employer provision and contribute to wage moderation. In other words, employers and unions embrace a particular form of pension financialisation: collective schemes that are anchored in wage bargaining and underpinned by strong state regulation (Morgan and Orloff 2017). For employers and unions, the potential risks of financial market volatility are weighed against the benefits of secure, portable pensions.

These arguments contribute to the CPE and financialisation literatures in two ways. First, the analysis demonstrates that there is a subset of CMEs that relies on autonomous, funded occupational pension schemes as central components of employers' industrial relations strategies. Besides providing investment capital, funded occupational pensions in Denmark, the Netherlands and Sweden are vehicles for providing secure occupational pensions. Second, the paper shows that occupational pension financialisation does not lead inexorably to negative consequences for workers. From the start, the embrace of funded pensions was about using financial products to hold pension savings in reserve, separate from employers. As financial markets have become more complex and global, occupational schemes have adjusted their investment strategies to changing regulatory and market conditions. This does not mean that funded pensions are immune to market volatility, however, as the recent Dutch experience shows.

The next section surveys the CPE and financialisation literature on occupational pensions. Subsequent sections develop my arguments about why organised labour and employers chose externally managed capital reserves for occupational pensions and how their evolving preferences and negotiations shaped subsequent development. The final section briefly discusses the implications of the analysis for the CPE literature.

Financialisation and occupational pension provision

According to the CPE literature, occupational pension provision may serve several purposes. For workers, occupational pensions provide an important supplement to statutory benefits (Trampusch 2006). For employers, occupational pensions reward staff for loyal service, binding them to the firm. VoC scholars build on these insights, arguing that occupational pensions are important elements in the production strategies of firms in CMEs. As deferred wages, occupational pensions are part of the wage/insurance package that encourages workers to invest in firm- and sector-specific skills (Estevez-Abe et al. 2001).

Capital-funded occupational pensions are also a potential source of 'patient capital' (Estevez-Abe 2001). For example, Swedish state-run pension funds financed housing construction in the 1960s and 1970s (Pontusson 1994). Similarly, Japanese pension capital provided long-term credit to the economy (Estevez-Abe 2001).

Both employers and unions have a strong interest in affordable, secure pensions. Rising occupational pension contributions can lead to wage bargaining conflict, because the scope for pay increases will be (partially) absorbed by pension costs. The security of occupational pension benefits is also crucial, because of their status as deferred wages. If occupational pension plans do not deliver promised benefits, workers are likely to demand higher wages. The deterioration of occupational benefits may also unleash conflict within unions between inactive (retired) and active (employeed) plan participants.

Employer and union preferences for secure occupational pensions turn on their relationship to statutory benefits. There is scholarly consensus that comprehensive, generous earnings-related public pension provision crowds out non-state provision except for highly paid employees. Conversely, basic state provision creates a pension gap for middle and high income workers, creating incentives in CMEs for negotiated pensions (Ebbinghaus and Gronwald 2011). We should thus expect the emergence and expansion of collectively negotiated pensions in political economies where statutory pension provision was insufficient to meet the needs of organised labour.

Even if workers engage in collective action for negotiated pensions, why would they prefer an externally managed scheme based on capital funding? Where employers offered pension provision as part of the employment contract, why would they consent to external financing and administration (legal separation of pension reserves from the employer)? These two dimensions of pension scheme design – the mode of financing (capital funding v. direct provision) and the location of administration (internal or external to the firm) dominated discussions around early negotiated pension schemes. In the early twentieth century, many employers offered pensions to recruit, reward and discipline staff, and they typically chose internal financing and administration so they could control rules for eligibility, vesting, and benefits. This approach also meant that employers controlled any capital set aside to finance pension payments. Employers could draw on internal pension reserves to finance investment or to cover losses, and if an employer went bankrupt, creditors often had priority over pension beneficiaries. If national regulation existed at all, it did little to protect employees' accrued pension rights.

The emergence of labour organisations, especially for salaried employees, made this approach more difficult to sustain. In the small CMEs, concerns about the portability and security of private sector pensions in the context of meagre statutory provision created strong incentives for employees to advocate financing and administration structures that provided the best protection available. Like manual workers, salaried workers were entirely dependent on their income from labour, so sickness, disability and old age were existential threats. However, the higher income levels of the growing cadre of salaried employees meant early statutory pension provision offered insufficient income replacement. Moreover, the growing class of white collar workers in early twentieth century capitalism was increasingly mobile, making vesting and portability important concerns. Most salaried employees lost their accrued pension rights when they changed employers or were laid off.

