

CHAPTER 10

DENMARK: A “WORLD BANK” PENSION SYSTEM

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I INTRODUCTION¹

PENSION politics in Denmark has produced a pension system close to the multi-pillar ideal proposed by the World Bank. The Danish system is based on the national pension, which provides a fairly generous social safety net for retirees, combined with a network of occupational and private pensions that provide most wage earners with adequate pension coverage. Consequently, the logic of pension politics can be viewed as “dualistic,” as the two main elements—the national pension and the system of occupational pensions—belong to different political arenas. The national pension is exclusively a matter for Parliament, whereas occupational pensions are the realm of the social partners, with the government acting as a regulator with regard to taxation, investments rules, and other framework conditions. The fact that occupational pensions are funded and based on the principle of defined contributions also implies that issues such as higher life-expectancy and falling interest rates are dealt with automatically. In Denmark, pension retrenchment, which has been such an important political issue in many other countries, has been limited to the national pension. Denmark has thus not seen the major pension reforms which have caused so

much political debate and unrest in many other countries. Nevertheless, a discussion of the development of the national pension allows us to study the broader themes of this volume, relating to the link between political institutions and policy outcomes.

In this regard the message of this chapter is clear: The changes made to the national pension over the last few decades can only be understood by focusing on electoral competition. The national pension is popular with voters, and has been made more generous on several occasions since 1980, largely because of political parties' need to demonstrate a pro-welfare-state commitment. However, one important retrenchment measure was introduced by a Social Democratic-led government using an "obfuscation strategy."

The explanation for the emergence of this multi-pillar system is not to be found in the World Bank recommendation itself. The Danish pension system has never been deliberately designed and certainly not according to World Bank recommendations. The explanation lies in the political choices made in the 1950s and 1960s. Unlike many other countries, Denmark did not establish a major earnings related pay-as-you-go (PAYG) system during this period. This was due to the fragmentation of the Labor movement and the relative weakness of the Danish Social Democratic party. With craft-based unions, unskilled workers were represented separately, and their union representatives preferred higher wages to expanded social benefits. Moreover, a number of parties competed for the working class vote, ranging from the Communists to the Liberals, thus splitting the Left and weakening the basis for Social Democratic policy expansion—as for example, in neighboring Sweden. Due to this inability of the political system to provide pension coverage beyond the national pension, occupational and private pensions grew in importance.

By 1980, two-thirds of the Danish working population had access only to the national pension, which offered replacement rates of only one-third of wages for many groups. At the same time, however, about 20 percent of the employed were covered by funded, occupational pensions. Consequently, one could say that the window of opportunity for pension expansion in Denmark was still "open," but the path of public supplementary pensions was already "closed," given these widespread private occupational arrangements—together with the economic crisis of the 1980s. Pension politics in Denmark during the 1980s and 1990s thus became a debate mainly about the exact structure of occupational pensions and the question of government mandating and regulating the system of occupational pensions, such as taxation rules and the situation of those not covered by occupational pensions.

In looking at the wider Danish pension system, this chapter also offers several lessons for the literature on pensions systems and their development. First, path dependency and policy stability in pensions is not just due to the "double payment" problem when shifting from a PAYG solution to funded systems. Once countries have embarked on a funded path, shifting to a PAYG arrangement is also highly difficult. Secondly, the analysis shows how pension politics in pension systems without large earnings-related PAYG elements depends on the structure of the funded elements. In Denmark, the fact that occupational pensions are defined-contribution schemes

under the control of the social partners has ensured that this issue has not been the scene of partisan conflict.

II POLITICAL SYSTEM

Constitutional history and nation-building

Today Denmark is a democratic nation-state in which the Monarch, presently Queen Margrethe II, is the Head of State with only ceremonial functions. However, historically, Denmark was a monarchy covering several ethnic groups. The country gained its present status through democratization and the loss of territory, both events taking place mainly during the nineteenth century.

At the beginning of the nineteenth century, Denmark was an absolute monarchy ruling Denmark, Norway and Schleswig-Holstein (now a German federal state). As a result of Danish participation in the Napoleonic wars, Norway was ceded to Sweden in 1814 and Schleswig and Holstein lost to Prussia in 1864. Thus, even though the northern part of Schleswig was returned to Denmark in 1920 as a result of a referendum in the aftermath of World War I, Denmark was transformed from a mid-sized European country at the beginning of the nineteenth century into the small country it is today, with just over 5 million inhabitants.

Absolutism ended with the peaceful introduction of the first democratic Constitution in 1849. However, the process of democratization dragged on for the rest of the century and into the next. This transformation was the result of a conflict between a party known as the Right, representing bourgeois interests in the cities, and a party known as the Left, representing independent farmers. The latter secured an absolute majority in the second chamber (*Folketinget*) and wanted to establish parliamentarism so that a government could not rule against the will of the majority of the Second Chamber. However, the Left did not achieve this until 1901. In the meantime, the King appointed governments from the Right, against the will of the Second Chamber but with the support of the First Chamber, which had a different electoral formula. By and large, democratization in Denmark was completed when women gained suffrage in 1915 and when parliamentarianism survived an attempt by the King to dismiss a government against the will of Parliament in 1920.²

In the period completing democratization, the basic structure of the Danish party system was also established. The two parties which had dominated the democratization process continued to be important actors. The Right changed its name to the Conservatives in 1915, whereas the Left has kept its original name, but is today best described as the Liberals. During the democratization process, the Social Democrats entered the political scene. The party gained representation as early as 1884, but first grew into a strong political force around the turn of the century. The

conflict between the rural Left party and the city-based Right was thus gradually overtaken by a traditional Left–Right conflict, between the Social Democrats versus the “Left” and the Conservatives. In 1905, a splinter party from the Left called the Radical Left—but more properly described as the Social Liberals—was established, and it gained representation in 1906. The party represented the interests of small farmers and share-croppers and often cooperated with the Social Democrats. The basic structure of Danish party competition was thus established at this time. Danish party competition came to be mainly between the Social Democrats and Social Liberals on the one hand, and the Liberals and the Conservatives on the other (Elklit 2002).

Whereas the basic structure of party competition has remained almost the same for around 100 years, political institutions have seen some changes. The electoral system was changed from a first-past-the-post to a proportional system in 1920, and the new Constitution adopted in 1953 abolished the First Chamber.

Institutions of government

After the adoption of the new Constitution in 1953, the Danish *Folketing* with its 179 members—2 representing Greenland, and 2 The Faeroe Islands—became the only chamber in the Danish Parliament. The *Folketing* operates on the principle of negative parliamentarianism, that is, the government can survive as long as there is no majority against it. Hence, the Danish *Folketing* does not require a vote of investiture. Elections must be held every four years, but the Prime Minister can call an election at any time s/he wishes. Referendums can be called by one-third of the Members of Parliament, but laws regarding certain issues such as taxation cannot be decided by referendums. This mechanism of minority protection in the Danish Constitution plays a very limited role in Danish politics and it has not been used since 1963. Other issues such as changing the Constitution, changing the voting age, and the surrender of sovereignty require approval by a referendum. Advisory referendums are also possible. In practice, referendums have mainly been used with regard to the EU and lowering the voting age.³

Denmark is a unitary but decentralized state. The local governments, 5 regions and 98 municipalities, have the constitutional right to manage their own affairs subject to central government regulation. Municipalities have the right to levy taxes, and the governing bodies of both regions and municipalities are democratically elected for four years. Their main responsibility is the provision of welfare services. Hospitals, primary and secondary education, care of the elderly and day care are thus all the responsibilities of the local governments, under varying degrees of state regulation. Local governments are also responsible for public roads, environmental control, active labor market policies and a few cash benefit schemes, most importantly disability pensions and social assistance.⁴