Early white collar workers' organisations thus faced the question of how to design workplace pensions so that pension rights would be secure, vested, and portable. The premium reserve model, a staple of the growing insurance industry, offered a solution. In a premium reserve, customers pay actuarily calculated premiums into a reserve fund, which is invested on capital markets. The premium reserve then pays a life-long annuity at retirement. Salaried employees' organisations also had good reasons to insist that the premium reserve (or pension fund) rest on external financing and administration so that employers could not control pension reserves. This structure would also strengthen the conceptualisation of pensions as deferred wages, rather than gratifications offered at employer discretion. Employees would have a legal right to the stream of income financed by their accrued pension savings, and they could change employers without fear of losing accrued rights.

To summarise, early organisations representing white collar workers had good reasons to prefer capital funding and the external administration of pension reserves because they viewed this approach as the most viable way to achieve secure pensions. External management of pension reserves was considered essential because it would ensure that pension reserves could be used for one purpose only: paying employee pensions; employers would not be able to finance investment or shortfalls by borrowing pension reserves, and pension assets would be protected if an employer became insolvent. The external financing and administration of pension reserves would also facilitate portability, which employers would also benefit from.

The liberalisation and expansion of financial markets since the 1970s has substantially altered the context within which funded occupational pensions operate. The post-war period saw the expansion of occupational pension coverage in the affluent democracies. Where funding prevailed, assets expanded rapidly, especially after financial liberalisation. The asset mix also shifted from primarily fixed-income investments and real estate to riskier investments like equities. At the end of 2016, pension assets in the OECD totalled $ 38 trillion (OECD 2017). Danish, Swedish and Dutch pension assets measured as per cent of GDP are very high (209% of GDP in Denmark, 180% of GDP in the Netherlands, and 80% of GDP in Sweden), well above the levels we would expect for CMEs. Pension assets as per cent of GDP in both France and Germany are less than ten per cent of GDP (all figures for 2016).

Why would employers and unions in the small CMEs continue to support capital-funded occupational pensions? The financialisation literature does not offer a clear answer to this question. Financialisation is defined here as the extent to which the financial resources that fund some activity are derived from financial transactions rather than from the income generated by activity in the 'real economy": the industrial, commodity and service sectors (Krippner 2005; Van der Zwan 2014).

Much of the recent financialisation literature emphasises the risks associated with pension financialisation, but it also provides insights into the meso-level characteristics that mitigate these risks. Burtless (2012) compares the workings of private and public pensions schemes, arguing that public schemes are superior in covering risk. He also identifies the attributes of private schemes that would make them more robust (mandatory participation; matching/subsidization; mandatory annuitization; financial knowledge). All of these features require some state intervention in the regulatory sphere. A growing literature examines the conditions that contribute to solidarity in capital-funded pension schemes. Clark (2003) acknowledges the potential for capital-funded pension schemes to provide adequate retirement income based on collective risk-sharing, pointing to the important role of collective bargaining in securing good pension outcomes in, for example, the Netherlands. Leimgruber's (2008) study of the development of Swiss funded pensions reaches similar conclusions. The close integration of the first and second pillar, compulsory second pillar membership, and collective risk-sharing, make the Swiss system fairly flexible and stable.

Taken together, these contributions argue that it is possible to design capital-funded occupational pensions so that they generate secure income and promote solidarity. But why did labour market actors choose funding in the first place? And how and why did the state support these choices? The next section addresses this question by tracing the emergence of collectively organised, prefunded pensions in Denmark, the Netherlands and Sweden and discusses their recent performance.

The choice for external funding

The case studies that follow are based on a most different case study design (Gerring 2006). The three countries have similar values on the key independent (employer-white collar union cooperation) and dependent variables (the choice for capital funding and external administration of assets) and variation across a range of potential explanatory variables such as economic structure, the organisation of labour relations, the political power of the left, and the extent of statutory provision.