Table 10.1 Political institutions in Denmark

Separation of power political arenas	Actors	Rules of investiture /dissolution elections	Rules of decision-making	Veto potential
Executive	Queen (<i>Dronningen</i>) Prime Minister (<i>Statsminister</i>)	Hereditary Appointed by the Queen but choices are restricted by electoral outcomes; No investiture vote ("negative parliamentarism")	Ceremonial functions Right of initiative; right to dissolve Parliament and call early elections	Not a veto point
Legislative	Parliament (<i>Folketing</i>)	4-year term; 175 seats in 17 multi-member districts; proportional list system; voters can vote for a party or an individual candidate on a party list; two-tier seat allocation based on Saint-Laguë formula (1st tier: 135 multi-member constituency seats (<i>Kredsmandater</i>); 2nd tier: 40 compensatory seats (<i>Tillægsmandater</i>) for parties with at least 2% of national vote; 2 seats each for Greenland and the Faeroe Islands)	Right of initiative; parliamentary work in committees; three readings with at least two days between readings; decisions by simple majority	Veto point if minority government; not a veto point if majority government
Judicial	Highest Court of Justice (<i>Højesteret</i>)	_____	No constitutional court	Not a veto point
Electoral	Referendum	Facultative referendum called by 1/3 of the Members of Parliament; compulsory referendum for constitutional changes	Result is binding in both cases; several issues cannot be subject of a referendum e.g., tax laws, budget, citizenship, dispossession	Veto point (except for designated policy areas such as taxation), but mainly used for EU issues
Territorial units	Counties (<i>Amter</i>) municipalities (<i>Kommune</i>)	5 regions and 98 municipalities; elected governing bodies; right to levy taxes for municipalities.	Responsibilities: hospitals, primary and secondary education, care for the elderly, day care, public roads, environmental control, active labor market policies, disability pensions and social assistance	Not a veto point

Electoral system

Denmark introduced a proportional electoral system based on party lists in 1920 after having first tried a mixed member proportional system. A number of subsequent minor changes have not changed the fundamental character of the system (Elklit 2002; 2005). The system now functions as follows: Each voter has one vote which can be cast either for a party, or for a specific candidate on the party list in the specific multi-member district where he or she resides. Denmark is divided into 17 multi-member districts. Seat allocation then takes place in two steps. Of the 175 members elected in Denmark proper, 135 are distributed among the 17 multi-member districts, based mainly on the number of inhabitants. Within each multi-member district, seats are allocated to parties by the modified Saint-Laguë formula. The 40 compensatory seats are used to secure proportionality at the national level. In terms of threshold, the most important rule is that a party gaining 2.0 percent of the valid votes is entitled to take part in the allocation of the compensation seats, which means that four seats in parliament is the usual minimum size of a party. Individual candidates are selected in each multi-member district based on the number of votes cast for them personally and the number of party votes to which they are personally entitled, according to the way the party has decided to organize its candidate lists in the multi-member district in question. In most cases, the number of personal votes for each candidate is decisive for whether or not the specific candidate is elected. Voter registration is automatic and turnout averages around 85 percent for national elections (Elklit 2002; 2005).

Legislative process

Both the government and individual members of the Danish Parliament can put forward bills, but the majority of these come from the government. A bill has to be read three times by Parliament to be adopted. Between the first and second reading, the bill is scrutinized by one of the 24 standing committees of the Danish Parliament, which sends its report to Parliament. Suggestions for amendments can be made during the second reading. Bills are adopted by a simple majority after the third reading. Parliament can also pass parliamentary resolutions, for instance instructing the government to put forward a bill. The procedure for parliamentary resolutions resembles that for bills, but they are only read twice in Parliament (Damgaard 2000).

Some bills are based on the work of expert committees and organized interests, and in some cases also representatives of the political parties. However, the number of such committees has decreased over the last 20 years. As Danish governments are nearly always minority governments, securing a parliamentary majority is typically the decisive factor for the passage of a bill; thus, the parliament is a veto point. In addition, as popular referenda can be called by only 1/3 of MPs and are binding, theoretically, the referendum should be considered a veto point—although this does not seem to be a frequently-used method of blocking legislation in Denmark, and it

Party Family Affiliation	Abbreviation	Party name	Ideological orientation	Founding and merger details	Year established
Left parties/ Social democratic parties	SD	Social Democrats in Denmark (<i>Socialdemokratiet</i>)	Social Democratic		1871
		Communists (<i>Danmarks Kommunistiske Parti</i>)	Communist		1919
	SF	Socialist People's Party (<i>Socialistisk Folkeparti</i>)	Leftist	Splinter party from the Communists	1959
		Common Course (<i>Fælles Kurs</i>)	Leftist		1986
	VS	Left-Socialists (<i>Venstresocialisterne</i>)	Leftist	Splinter party from SF	1967
		Unity List (<i>Enhedslisten</i>)	Leftist	Merger of Left-Socialists, Communists and Socialist Workers Party	1989
Liberal	V	Liberals (<i>Venstre</i>)	Liberal/ right wing	Originally agrarian party	1870
	RV	Social Liberals (<i>Det Radikale Venstre</i>)	Center	Splinter party from the Liberals	1905
		Justice Party (<i>Retsforbundet</i>)	Liberal	Based on Georgism/single tax movement	1919
Conservative-Rightwing	KF	Conservatives (<i>Konservative Folkeparti</i>)	Conservative		1883 (1915)
		Progress Party (<i>Fremskridtspartiet</i>)	Populist right wing		1972
		Danish People's Party (<i>Dansk Folkeparti</i>)	Populist right wing	Splinter party from the Progress Party	1995
Center parties	KRF	Christian People's Party (<i>Kristeligt Folkeparti</i>)	Center		1970
	CD	Center Democrats (<i>Centrum-Demokraterne</i>)	Center	Splinter party from the Social Democrats	1973

Fig. 10.1 Party system in Denmark

cannot be used in all policy domains. In terms of veto players' theory, only the partisan veto players of Denmark's coalition government should be counted as veto players. But as we shall see, the main obstacle to the passage of a bill is whether minority governments can find support in Parliament, and indeed governments often refrain from putting forward bills when they do not expect to be able to assemble a supporting majority. Whether such a majority is forthcoming, however, depends mainly on the system of party competition, which I will now discuss.

Parties and elections

As mentioned above, the basic structure of the Danish party system was firmly established by the beginning of the twentieth century and the four "old" parties in Danish politics, the Social Democrats, Liberals, Conservatives, and Social Liberals are still crucial actors. However, a number of new parties have established themselves in the system during the last 40 years, making today's Danish party system a complicated version of the system founded a century ago.

The first major newcomer was the Socialist People's Party, which first gained representation in 1960. This party was a splinter party from the Communist party, which had been represented in Parliament since 1932 (except 1941 to 1945 when the party was prohibited), but had always been marginalized by the other parties. By launching itself as a moderate left-wing party, the Socialist People's Party was successful with the electorate, gaining around six to ten percent of the vote, and from 1966 to 1968 it was the main supporting party for the Social Democratic minority government known as the Red Cabinet. However, this was contentious within the party, and led to a splintering of the Socialist People's Party and the establishment of a new party, the Left Socialists. Since then, one or more parties to the left of the Socialist People's Party have been represented in the Danish Parliament most of the time. Today, the Unity List, formed by the merger of several left-wing parties, is represented in Parliament.

The 1973 election, known as the earthquake election, saw the entry of several new parties to the Danish Parliament. In the center, a splinter party from the Social Democrats, the Center Democrats, gained representation and remained in Parliament until the 2001 election. This small center party has tended to support the Liberals and the Conservatives with regard to government formation. Another centrist party, the Christian People's Party, also gained representation in 1973, and maintained representation until the 2005 election except for the period 1994 to 1998. However, the party has always been just above the 2 percent threshold. The party was founded as an anti-abortion and anti-pornography party and, like the Center Democrats, has generally supported the right-wing bloc.

The major newcomer at the 1973 election was the Progress Party, a radical right-wing party with a strong anti-tax profile. The party gained around 15 percent of the vote and became the second largest party in Parliament. The party kept its representation until the 2001 election with considerably fluctuating levels of support. This was

not least due to internal conflicts, one of which led to the establishment of a splinter party in 1995: the Danish People's Party. This party is strongly focused on the immigration issue and was very successful in the 2005 election, gaining 13.3 percent of the vote (Pedersen 1987; Arter 1999).

Altogether, the Danish party system falls into five fairly cohesive segments: the parties to the left of the Social Democrats, the Social Democrats, the center parties, the two established bourgeois parties (Liberals and Conservatives) and the Danish People's Party. In terms of party competition and legislative coalitions, the Danish party system is best described as a "working bloc system" (Elklit and Pedersen 2003). For government formation, it works very much as a bloc system. The Social Democrats can normally rely on the support of the parties to the left, and the Liberal and Conservative parties can count on the support of the Danish People's Party to their right. Due to their small size, the center parties are in reality forced to choose between the two blocs. Therefore, minority governments can normally rely on a bloc majority, which will keep them in office because none of the parties constituting the bloc majority would prefer another government. However, the bloc majority will not automatically support bills put forward by the government. Here minority governments need to search for a different majority from bill to bill. Most laws in Denmark are passed with broad majorities, that is, including parties which do not form part of the government's bloc majority (Green-Pedersen and Thomsen 2005).

For the opposition parties, whether or not they support a bill will depend on how they weigh policy influence vs. electoral incentives. If the issue concerned is seen by the opposition as salient to electoral competition, the opposition will probably not be willing to support a bill since that would signal agreement with the government and thus make it more difficult to use the issue in electoral competition. For instance, the Social Democrats have often been very reluctant to support proposals for welfare retrenchment from a right-wing government, because the welfare state has been an area that the Social Democrats have tried to exploit with regard to electoral competition. However, if the opposition sees an issue as less important for electoral competition, it will focus on policy influence and thus probably be willing to strike a deal with the government. Thus right-wing parties have often been willing to support proposals for welfare retrenchment from Social Democratic governments, because the right wing parties have rarely seen the welfare state as an attractive area for electoral competition.

Interest groups

Danish employees are highly organized; approximately 75 percent of all Danish employees belong to trade unions, and the proportion is even higher for unskilled and blue-collar workers. Danish trade unions are craft-based and thus organized according to skills, not according to industry. The major trade unions is the Union Federation of Danish Workers, known as "3F" (*Fælles Fagligt Forbund*), which is the result of a merger in 2005 of the Union of the Unskilled Workers

Table 10.2 Governmental majorities in Denmark

Election date	Start of gov.	Head of gov. (party)	Governing parties	Gov. majority (% seats) <i>Folketinget</i>	Gov. electoral base (% votes)	Institutional veto points	Number of veto players (partisan + institutional) ^a
23.10.1979	26.10.1979	Jørgensen V (SD)	SD (68)	38.9%	38.3%	Folketinget (Referendum)	1 + 1
08.12.1981	30.12.1981	Jørgensen VI (SD)	SD (59)	33.7%	32.9%	Folketinget (Referendum)	1 + 1
10.01.1984	10.09.1982	Schlüter I (KF)	KF (26), V (21), CD (15), KRF (4)	37.1%	36.4%	Folketinget (Referendum)	4 + 1
08.09.1987	10.01.1984	Schlüter II (KF)	KF (42), V (22), CD (8), KRF (5)	44.0%	42.8%	Folketinget (Referendum)	4 + 1
10.05.1988	10.09.1987	Schlüter III (KF)	KF (38), V (19), CD (9), KRF (4)	40.0%	38.5%	Folketinget (Referendum)	4 + 1
12.12.1990	03.06.1988	Schlüter IV (KF)	KF (35), V (22), RV (10)	38.3%	36.7%	Folketinget (Referendum)	3 + 1
21.09.1994	18.12.1990	Schlüter V (KF)	KF (30), V (29)	33.7%	31.8%	Folketinget (Referendum)	2 + 1
11.03.1998	25.01.1993	Rasmussen, P.N. I (SD)	SD (69), CD (9), RV (7), KRF (4)	50.9%	48.3%	None (Referendum)	4 + 0
20.11.2001	27.09.1994	Rasmussen II (SD)	SD (62), RV (8), CD (5)	42.9%	42.0%	Folketinget (Referendum)	3 + 1
08.02.2005	30.12.1996	Rasmussen III (SD)	SD (62), RV (8)	40.0%	39.1%	Folketinget (Referendum)	2 + 1
	11.03.1998	Rasmussen IV (SD)	SD (63), RV (7)	40.0%	39.8%	Folketinget (Referendum)	2 + 1
	27.11.2001	Rasmussen, A.F. I (V)	V (56), KF (16)	41.1%	40.3%	Folketinget (Referendum)	2 + 1
	18.02.2005	Rasmussen II (V)	V (52), KF (18)	40.0%	39.3%	Folketinget (Referendum)	2 + 1

^aAs referendum used mainly for Eu issues, we count only the parliament as a veto point (if government is minority, as explained in Table 10.1).

(*Specialarbejderforbundet i Danmark* (SID)) and The Women Workers' Union (*Kvindeligt Arbejderforbund*). Other major unions are the Union of Commercial and Clerical Employees (*Handels- og Kontorfunktionærers forbund* (HK)), the Union for Metal Workers (*Dansk Metal*) and the Union of Public Employees (*Forbundet af offentligt ansatte* (FOA)). These unions are united in the Danish Confederation of Trade Unions (*Landsorganisationen i Danmark* (LO)), which has approximately 1.5 million members. Other important trade unions, which are not LO members, are the Danish Confederation of Professional Associations (*Akademikernes centralorganisation* (AC)) and the Salaried Employees' and Civil Servants' Confederation (*Funktionærernes og Tjenestemændenes Fællesråd* (FTF)). Compared to Sweden, the Danish tradition of "macro-corporatism" is weaker, but LO in particular plays a very important role with regard to labor market policy, and there is a strong tradition in Denmark of involving interest groups in many policy areas. Furthermore, Denmark has a strong tradition of self-rule of the social partners, implying that issues such as the minimum wage are decided by the social partners and not by legislation. Governments are generally very reluctant to interfere in issues that are considered the domain of the social partners (Due et al. 1994).

With regard to pension politics, an interest organization by the name of the "elderly course" (*Eldresagen*) became particularly strong in the 1990s. This organization, which has around 450,000 members, is strictly non-partisan and has always been reluctant to negotiate directly with the government. It works largely through media contacts and lobbying for the interests of the elderly, mainly concerning national pensions, care for the elderly and other welfare benefits for the elderly.

III PENSION SYSTEM

Historical overview

The first public pension schemes were introduced in Denmark in 1891 with the introduction of old age assistance which provided limited means-tested benefits (Nørgaard 2000; Øverbye 1997). The same legislation modified existing civil service pensions (Vesterø-Jensen 1985: 60–3). In 1956, the old age assistance scheme was expanded considerably with the introduction of the national pension that was tax-financed and PAYG. All citizens aged 67 or over became entitled to a minimum pension, but the intention was to expand the system into a generous, flat-rate and universal pension scheme. This was achieved in 1964 when Parliament adopted a generous, flat-rate and universal pension scheme that was introduced gradually, and in place by 1970. At the same time, Parliament introduced the means-tested pension supplement for pensioners with limited income besides the national pension.

The Danish national pension has thus always contained an element of means-testing (Vesterø-Jensen 1985).

By the early 1960s around 20 percent of all Danish employees were covered by some form of occupational pension. However, whereas about half of white-collar workers had occupational pensions, the figure was less than 10 percent for blue-collar workers. In addition, more than half of white-collar workers with occupational pensions were civil servants with civil servant pensions (Vesterø-Jensen 1985: 175–6; Henriksen et al. 1988: 42–45). However, during the 1950s, other groups, such as public employees within the health care sector, had also gained access to occupational pensions. The attractiveness of such pensions had risen in connection with a political compromise concerning national pensions in 1956 that introduced generous tax incentives for private and occupational pensions (Due and Madsen 2003: 23–41).

In the early 1960s, the LO began to apply pressure for additional pension coverage for blue collar workers, most of whom only had access to the national pension. In 1964, a Danish supplementary pension scheme (ATP) was introduced, but it was a scheme of limited importance. Contributions were based on the number of hours worked rather than on income, and were thus flat-rate, equal to 1.5 percent of the average wage. Contributions were also nominally fixed and could only be increased as the result of collective agreements, something that did not happen until 1972 and then not again until 1982 (Vesterø-Jensen 1985: 56–9). Thus, ATP never came to provide a sufficient supplement to the national pension for the working class.