Sweden, Denmark and the Netherlands are cases of early financialisation in the sense that most private occupational pensions have been based on external funding and administration rather than direct provision (employers pay pensions out of current revenues) or book reserves. Public sector occupational schemes in Denmark and Sweden were tax-financed, but they introduced funding after WWII. The Dutch civil service pension fund, ABP, has always been funded, but often ran deficits in the 1950s and 1960s (Van der Zwan 2017).

The introduction of (quasi-) universal, flat-rate pensions early in the twentieth century (Sweden 1913; Denmark 1922; Netherlands 1919) reduced poverty, but their limited income replacement created a problem for the growing number of private sector salaried employees, so employee organisations and employers took steps to fill this gap. White collar unions were strong enough to ensure that occupational pensions were negotiated collectively – a clear break from employer voluntarism. The inclusion of workplace pensions in collective contracts increased in tandem with the expansion of collective bargaining. In the Netherlands, 1949 legislation allowed the Social Affairs Minister to declare a sectoral pension scheme binding on all employers. Collective labour market institutions were strong enough in Sweden in Denmark to obviate this kind of legislation.

Improvements in the coverage and generosity of basic pensions after World War II reduced the size of the pension gap for most households, relieving some of the pressure on occupational pensions. In Sweden and Denmark, the generosity of basic pensions was significantly improved in the latter half of the 1930s with the removal of income tests for most households. Sweden removed all income tests in 1946, and Denmark removed most of them in the 1950s. In the Netherlands, 'emergency' basic pensions were introduced in 1947 and institutionalised in 1957.

Denmark

In the early twentieth century, pension policy covered two groups: the extremely poor and privileged civil servants. 1891 legislation introduced means-tested tax-financed old age pensions (basic pensions would not become universal until 1922), and higher civil servants had state-financed coverage. Salaried employees in the metalworking sector, organised in the Association of Salaried Employees (FVJ) faced a pension gap, and they struck one of the first collective pension deals with employers (organised in the Association of Manufacturers). The new scheme, *Pensionskassen for Værkstedsfunktionærer i Jernet (PVJ),* was established in 1900, and it broke new ground by introducing parity employer/employee contributions and bipartite administration of pension capital external to participating firms (Due and Madsen 2003: 25).

As enterprise size increased in the early 1900s, growing numbers of salaried staff, (including skilled craftsmen) began to question the prevailing model of company-based pensions, because pension reserves were held within the firm, and pensions were not portable. Salaried staff thus faced considerable pension losses when they changed employers, faced redundancy, or if an employer faced financial difficulties. Employers also began to change their thinking about occupational pension design. Many small and medium size enterprises (SMEs) could not afford their own schemes, making it difficult to recruit qualified managers and foremen. Large enterprises had also grown more dependent on a mobile cadre of salaried staff, and many began to view internally financed and managed company schemes as an obstacle to mobility (Thorsen 1967: 11–13).

The establishment of the Pension Insurance Agency (*Pensionforsikringsanstalten, PFA*) in 1917 was a decisive step on the path to collective, externally managed capital-funded pension provision in the private sector. Thorsen's (1967: 1–28) reconstruction of the decision-making around the establishment of the PFA provides insight into the actor preferences that shaped the design of the PFA. The peak organisation for managers and foremen in the private sector, FdF (*Fællesrepræsentationen for danske Funktionærforeninger*), pushed for benefits similar to civil servant pensions (final salary, defined benefit), and they also wanted portability (for the reasons discussed above). FdF considered existing private sector pension schemes to be insecure, because employers controlled financing and vesting. Fd's pension committee proposed a national pension fund for managers and foremen inspired by the railway sector's pension scheme for technical staff, but with a crucial innovation: tripartite administration (employers, employees, the state). In June 1916, FdF contacted the Confederation of Danish Employers (DA), requesting cooperation in setting such a scheme up.

DA had already begun to study the pension issue, setting up its own committee to formulate a proposal in 1915. Employers were willing to improve pension security but there was no consensus about the organisational form (employer voluntarism v. external financing and management) or whether membership should be restricted to DA members. There were two initital proposals: an employer-controlled pension agency based on collective, voluntary insurance or a pension agency based on individual funded accounts. DA decided on collective insurance open to all employers in industry and commerce in order to increase risk-sharing across firms and facilitate portability (Thorsen 1967: 17–18).