Nevertheless, trade union interest in the pension issue declined again after the introduction of the ATP. The debate about the “pension problem” continued during the 1960s and early 1970s, but the suggestions now came more from the Social Democratic Party than from the trade unions, and little progress was made (Larsen and Andersen 2004; Petersen 2002). The Labor movement (Social Democrats and LO) had linked the pension issue with the question of economic democracy. A fund with pension savings from all wage earners would quickly become a major actor on the Danish financial market. If the trade unions could get control of this fund, it would be a major step towards economic democracy (Vesterø-Jensen 1985: 56–9). The entire issue of economic democracy was, however, politically very controversial and the Social Democrats were isolated on the issue, since the other left-wing parties did not want a central fund. The issue of economic democracy and wage earner funds became a liability for the pension proposals of the Social Democrats. They did not have the political strength to introduce a reform on their own, and they could not attract support for change because of their insistence on the central fund (Green-Pedersen and van Kersbergen 2002).

Furthermore, Danish trade unions—as opposed to the trade union confederation, LO—and especially the trade union for unskilled workers, were not particularly interested in occupational pensions. This was already clear when the ATP was introduced. The trade unions feared that high contributions to the ATP would lead to lower ordinary wage increases (Petersen 2002) as can be seen, for instance, from the limited attention they paid to the issue of increasing ATP contributions. For unskilled workers, the national pension in combination with the ATP provided close

to acceptable replacement rates. Thus, the relative weakness of the Social Democratic Party and the lack of union interest in earnings-related pensions seem to explain the lack of a definite answer to the pension question in Denmark (Petersen 2002; Øverbye 1996). The lack of union interest may also be related to the fact that the Danish trade unions are craft-based. This has led to diverse union interests with regard to the pension issue, with conflict between skilled and unskilled workers, and thus a constraining effect on their political power regarding this issue.

However, by the time the issue reached the agenda again in the 1980s, the Danish pension system had changed. Whereas in the early 1960s occupational pensions had primarily been for civil servants, other groups—especially the growing number of public employees who were not given the special civil servant status—had acquired occupational pensions during the 1960s and 1970s. Thus, the percentage of employees with occupational pensions had risen from around 20 percent in the early 1960s to around 35 percent in the early 1980s. Private pension savings had also grown considerably (Henriksen et al. 1988: 222). However, in 1981, 41 percent of Danish wage earners and 64 percent of the unskilled workers had no pension besides the national pension and the ATP (Vesterø-Jensen 1985: 172–5). One could thus speak of a “dual pension system” (Vesterø-Jensen 1985) where the majority of employees and most blue collar workers were left with only the national pension and the ATP, whereas occupational pensions were becoming widespread among white-collar workers. When the pension question had already been settled in many countries, the debate was still going on in Denmark as large groups of LO members, in particular, would face a considerable loss of income at the time of retirement.

However, the menu from which to choose answers to the pension question had become considerably more limited during the 1960s and 1970s. In the early 1960s, the civil servant pension, which is a PAYG, defined-benefits scheme, was the dominant form of occupational pension. In the early 1980s, funded, defined-contributions occupational pensions dominated. The percentage of wage earners covered by these pensions had risen from around 7 percent to around 20 percent (Henriksen et al. 1988: 42–6). In reality, Denmark had spent the 1960s and 1970s following a pension path dominated by funded, occupational pension schemes (Green-Pedersen and Lindbom 2006).

Description of current pension system

As discussed, the political debates and conflicts over the Danish pension system resulted in a system quite similar to the multi-pillar one advocated by the World Bank (1994). The first pillar consists of the national pension, ATP, the new SP (a compulsory pensions saving of 1% introduced in 1997), the SAP scheme (a voluntary pension scheme for disabled pensioners), and civil servant pensions. The second pillar consists of funded occupational pensions, and the third pillar consists of private pensions, which are still fairly widespread.

Coverage

The first pillar is dominated by the national pension. All Danish citizens residing in Denmark at the age of 65 who have spent a minimum of three years in the country are entitled to the national pension. Non-Danish citizens who have lived in Denmark for 10 years including the 5 last years before retirement are also entitled to the national pension, but benefits are reduced if a person has less than 40 years of residence. Danish citizens can also draw their pension abroad (Socialministeriet 2002; Økonomiministeriet 2003).

The second tier of the first pillar has four elements.

1. The Danish ATP scheme is compulsory for all Danish employees working a minimum of nine hours per week. Wage earners receiving cash benefits such as unemployment benefits, sickness benefits, and maternity benefits pay a contribution twice the standard flat-rate, whereas self-employed people who had earlier paid contributions as employees, and people receiving early retirement benefits and disability pensions, can decide whether to pay the contribution or not.
2. Persons receiving work-related income pay 1 percent of income to the SP scheme.⁵ This scheme thus automatically covers the self-employed and some recipients of cash benefits.
3. In 2003, a new pension scheme (SAP) was introduced for those on disability pensions, but paying contributions to this scheme is optional.
4. The final part of the second tier of the first pillar is the civil servants' pension scheme. Historically, this scheme covered many public employees but today few people are allowed to enter the scheme; only very privileged groups such as high-ranking civil servants and priests are eligible. However, a broader group of public employees such as teachers and railway workers were able to enter the scheme earlier and thus accumulate pension rights (Socialministeriet 2002; Økonomiministeriet 2003).

The coverage of occupational schemes in the second pillar is 93 percent. Contributions are tax deductible but benefits are taxed as normal income (Økonomiministeriet 2003: 43–6). The majority of contributors are covered as part of a collective agreement, but some are also covered through pension agreements agreed between individual firms and pension funds or insurance companies, as is typically the case when employees are not covered by collective agreements. The groups not covered by occupational pensions are young workers with a weak attachment to the labor market, and employees not covered by a collective agreement. The latter group comprises mainly professionals in well-paid jobs.

The third pillar still plays an important role, especially for people not covered by occupational pensions. Private pension savings plans in different forms are provided by banks, life insurance companies, and other financial institutions, and can pay out either a lump sum, known as capital pensions, or a monthly pension, in many cases for a limited number of years. Contributions are partly tax-deductible and pensions are taxed when paid out (Økonomiministeriet 2003: 46–8).

Administration

The national pension is administered by municipalities but under the supervision of the Ministry of Social Affairs, and the municipalities have no influence on benefits. The central government finances national pension expenditure (Socialministeriet 2002).

All contributions to the ATP scheme are paid into the ATP fund, which by law is a private institution, but under the control of the social partners. The fund invests the contributions in shares, bonds, or real estate, like any other professional investor. The ATP fund has also administered the SP scheme, but as of 2005 it will become possible to move contributions to private providers such as banks and life insurance companies. In the new SAP scheme, those on disability pensions can also choose between the ATP and private providers. The Ministry of Finance administers the civil servant pensions for those working for central government. Local governments have set up a special institution, *Kommunernes Pensionsforsikring*, which administers pensions for their employees.

Occupational pensions negotiated as part of collective agreements are administered by pension funds administered by the relevant trade union, and sometimes also by the employers' organization which was party to the collective agreement. However, in all funds, trade union representatives dominate. Firm-specific pension schemes are administered by pension companies, banks or life insurance companies. These providers also offer private pensions. All private providers, including occupational funds and the ATP, are monitored by the Danish Financial Supervisory Authority, which is under the jurisdiction of the Ministry of Economic and Business Affairs. This authority monitors whether pension funds can meet their liabilities, and ensures they do not violate the rules regarding the composition of investments.

Financing

The national pension is PAYG and is financed through general taxation, and the same is true for civil servant pensions. All other Danish pension schemes are fully funded. All pension funds are subject to the same government regulation with regard to the risk distribution of investments and other technical details. However, the ATP is subject to certain additional limitations. For instance, the fund is not allowed to acquire a controlling share of any individual company.

Contributions to the ATP depend on the number of hours worked. For full-time employees, (those who work 37 hours per week), the contribution was €358 per year in 2005. This is a fixed amount, which can be increased by a decision of the social partners. The contribution normally amounts to around 1 percent of average wages. In the SP scheme, contributions are 1 percent of work-related income, whereas in the new SAP scheme contributions are equal to 2.8 percent of the disability pension for a single pensioner. If a disability pensioner wants to participate in the scheme, the government pays two-thirds of the contribution.