DA now tried to reach agreement with the organisation representing firms in industry and commerce (*Engageringskontoret for Handel og Industri*); the parties established a joint pension committee to work out a proposal. Portability was a central issue, and the negotiators agreed that the new pension agency should not be linked to a specific branch organisation. The parties agreed to establish a pension agency based on collective insurance open to all private employers based on pension insurance (similar to a premium reserve). The PFA was set up in 1917 as a stock-based corporation (*aktieselskab*) but functioned as a mutual insurance company (for details, see Thorsen 1967: 22), with employers and employees sharing administration (stockholders were also represented but had little influence).

The development of the insurance sector supported the shift to funded pensions managed by independent entities. In 1917, life insurance companies got the right to offer pension insurance (annuities), and firms began to transfer their pension schemes to these vehicles (Østrup 2009). Legislation adopted in 1935 would also prove crucial for the development of occupational pensions. The 1935 Law on the Supervision of Pension Funds *(Lov nr. 183 af 11. maj 1935 om Tilsyn med Pensionskasse*) required private employers to fully fund pension commitments in a recognised life insurance company, or an independent pension fund under public supervision. Capital could not be held within the firm as shares or a loan (see Feldbæk, Løkke and Jeppesen 2007: 269).

The expansion of externally funded and managed occupational pension schemes created pressure to extend these design principles to the public sector. Until the late 1950s, civil servants were tenured and received earnings-related, tax-financed pensions. In order to recruit new tenured civil servants at higher salaries, government offered new recruits employee status, with collectively negotiated wages and portable, funded pensions. Sectoral pension schemes in the private sector also grew significantly. The first sectoral fund, for engineers, was founded in 1953. By the end of the 1950s, the role of unions in bargaining and administration was firmly established (Due and Madsen 2003).

Political stalemate prevented progress on negotiated pensions for manual workers until 1991 (Due and Madsen 2003). Legislation adopted in 1956 and 1964 raised the universal, flat-rate statutory pension (*folkepension*) considerably, giving many manual workers adequate retirement income. However, as manual workers' wages increased, so did calls to extend occupational pensions to all workers. After years of political stalemate, the social partners took the first steps toward comprehensive second pillar coverage based on external funding and administration in 1989. The process was largely complete by 1993 in terms of coverage and by early 2000 in terms of achieving full contribution rates. Today, the coverage rate of occupational pensions is more than 90%, up from about 33% in the late 1970s.

The Netherlands

As in Sweden and Denmark, many private sector workers faced inadequate pension provision in the early 1900s, and even those with workplace-based pensions could not be sure that they would receive promised benefits. Conflicts about the regulation of private sector pensions played out in industrial relations, but unlike Sweden and Denmark, the Dutch state played an important role because of its active involvement in labour relations. Dutch corporatism institutionalised the interests of employers and unions in policymaking, thereby preventing excessive state influence (Cox 1993: 7). Confessionally-based unions and employers organisations were especially eager to keep the state out of social provision. Unions and employers thus enjoyed a privileged role in policymaking, often helping to draft legislation on occupational pensions.

Early private sector pensions were voluntary employer plans to reward service and loyalty. Growing labour organisation changed this, as unions increasingly negotiated wages and working conditions with employers. Occupational pensions soon became incorporated into employment contracts (Tulfer 1997: 12–13); by 1918, there were 738 schemes in the private sector (Tulfer 1997: 13–14). As in other countries, workplace pensions were intended to provide a decent standard of living for salaried employees and other valued staff. Statutory provision was minimal; voluntary statutory provision for manual workers was not adopted until 1919, and even then, many workers lacked pensions. Even if labour organisations influenced the design of these early schemes, however, vesting was unusual. Pensions were neither secure not portable.

In the early twentieth century, most workplace schemes were employer-financed, relying on book reserves, direct provision or annual employer contributions; these schemes would not be regulated until the 1950s. However, 1908 legislation (*Koninklijk Besluit, 31 maart 1908*) introduced requirements for schemes that included employee contributions: employee participation in administration; limits on allowable investment categories (including investments in the sponsoring firm); external administration of assets; and moderate vesting rules (employees leaving a company after at least one year of service had the right to a refund of all contributions). The goal of the legislation was to protect workers' pension savings, but it would soon prove inadequate because most pension schemes were employer-financed (Tulfer 1997: 14).

Improvements in the legal status of employment contracts, the growth of collective labour organisations, and the spread of collective agreements contributed to the expansion of occupational pension funds. 1928 legislation strengthened provisions adopted in 1907 on collective agreements, which increasingly included clauses about participation in sectoral pension funds. In 1937 legislation requiring participation in a collective agreement was introduced and was extended to sectoral pension funds in 1949 (Anderson 2011). The first sectoral scheme was established in 1917 in the dairy sector, followed by one in the mining sector in 1918 (Tulfer 1997: 15).

The 1935 bankruptcy of Royal Dutch Lloyd exposed the weakness of prevailing regulation. Lloyd employees and pensioners lost all of their pension claims in the bankruptcy proceedings because the scheme was employer-financed and thus not subject to the 1908 regulations. The government responded in 1936 with a legislative proposal to improve pension security: employers or groups of employers providing pensions would be required to contract with insurance companies or use the statutory pension insurance programme. Employers and unions in the Labour Council (*Hooge Raad der Arbeid*), the bipartite body advising the government on socio-economic policy, agreed with the goals of the legislation, but rejected the insurance requirement. The overwhelming majority of the Council argued that this would lead to massive plan closures because a majority of plans was either directly provided (i.e., out of current revenues), or financed by annual employer contributions or investments in the firm itself (Hooge Raad 1937: 3). The Council then formulated its own proposal, which the government later used as the basis for legislation (World War II slowed down the legislative process, so it was not complete until 1951). The legislation, the 1952 Pension Act (PSW, *Pensioen- en spaarfondsenwet*) required employers with official (written) pension plans to ensure that capital assets be sufficient to cover pension obligations. To achieve this, pension funds should contract with a life insurance company or administer a fund to achieve the same result. Funds would be required to report to the Insurance Chamber every five years, and company pension funds could only cover 10% of liabilities with debt certificates. The law gave pension funds 25 years to complete the transition to full external funding.

The PSW was a milestone in occupational pension provision because it confirmed the principles of external funding and vesting. Employers were not required to offer pensions (unless party to a binding collective agreement), but if they did, contributions and assets would be protected against employer insolvency. Pension rights could not be cashed out, and employees got the right to take their pension rights with them to a new employer. Pension funds were also required to have a responsible financial and actuarial structure (Nijhof 2009; Van der Zwan 2017).

The underdevelopment of statutory provision and the threat of legislation in the 1950s shaped union and employer preferences concerning occupational pension regulation. Estimates vary, but occupational pension coverage appears to have increased from one third in 1950 to 70% in 1958 (Oude Nijhuis 2013: 90). Employers prioritised the continued development of occupational pensions (rather than the expansion of statutory provision), because they wanted to keep the internal investment opportunities that these schemes offered, and they wanted to continue using occupational pension plans to promote wage moderation in the context of growing state involvement in wage policy (as was common in the 1940s and 1950s; Oude

Nijhuis 2013: 88–89). Unions supported the PSW because it would make occupational pensions more secure (Oude Nijhuis 2013: 90–91).

The coverage of occupational pensions expanded rapidly in the post-war period, as did statutory provision. 1957 legislation introduced the universal basic pension (AOW; a temporary measure had been in place since 1947), and occupational schemes quickly adjusted their schemes to statutory provision. The growth of collective bargaining encouraged the expansion of sectoral occupational pension funds, but the law allowed labour market actors to choose between a trust model and an insurance model. Unions and employers overwhelmingly opted for the former, cementing the status of defined benefit pension funds organised as trusts as the main vehicle for occupational pension schemes (Tulfer 1997). By 2000, about 90% of wage-earners participated in negotiated occupational schemes, and these have developed into an important supplement to the statutory basic pension, providing about half of pension income in 2016.

Until the late 1980s, external funding meant investments in fixed-income assets, like government and corporate bonds, loans, and mortgages (i.e., patient capital; see McCarthy *et al.* 2016). By the 1990s, the globalisation of financial markets meant that stock markets offered attractive returns, and employers and unions began to embrace these investment opportunities. Unions were initially resistant to investments in equities, but soon came to support this because of the promise of higher returns necessary to finance final salary, DB plans (McCarthy *et al.* 2016: 761).