Contributions to occupational pension schemes vary from around 3 percent to 17 percent of qualifying income. By 2004, the pension contributions of a majority of wage earners was 9 percent or more (Økonomiministeriet 2003).

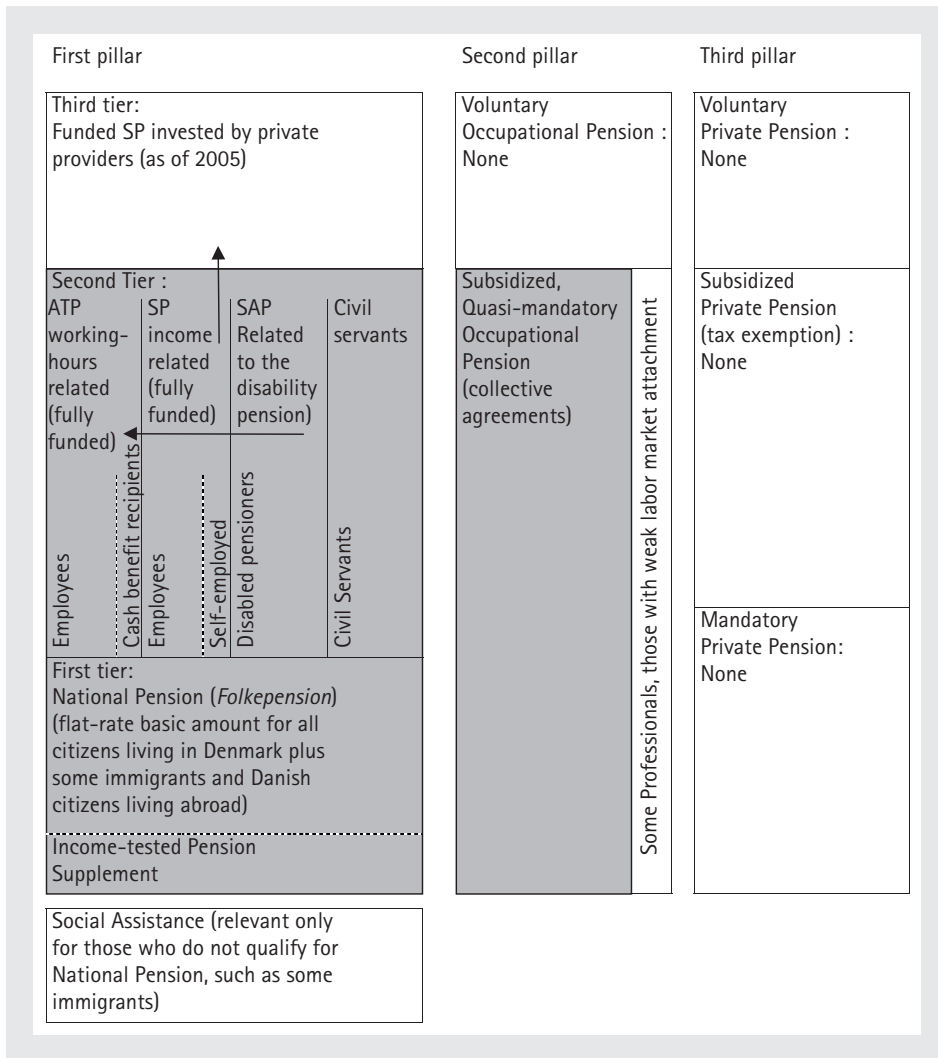


Fig. 10.2 Pension system in Denmark

Benefits

The national pension consists of two main elements, the basic amount and the pension supplement. The basic amount is a flat-rate amount paid independently of other income, but it is reduced for those with high earnings. This exception affected around 1 percent of pensioners in 2002. The basic amount was €7,586 in 2005 and was taxable. The pension supplement, which for single pensioners was practically the same as the basic amount, but which was only €3,565 for married and cohabiting pensioners, was subject to an income test based on all other income including other pensions. In 2002, 64 percent of those above retirement age received the full pension supplement and a further 26 percent received a partial amount. Benefits are paid

from the age of 65 for all pensioners born after July 1 1939.⁶ For pensioners born prior to this, benefits are paid from the age of 67 (Socialministeriet 2002).⁷

In the ATP scheme, pensions are paid from the age of 67/65 (following the rules of the national pensions). As the scheme is based on defined-contributions, the value of the pension depends on the number of years and hours worked, and the return on investments. In 2004, the maximum pension for a person who had worked full time since 1964 was €2,990, but the average pension only €1206 (ATP 2004). Benefits in the SP scheme are paid for 10 years from the age of 67/65 (also following the rules for the national pension). The scheme is also based on the principle of defined-contributions, and since contributions are related to income from work, benefits depend on former earnings as well as on the return on investments. The scheme was only introduced in 1998, so the total value of pensions paid will be limited for many years. In the civil servants' scheme, pensions depend on previous wages and the number of years of employment as a civil servant. Pensions are typically equal to two-thirds of the final wage

The occupational pension schemes are also based on defined-contributions. However, the value of pensions also depends on average life expectancy for scheme participants. For example, if a person is a member of a pension fund whose members have a high average life expectancy, for example, one dominated by women, that person will receive a smaller pension. Private pensions depend solely on the value of contributions and returns on investments. In both types of scheme, benefits can be paid from the age of 60 and can be postponed until the age of 70. However, the earlier one starts to receive a pension, the smaller the pension will be.

IV POLITICS OF PENSION REFORM SINCE 1980

Overview

Danish pension politics since 1980 have been shaped by two main factors. First, the pension question was to some extent still open in Denmark in the early 1980s, whereas many other countries had answered the question decades earlier. Many Danish wage earners were only covered by the national pension and the ATP, and thus had insufficient pension coverage. Secondly, the economic situation in Denmark put questions of cost containment or revenue increases on the agenda relatively early. In the early 1980s, the issue was an acute economic crisis, whereas more recently the main problem appears to have been related to demographic changes. To provide an overview of the period, it is useful to divide it into three subparts, namely 1980 to 1984; 1984 to 1991; and 1991 to 2002.

Table 10.3 Overview of proposed and enacted pension reforms in Denmark

Year	Name of reform	Reform process (chronology)	Reform measures
1982	Tax on interest income of funded pension schemes	<ul style="list-style-type: none"> • 1981 Social Democratic government proposes taxes on interest income from pension savings; insufficient parliamentary support; government steps down • right-wing government suggests welfare state retrenchment → huge protests; pensions were spared • CD/Kons/KristFol/Ven-government suggests temporary tax on pension fund savings • Social-Democrats in opposition support tax but demand permanent tax • government concedes to the Social-Democrats • Fall 1986 elderly report • 1986 publication of the bill • Spring 1987 unanimous passage in Parliament 	<ul style="list-style-type: none"> • interest income of private pensions with pension savings made after 1983 were taxed at a rate of 3.5% from 1984 onwards
1986	Lettelese af Samspilsproblemer	<ul style="list-style-type: none"> • 1987 cross-party consensus and passage in Parliament 	<ul style="list-style-type: none"> • easing income testing for pension supplements i.e. more people became entitled to the full pension supplement and others receive a greater share of the maximum amount. • increase in pension supplement
1987	Forhøjelse af pensionstilægget	<ul style="list-style-type: none"> • Alternative majority pressures the government to accept a new indexation system. New system passed by a broad majority. 	<ul style="list-style-type: none"> • indexation changed from price increases to real wage increases; if annual increase exceeds 2% it is reduced by 0.3% which is used for the improvement of other cash benefits
1990	Lov om satsreguleringsprocenter	<ul style="list-style-type: none"> • 1984 Metal Union demands occupational pensions through collective agreement • Fall 1985 union committee report 	<ul style="list-style-type: none"> • introduction of occupational pensions through collective agreements
1991	not applicable		

(Continued)

Table 10.3 (Continued)

Year	Name of reform	Reform process (chronology)	Reform measures
		<ul style="list-style-type: none"> • Spring 1986 opposition proposal to introduce occupational pensions with central fund • Fall 1987 tripartite negotiations: establishment of commission to investigate occupational pensions • intra-coalition conflict between Conservatives and Liberals with the Prime Minister leaning towards the Liberals who rejected any legislation on occupational pensions • Social Democrats' main interest was winning a parliamentary majority thus no interest in reaching agreement with government • failed negotiations → LO realizes that the only chance for occupational pensions is through collective agreement • 1991 most unions introduce occupational pensions • Majority government passes bill without negotiating with the opposition 	<ul style="list-style-type: none"> • Compensation for single pensioners for the abolition of their special tax exemption through a temporary supplement which has gradually been transferred to the pension supplement, implies greater income testing in the long run • reduction of basic pension but compensation by higher supplement • recipients of sickness, maternity, and unemployment benefits to get twice the normal ATP contribution, recipients of social assistance get the normal ATP contribution • no introduction of indexation of the ATP contributions, contrary to original proposal
1993	<i>Konsekvenser af skattereform</i>		
1996	Dobbelt ATP for folk på overførselsindkomster	<ul style="list-style-type: none"> • 1989 ATP-board suggests introducing contributions for recipients of sickness, maternity and unemployment benefits • Dec 1991 governmental bill for revision of ATP but without contributions for unemployed etc. • Spring 1992 amendment of the Labor Market Committee • change in government in 1993 (ditto) • budget agreement 1996: government suggests expanding ATP to include recipients of cash benefits 	

<p>1998 Special Pension Scheme (SP) (<i>særlig pensionsopsparing</i>)</p>	<ul style="list-style-type: none"> • Fall 1997 government proposes introducing 1% contribution of work-related income to ATP • March 1998 elections • passage in Parliament 	<ul style="list-style-type: none"> • special pension scheme was made permanent and the benefit structure changed so that the value of the contributions would not matter for benefits as it did in the ATP scheme
<p>2001 Førtidspensionsreform</p>	<ul style="list-style-type: none"> • Spring 2001 passage in Parliament by broad majority 	<ul style="list-style-type: none"> • introduction of ATP contributions for recipients of disability pensions financed 2/3 by the government and 1/3 by the recipient • establishment of voluntary pension scheme for disability pension recipients with contributions of 20% of average wage financed 2/3 by the government and 1/3 by the recipient.

The first period was dominated by the economic crisis in Denmark and different governments' attempts to improve public finances. Pension politics was therefore part of general economic policy-making, which was dominated by the logic of party competition. Due to popularity of the national pension it was spared from the cuts which governments made to other welfare benefits, but the broader pension system was affected because one of the major initiatives to improve public finances was a tax on the interest income of private and occupational pensions.

In the second period, the economy improved, and this facilitated a debate about how to increase income-related pension coverage. The already prominent role of funded occupational pensions ensured that this was the path that needed to be followed by the rest of the labor market. However, the government and the trade unions had different views on whether or not the rest of the labor market should be covered by one, or several, pension funds, and whether or not these funds should be introduced by law. Finally, the Conservative government got it its way: a number of pension schemes were introduced through collective agreements without any legislation.

This answer to the pension question had consequences for pension politics in the third period. Large parts of the Danish pension system, namely occupational pensions and the ATP, have become the realm of the social partners and as such government interference is normally considered inappropriate. Thus, even if these schemes are affected by, for instance, falling interest rates, this does not become a partisan issue. With regard to pension politics, political parties have focused on the national pension, which was the subject of one cost containment reform during this period. The introduction of the SP scheme and some modest attempts to find a pension solution for the groups not covered by occupational pensions have attracted more limited political attention.

Tax on interest gains of funded pension scheme 1982

Denmark experienced economic difficulties in the 1970s, including high inflation and very large budget deficits, and the situation deteriorated further after the second oil crisis. The Social Democratic governments of the 1970s struggled in vain to find viable solutions to these problems. In 1979, the Social Democratic minister of Finance, Knud Heinesen, stepped down, declaring that the Danish economy was "at the brink of the abyss" (Nannestad and Green-Pedersen (forthcoming): 5). In the late 1970s and early 1980s, attention was drawn to the question of a tax on the interest income of private and occupational pensions. The tax advantage of the second- and third-pillar pension schemes had been an issue throughout the 1970s (Vesterø-Jensen 1985: 211–58). The left-wing parties had argued that these tax advantages pushed the system in the direction of a "dual pension system" where large groups had to make do on the national pension and the ATP, while others had generous occupational and private pensions supported by the tax system. The left-wing parties in the Danish Parliament thus made several proposals to limit the tax deductibility of contributions

to private and occupational pensions. The right-wing parties opposed all of these proposals, arguing that they diminished the incentives for people to save for their own pensions. At first, the Social Democrats were not too enthusiastic either. They focused instead on making the pension funds and insurance companies invest in a way that would benefit employment, but without much success. However, after the national election in 1981, the economic troubles in Denmark continued to worsen, and the Social Democratic government started to pay attention to the idea of a tax on interest income from pension savings as a way to improve the budget. However, to build a majority in Parliament, the government needed support from either the center parties or one of the two right-wing parties. In opposition the right-wing parties saw no reason to support a Social Democratic government in raising taxes. In terms of electoral competition, it was attractive to be able to criticize the proposal, since taxation has traditionally been an issue “owned” by the right-wing parties. The failure to find parliamentary support for the tax caused the Social Democratic government to step down.

The new center-right government faced a dire economic situation involving high inflation, high unemployment, a very large balance of payments deficit and a large budget deficit. For the new government, getting the latter under control had high priority (Nannestad and Green-Pedersen (forthcoming)). Basically, there were two ways to achieve this: tax increases or cuts in public expenditure. The new government could draw on “crisis awareness” among the public, which implied some acceptance of otherwise unpopular measures. However, for a right-wing government welfare state retrenchment was risky, because it gave the Social Democratic opposition ample opportunity to criticize the government for being against the popular Danish welfare state.

The new government suggested some welfare state retrenchment measures, and was met with demonstrations and accusation that it was “bombing the Danish welfare state back to its 1930s level” (Green-Pedersen 2002: 113–16). Despite the extensive protests, the new government did introduce a number of cutbacks in welfare benefits, but the national pension was largely spared. Right from the beginning, Prime Minister Schlüter declared, “weak groups in society such as old age pensioners will be spared.” The government did, however, introduce one minor retrenchment measure: the basic amount would be tested against income from employment (but not against pension income) for pensioners aged 67 to 69. Only considerable wage earnings would lead to a reduction of the basic amount, though, so the change affected only about 1 percent of pensioners (Green-Pedersen 2000). The Social Democrats had suggested the same change while in government, and could thus support the change (*Folketingets Forhandlingler* 1982–1983: 735–40). The national pension scheme was also simplified in 1983. The existing possibilities for receiving benefits before the age of 67 were abolished and instead a new and more generous disability pension scheme was set up (Green-Pedersen 2002).

Tax increases were just as unpopular as benefit cuts, but a tax on the interest income of private pension was clearly attractive compared to all other alternatives. The revenues from such a tax were estimated at DKR 5 billion in 1983. In comparison,

cuts in unemployment benefits, which caused huge protests, were expected to bring savings of DKR 3.5 billion. Furthermore, the tax would have no immediate negative effect on specific groups. In the long run, the pensions based on funding (i.e. the ATP, occupational pensions and private pensions) would be about 20 percent lower (Henriksen et al. 1988: 202–3), but this effect would occur far in the future. The tax is thus a good example of a government attempting to minimize protest by introducing a policy whose negative effects are difficult for people to understand (Green-Pedersen 1999). Even though the Conservative government had opposed this tax in opposition, it could also draw on a “Nixon goes to China logic,” arguing that the economy was now in such dire straits that even a center-right government had to raise taxes.

The government had passed most of its new economic policy with support from the Social Liberals and the Progress Party, but with its anti-tax profile, the Progress Party could clearly not support the new tax. Therefore, the government would have to rely on the Social Democrats to get the proposal passed in Parliament. The Social Democrats had argued strongly for such a tax while in government and electorally had little to lose by supporting the tax. However, whereas the government proposed a temporary tax on the savings of the pension funds, the Social Democrats wanted a permanent tax on the annual interest income of the pension funds.⁸ For the government, the revenue from the tax was essential and it had to accept the Social Democratic demand for a permanent tax on the real interest rate above 3.5 percent from 1984. However, only pension savings made after 1983 would be taxed. The revenue of the permanent tax was expected to rise to DKR 11–12 billion in 1986. For 1983, a tax on pension savings was introduced. In the end, the new taxes were passed with support from all parties in Parliament except the Progress Party (*Folketingstidende* 1982–1983: L81, L82; Vesterø-Jensen 1985: 254–58).