Sweden

As in Denmark, salaried employees in the private sector faced a large pension gap in the first decades of the 1900s because of inadequate public provision. 1913 legislation introduced meagre universal old-age pension coverage, but it provided insufficient benefits for salaried employees. However, the 1913 law also included a voluntary, workplace-based, contributory supplementary pension based on vesting (*oantastbarhet*) and capital funding. Individuals using the voluntary scheme controlled their pension savings, and employers were forbidden from using the capital reserves. The principles of vesting and external capital-funding set an important precedent for subsequent occupational pension policy (Harrysson 2000).

Employer voluntarism dominated the lightly regulated, existing occupational pension schemes of the early 1900s. As the number of salaried employees in the private sector grew, many formed unions, and pensions were a key issue. Salaried employees and some experts began to view occupational pensions as a deferred wage with the status of a property right, rather than a discretionary payment for loyal service (Harrysson 2000; SOU 1938: no. 18). Some employers were not averse to this approach.

For salaried employees in industry, pensions caused particular concern, and they organised a union (*Svenska Brukstjänstemannaföreningen, SBF*) in 1909 to pursue a solution. SBF soon realised its members could not finance pensions on their own, so it turned to employers in the Swedish Industrial Association (*Svenska Industriförbundet*, SIF). Key among SBF's demands was that pensions be vested and secure, allowing portability in the growing SME sector. At the same time, leading figures in Chambers of Commerce were also trying to improve pension provision for salaried employees in commerce. In 1917 they joined SIF to establish SPP, (*Sveriges privatanställdas pensionskassa*) for salaried employees in industry, commerce, shipping and other sectors. Employers and salaried employees' organisations agreed on several key principles: vesting, capital funding, external administration of pension reserves, and employer/employee representation on the SPP board. Employers and employees shared contributions, and benefits were 60% of final salary (SPP 1942).

The establishment of SPP sparked debate about occupational pension design. The principle of vesting remained controversial in the 1920s, because many employers were reluctant to relinquish control over pension reserves and payments (Harrysson 2000: 71–72). Pension provision remained uneven, despite the establishment of SPP, and many employers offered pensions that were neither vested nor secure. Salaried employees would not win the right to bargain collectively until 1936, so their organisations had few resources to back up their pension demands. The establishment of *Pensionanstalten Sverige* (PS) by fifteen insurance companies in 1925 fed the determination of salaried employees to win vested, secure pensions. PS was an attempt to reassert partial employer control over occupational pensions because it was not based on vesting. Salaried employees' organisations protested this development (SOU 1929: no 3, 13), turning to the government for support. They also stepped up their organising efforts (see below).

In December 1926, organisations representing white collar workers outside SPP (foremen, railroad office staff, and bank personnel) jointly requested the government to legislate improvements in the security and vesting of their pensions to match what SPP was offering (SOU 1929: no 3, 33). The organisations pointed to recent cases of cancelled pension promises because of employer insolvency and employers (especially in banking) using pension reserves to pay creditors or facilitate mergers (SOU 1929: no. 3, 16–17).

Government-appointed experts produced a legislative draft in December 1927 based on vesting and secure funding, but employers unanimously rejected it, emphasising employer control over pension design, especially vesting. Government experts refused to let the issue rest and formulated a compromise proposal published in September 1928 (SOU 1929: no. 3). Nothing came of the compromise proposal, but the issue of vested, secure pensions would remain politically salient, largely because SPP had become the standard against which other workers' organisations judged their own pensions.

Eight associations representing white collar workers, several of which had pressed the government in 1926 to improve the security and vesting of pensions, joined to form the Central Organisation of Salaried Employees (*De anställdas centralorganisation*, DACO) in 1931, which won the right to bargain collectively in 1936. Several white collar unions had engaged in collective bargaining for decades, but these were largely sectors where strikebreakers were hard to find (i.e., journalists) or where labour was scarce (Kjellberg 2013). One of DACO's key issues was improving the security and vesting of occupational pensions.

SPP's merger with *Pensionsanstalten* (a private competitor) to become *Svenska Personal-Pensionskassan* (also SPP) in 1925 reinforced its organisation as a mutual insurance company. The state also stepped in to provide regulation in the context of uneven acceptance of vesting and external financing (Harrysson 2000: 8). The principles of vested, secured rights carried the day, and firms participating in SPP had to accept these rules. In the 1930s, the state supported this by adopting regulations to make pension reserves more secure (SOU 1937: no.13) and by abolishing the favourable tax treatment of some forms of internally-held pension provisions (Harrysson 2000). By 1926, 155 employers, many of them large industrial firms, used SPP to insure 5,397 salaried employees (SOU 1929: no 3, 14).