Improvements to the national pension, 1986 to 1990

During 1984, the immediate economic crisis subsided, and this facilitated discussion of the more unfinished aspects of Danish pension policy. The question of improved earnings-related pension coverage was taken up again by both the government and the LO. Danish pension politics in the following period was thus clearly dualistic, as already suggested. On the one hand, the government and the LO discussed occupational pensions, whereas the development of the national pension was determined by the dynamics of party competition. Only a few changes to the national pension were related to the discussion of occupational pensions.

The center-right government had generally justified its retrenchment measures with reference to the need to get the Danish economy back on track. However, in the mid-1980s, the Prime Minister himself declared that things were going “incredibly well” and it was impossible to justify further retrenchment initiatives. The Social Democrats, in cooperation with the trade unions, had based their opposition strategy on a strong attack on the government for wanting to dismantle the welfare state and

for implementing socially unfair retrenchment measures. A trade union leader had, for example, invented the image of “people sliding into social mass graves,” (Green-Pedersen 2002: 113–18). When the economy improved, this strategy paid off as the government had to struggle with a negative social image (Andersen 1988). As the 1987 election approached, the government tried to improve its social image by reversing many of the retrenchment measures it had earlier implemented. The government also introduced a number of improvements to the welfare state (Green-Pedersen 1999; 2002). These included increases in the national pension, which was improved several times in mid- and late-1980s.

The government launched its first proposals for improvements in an “elderly report,” submitted to Parliament in the fall of 1986 and followed by a bill. With regard to the national pension, the bill focused on “interaction problems” between the pension supplement and other pensions. Due to the income testing of the pension supplement, pensioners with small additional pensions would hardly benefit from these pensions, as they would simply lead to a smaller or no pension supplement. The government thus suggested easing the income testing of the pension supplement significantly over a four-year period starting in 1991. Part of the background for the proposal was the debate about occupational pensions, which was just beginning. One of the problems with getting occupational pensions introduced was that for low-wage earners, a considerable part of a future occupational pension would be lost again as the pensions supplement disappeared. A working group of civil servants had thus suggested an easing of the income test of the pension supplement as a way of encouraging trade unions to introduce occupational pensions through collective agreements. The Social Democrats declared that this promise of improvements in the future was a cheap way for the government to buy popularity during an election campaign, but in the Spring of 1987 the proposal was passed unanimously in the Danish Parliament (*Folketingets Forhandlinger* 1986–1987: L199; Green-Pedersen 2003b).

In the spring of 1987, the government also proposed an increase in the pension supplement. The national pension was indexed to prices not wages, and the government suggested improvements to the national pension to compensate pensioners for the wage increases in the 1987 collective agreements. Since the easing of income testing of the pension supplement would not benefit pensioners who already received the pension supplement, the government suggested that the improvement be made by raising the pension supplement, not the basic amount. The opposition considered the amount very small, but in the end the proposal was passed unanimously in Parliament (*Folketingets Forhandlinger* 1986–1987: L218).

The election in the fall of 1987, led to a significant deterioration of the government’s parliamentary situation. Previously (after the 1984 election), the Conservative government (KF-V-CD-KRF-coalition) had been able to rely solely on close cooperation with the Social Liberals for passing its economic policy. There were thus no parliamentary reasons for concessions to the Social Democrats. In the 1987 election, however, the government lost its majority with the Social Liberals and was forced back to the situation that prevailed from 1982 to 1984 when it had to gain support

from either the Social Democrats or all the non-socialist opposition parties including both the Social Liberals and the Progress Party. The difficulty of the latter was already evident later in 1987 when the budget had to be passed. As a matter of principle, the Progress Party voted against the budget and the government had little choice but to try to get support from the Social Democrats, who were able to demand a high price for their support. Moreover, having lost the 1987 election, the government was under additional pressure to try to improve its social image. The image of implementing “unfair” cutbacks stuck to the government and was the major challenge to staying in power after the immediate economic crisis had subsided (Green-Pedersen 2002). The result was considerable improvements in a number of cash benefits, including the national pension. All benefits were increased, particularly the pension supplement. Income testing of the pension supplement was further eased with effect in 1988. The law thus meant an increase in expenditure on the national pension of around 6 percent (Green-Pedersen 2000), and the Social Democrats afterwards spoke of social democratic “footprints” on the budget. All parties but the Social Liberals supported the proposal when passed in Parliament. The Social Liberals found the general increase in pensions economically irresponsible and abstained (*Folketingets Forhandling* 1987–1988: L168).

After 1988, the Danish economy moved into recession again with rising unemployment and budget deficits (Nannestad and Green-Pedersen (forthcoming)). Nevertheless retrenchment measures were not discussed, and in 1990 the national pension was improved again with the introduction of a new indexation system for cash benefits. Whereas the national pension had been linked to prices through the 1980s, the automatic indexation of benefits such as unemployment benefits and early retirement benefits was abolished in 1982. They were frozen until the beginning of 1986, after which they were indexed by an annual decision in Parliament. The new system that was introduced linked all benefits to real wages. However, if indexation exceeds 2 percent, 0.3 percent is deducted and used for other improvements in cash benefits. In connection with the introduction of this new system, the basic pension was also increased for married pensioners so that it was equal to that for singles.

To some extent, the new law was forced on the government. In 1989, the government tried to gain parliamentary support for limited indexation of cash benefits. However, the opposition parties joined forces and passed a resolution in Parliament demanding that the government propose a law ensuring automatic indexation of all cash benefits based on real wages. During the 1980s, a system of alternative majorities, that is to say, not including the government, had developed in the Danish Parliament. This majority was mainly active with regard to foreign policy and actually partly disappeared after the 1988 election, when the Social Liberals joined the government. However, on some social issues, the Center Democrats and the Christian People's Party, which had been more or less kicked out of the government in 1988, participated in an alternative majority that pressured the government to accept the new indexation system. The law was passed in 1990. For the national pension, this would most likely mean higher benefits in the long run, but the effect would of course depend on real wage development (*Folketingets Forhandling* 1989–1990: L223, 224).

Altogether, the period from 1986 to 1990 saw a number of improvements in the national pension in Denmark, the reasons for which can be found in the pressure on the government from the dynamics of party competition. First, because of the cutbacks it had implemented, the center-right government was under pressure to improve its social image and thus started making improvements between 1984 to 1987, when its parliamentary situation was favorable because of its majority with the Social Liberals. Secondly, after the 1987 election, the government was in a difficult parliamentary situation and was forced to make concessions to the opposition parties. Increases in the national pension were attractive both for a government wanting to improve its social image, and for an opposition needing visible concessions in return for parliamentary support, given that pensioners were considered deserving recipients after a long working life (Green-Pedersen 2002). The development of the national pension in this period was thus shaped by the interplay between electoral competition over a positive welfare image and the high popularity of the scheme.

The introduction of occupational pensions 1986–1991

When the economic crisis of the early 1980s disappeared, the pension question reappeared in Danish politics. However, by the early 1980s funded occupational pensions covered about one-fifth of the labor force so funded occupational pensions were the only realistic answer to the pension question. A PAYG solution for the rest of the labor market would be impossible to combine with these funded occupational pensions. The mainly public employees who had already saved for their pensions for years would not accept other groups being given a pension on a PAYG basis, since they would have had to contribute to such a scheme through the tax system. On the other hand, the funded schemes were so mature that it was impossible to dismantle them. The enormous sums of money from these funds could not be given back to those having paid contributions without overheating the economy. The funds are also privately organized which means that politically it would be very difficult just to tax the funds away. The contributors would see this as a government confiscation of their savings. Finally, the economic situation in Denmark also made the tax increases necessary to finance a PAYG solution very unattractive (Green-Pedersen and Lindbom 2006).