The introduction of local government pension schemes also contributed to the growth of vested, capital-funded pensions. State-level civil servants already had their own, tax-financed, pensions, but the basic pension introduced 1917 did not include civil servants, leaving local civil servants without coverage. In 1919, local governments established their own pension scheme and chose SPP to administer it. The new scheme, *Sveriges Kommunalanställdas Pensionskassa* (SKP) was up and running 1922, and like the nascent private sector schemes, it was based on secure, vested pensions defined as deferred wages. In the following decades, SKP expanded to include more and more local authorities (Grip 1994).

The implementation of the ATP reform in 1960 re-opened the issue of portable, secure pension schemes for private sector salaried employees because it introduced statutory, earnings-related pensions to the entire labour market. This meant that existing schemes for salaried employees would be transformed so that they supplemented generous statutory benefits. Before 1960, coverage for salaried employees was incomplete, and SPP was the most common provider, although some employers used book reserves. SAF, SIF and SALF (*Sveriges Arbetsledareförbund;* Swedish Supervisors' Union) agreed on the importance of creating a uniform, national system subject to collective bargaining. By now, however, some employers were sceptical of funding, especially since the ATP system would increase collective capital formation. SAF remained divided on the issue of funding, preferring to allow employers to choose between the premium reserve system (i.e., SPP) and some form of internal financing (book reserves). Agreement on financing was particularly difficult, because there was no organisation capable of administering pensions based on book reserves. Unions and employers struck a deal that included the choice between the premium reserve and a firm-level pension trust based on book reserves. The new scheme, ITP (*Industrins tilläggspension*), would top up the ATP benefits to 65% for the salary below the ATP ceiling, and 32.5% for the salary up to two times the amount paid by ATP. To guarantee vested pension rights, trusts would be required to purchase credit insurance to guarantee the value of accumulated pension rights in case of insolvency (Larsson 2009). SAF, SIF, and SALF agreed to establish a mutual insurance company for this purpose, FPG (*Försäkringsbolaget Pensionsgaranti, Ömsesidigt*). Another new organisation, the Pension Registration Institute (*Pensionsregisreringsinstitut, PRI*) would administer the ITP system (record contributions, calculate and pay benefits). In the fall of 1960, all SAF members approved the proposal, and the deal applied to about 200,000 white collar workers (SOU 1961: no. 14, 36).

In line with the development of ITP, SAF and the Trade Union Confederation (*Landsorganisation, LO*) agreed in June 1971 to introduce contractual pensions in 1972. The issue of financing was difficult, as many employers and unions preferred to retain the book reserve arrangements already in place in many schemes. The parties agreed on the necessity of capital-funded pensions but compromised on how to achieve this. Firms would pay cash premiums to a SAF-LO owned, mutual insurance company (AMF). Firms could also opt to pay their premiums with interest-bearing debt certificates (*räntebärande revers*), but these would have to guaranteed by credit insurance in a different division of AMF. All pension benefits would be vested (AMF 1973: 3–5).

By the late 1970s, employers' concerns about the growing cost of defined benefit (DB) plans for salaried employees led to industrial conflict. Employers and unions agreed to a partial transition to funded, defined contribution (DC) plans. The new scheme, ITPK (administered by SPP) would pay benefits based on fund performance, complementing DB ITP benefits. Employers and unions agreed on the next significant changes in the late 1980s and 1990s: individual investment choice in ITPK and the gradual transition from DB to DC (those born after 1979 have DC). LO and SAF negotiated an even more far-reaching shift for private sector blue-collar workers in 1996, when STP (a DB scheme) was replaced with the SAF-LO pension plan. The new plan is DC and gives participants full investment choice. Public sector employers and unions also negotiated the gradual transition from DB to DC schemes with individual investment choice in the 1990s and 2000s.

From patient to impatient capital

The liberalisation of financial regulation in the OECD since the 1970s and the globalisation of financial markets have meant that many capital-funded pension schemes increasingly rely on short-term investments in shares and private equity (see Wiß 2019). By the 1990s, Danish, Swedish and Dutch occupational pension schemes had substantial investments in international equities. This shift had to be reconciled with key union/employer goals: stable, secure pension benefits; stable non-wage labour costs; and collective risk-sharing. Rather than open pension markets completely to financial service providers and global markets, unions and employers have retained collective governance, so that pensions are standardised across firms and sectors, and employers cannot compete for workers on the basis of pension benefits. Bipartite administration of pension funds ensures that pension design represents a deal acceptable to both parties, and statutory regulation supports collective governance (cf. Naczyk and Hassel 2019).

In Sweden, bipartite administration keeps administrative costs low and ensures that private sector DC plans offer participants high quality investment vehicles (by restricting entry to funds with low fees and superior performance). The majority of private-sector negotiated pension schemes operate much like the DC premium pension that was introduced in 2000 as part of the 1998 statutory pension reform (Anderson and Immergut 2007). Public sector schemes follow a similar model (these plans are shifting from DB to DC; for details, see Anderson 2015).

The Danish occupational pension sector, like the Swedish, covers more than 90% of the labour market and is regulated according to national and EU insurance law. The large number of schemes means there is greater differentiation than in Sweden, moderating the extent of collective risk-sharing. As in Sweden, the expansion of the occupational pension sector prompted institutional innovation: the three largest sectoral schemes were established after 1991: *PensionDanmark* for manual workers in the public and private sector; *IndustriensPension* for private sector industrial workers; and *PKA* for workers in health and social care. Each is non-profit and jointly managed by employers and unions.

The political settlement underpinning the Swedish and Danish systems is stable, but the same cannot be said for the Netherlands. Dutch occupational pensions are DB and highly popular, but demographic and economic challenges have created strong reform pressures. Unions and employers supported the shift to equities and other forms of impatient capital in the 1980s and 1990s because they viewed this a viable strategy for financing increasingly expensive final salary DB benefits (McCarthy *et al.* 2016). Pension fund losses in the 2001 dot.com bubble forced a shift from final salary to average salary schemes in 2005, and the 2008 financial crisis resulted in large contribution increases, benefit freezes and even modest cuts in many schemes (Anderson 2017). Pension funds recovered fairly quickly from both crises, but low interest rates and increasingly life expectancy have increased the cost of accumulated pension liabilities, pulling down many funds' coverage ratios. Neither the government nor the social partners has been able to agree on the parameters of a new system, but there has been no retreat from the principles of capital-funding, external administration, and portability. Instead, reform debates focus on how to shift to a collective DC system.

Conclusion

This paper offers a new understanding of the origins and development of capital-funded occupational pension in CMEs. The paper argues that labour's embrace of occupational pension financialisation is rooted in concerns about pension security and portability. Salaried employees joined with employers to establish jointly owned, non-profit organisations legally separate from employers to manage and invest pension capital. Capital funding was not the goal of this arrangement, but rather a means to achieving other goals. Despite enormous pension reserves, commercial pension providers have not made large inroads into the occupational pension market. Where they are active, as in Denmark and Sweden, they compete against non-profit providers, and they face the very considerable bargaining power of bipartite pension schemes that demand high quality pension products with low management fees.

Unions and employers in all three countries continue to support funding in the context of financial liberalisation because it delivers stable labour costs and good pension outcomes. Indeed, employers and unions share an interest in harnessing financial markets to generate investment returns that finance good pensions. This is somewhat less true in the Netherlands, as stakeholders continue to debate the contours of a new system. There is, however, no consensus among Dutch stakeholders that capital funding should be abandoned. Instead, current reform debates centre on how to shift from DB to some form of collective DC and to improve governance, especially concerning risk management and investment policy (De Deken 2017; Frijns et al. 2010).

The analysis presented here has two implications for the CPE literature. First, socially embedded occupational pension markets are potential elements of the household consumption growth regime identified by Baccaro and Pontusson (2016). By exploiting the opportunities of global financial markets, financialised pension provision is an important driver of household income. Buoyant financial markets result in higher pension incomes, but the converse is also true, especially in DB systems like the Netherlands. Second, the paper's emphasis on historical sequencing and the importance of employer-union cooperation and non-profit financial companies points to promising research avenues as occupational pension financialisation develops in other countries.

Disclosure statement

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