The pension question was not taken up again by the government until its budget in the spring of 1984 (Finansministeriet 1984). For the government, the introduction of occupational pensions had several advantages. First, if the contributions were part of normal wage increases, this would mean less immediate private consumption, which would help control Denmark's apparently permanent current account deficit. Secondly, if introduced in a decentralized way, occupational pensions would mean an acceptable end to the struggle over economic democracy and the establishment of a central wage-earner controlled fund. The trade unions and the Social Democrats had never been successful with their plan, but at times they had been close to successfully

introducing a modified version of the proposal (Due and Madsen 2003: 63–92). The issue was not dead, obviously, and the government saw occupational pensions as a way to satisfy the demands of wage earners in a manner acceptable to employers. Thirdly, the government also considered the large number of people living on only the national pension and the ATP as a social problem, and as a factor that could force the government into raising the national pension (Green-Pedersen 2003b).

Occupational pensions were attractive for the government, but only if they were introduced through collective agreement and not through legislation. Introducing them through law could easily mean that wage earners would not view the contributions as part of wage increases, but as a type of social legislation on top of normal wage increases. The government wanted occupational pensions introduced by the social partners through collective agreements. The government declared that once this happened, it would be willing to consider legislation regarding two issues: pension schemes for wage earners not covered by collective agreements, and the interruption of pension contributions for those receiving unemployment, sickness and maternity benefits. The LO and the trade unions also had a strong interest in occupational pensions. It was mainly members of these organizations who lacked sufficient pension coverage. Furthermore, for the LO, occupational pensions were also an opportunity to introduce a system resembling economic democracy. However, the LO wanted a legislative solution. Only this would secure full coverage of all wage earners. Altogether, the issue of occupational pensions emerged because both the government and the LO had a stake in it, not because the groups with insufficient coverage put pressure on the government or the LO to find a solution.

The first initiative concerning occupational pensions came from the trade unions in the fall of 1984, when the Metal Workers Union demanded occupational pensions in the subsequent round of collective agreements. Other trade unions, especially those representing low-skill workers, were skeptical but LO responded by setting up a committee to work out a model for occupational pensions (LO 1985).

This committee issued its report in the fall of 1985, suggesting a system of legislatively mandated occupational pensions for all wage earners not already covered. The plan also called for one central pension fund under LO control as well as the doubling of the ATP contribution and additional income testing of the national pension. The latter two elements were designed to limit the increase in inequality between pensioners as a result of the introduction of earnings-related pensions (LO 1985). The social democratic parliamentary group was not enthusiastic about the income testing of the national pension, but in spring 1986, the Social Democrats put forward a proposal in Parliament for the introduction of occupational pensions with one central fund (Petersen 2002).

The Social Democrat's proposal was symbolic in the sense that the Conservative government and the Social Liberals, which had a majority in the Danish parliament, were clearly against it. A legislative solution would not lead to lower immediate wage increases in collective agreements, and there was no way the government would accept one central pension fund under LO control. This was simply the reappearance of the economic democracy proposals from the 1970s. Employers agreed with the

government. They did not rule out occupational pensions, but they opposed a solution through legislation and a central fund as suggested by the LO (Green-Pedersen 2003b).

The situation in 1986 was, in other words, that both the government and the LO were interested in introducing occupational pensions, but not in the same way. The government wanted the LO to introduce occupational pensions through collective agreements, whereas the LO wanted the government to introduce them through legislation. There was, in other words, a stalemate of sorts. What the government could do was to make the introduction of occupational pensions more attractive—and indeed it did so, by easing the income testing of the pension supplement already mentioned.

During the collective bargaining rounds in 1987, occupational pensions played no role. The trade unions were still united around the LO proposal of occupational pensions introduced through legislation, and they also found the issue of reduced working hours more important (Due and Madsen 2003: 126–8). The collective agreements ended in a “wage feast” with damaging effects on Danish competitiveness (Nannestad and Green-Pedersen forthcoming). This, together with the changed parliamentary situation, to some extent broke the stalemate over occupational pensions. For the government, large wage increases had further increased the need for wage moderation. The changed political situation after the 1987 election meant that the government could not just rely on the Social Liberals to build a majority as it had done before, but it also needed the support of the Progress Party. This change in the parliamentary situation also made cooperation with the LO attractive for the right-wing government. If it could reach agreement with the LO, it would be impossible for the Social Democrats to oppose the agreements. The LO, for its part, had to recognize that the government had survived another election, and if the LO wanted political influence, cooperating with the government was one way to achieve this.

This new situation resulted in trilateral negotiations between the government, the LO and the Danish employers’ association in the fall of 1987. These negotiations resulted in what became known as the “common declaration” signed by the social partners and the government. The declaration’s main component content was union acceptance of wage moderation. In return, the trade union got acceptance of the appointment of a commission to investigate occupational pensions (Due and Madsen 2003: 126–62). This “Labor Market Pensions Committee” consisted of representatives from the social partners and civil servants. The government was thus not politically represented. There were no negotiations in the committee, but discussions of technical aspects of different models of occupational pensions. Indirectly, however, the Committee’s report did indicate some movement on the LO side. For example, the report stated that pension contributions should be part of wage negotiations, and the LO also indicated that it could accept a decentralized solution (Arbejdsmarkedspensionsudvalget 1988).

The Committee issued its report just before Christmas 1988, and it was unclear what would happen. The LO hoped that the government would start serious

negotiations on the issue, but was soon disappointed. In his New Year's Day speech to the Danish people, Conservative Prime Minister Schlüter instead suggested, with the round of collective agreements in early 1989 in mind, that workers accept wage cuts in return for tax relief. This was something which the unions saw as the exact opposite of an invitation to negotiate. The background for the Prime Minister's declaration was an ongoing internal conflict in the government. The Conservatives, represented by the Minister of Finance, were positive towards occupational pensions and were considering legislation that would ensure coverage for groups not covered by collective agreements. The Liberals, represented by the Minister of Taxation, opposed occupational pensions, at least if these were to involve any kind of legislation, preferring instead, the further expansion of private pensions. The Conservative Prime Minister had increasingly synchronized his political views with those of the Liberal Minister of Taxation, which was the background for the suggestion in his New Year's speech. At the time, it seemed that the negotiations over occupational pensions had come to an end. Yet the Prime Minister repeated that if occupational pensions were introduced through collective agreements, the government would be willing to consider accompanying legislation (Green-Pedersen 2003b).

In the negotiations over collective agreements on the private labor market in early 1989, occupational pensions played no role. The 1987 collective agreement was to expire in four years, but there was room for negotiations over limited wage increases in 1989. Thus, occupational pensions could not be included in the negotiations right away. Furthermore, the trade unions preferred a legislative solution and did not raise the issue. On the public sector labor market the situation was different. Here the unions representing the groups not already covered were interested in extending occupational pensions to their members, and here the collective agreement of 1987 only lasted for two years. Occupational pensions were thus extended to all public employees (Due and Madsen 2003: 177–81).

During the summer and early fall of 1989, the discussion over occupational pensions changed forum. The economic recession prompted the government and the Social Democrats to launch plans for reforms of the labor market and the tax system. The Social Democratic plan also included occupational pensions introduced through legislation, whereas the government plan simply expected occupational pensions to be introduced through collective agreements without any suggestion that legislation might be passed (Statsministeriet 1989; Socialdemokratiet 1989). In early fall of 1989, negotiations began. Internal government documents show that if a deal could have been reached, the government would have been prepared to commit itself to the introduction of occupational pensions during the 1991 collective bargaining round, by introducing a law including wage earners not covered by collective agreements (archive of the Prime Minister's Office). However, negotiations failed, to a large extent because the Social Democrats had no real interest in reaching an agreement with the government. The image the Social Democrats wished to portray was one of a tough opposition focused on winning a parliamentary majority with the Socialist People's Party.

After these negotiations, the LO realized that the only way to expand occupational pension coverage was through collective agreements. The Metal Workers Union now declared that they would give the issue top priority when negotiating the collective agreement of 1991. The metal workers were among the highest paid wage earners without an occupational pension, and they thus faced a strong decline in income on retirement. Moreover, the Metal Workers Union feared that if occupational pensions were not introduced, large Danish companies would introduce firm-based pension schemes, implying that the unions would have no influence on pension savings (Green-Pedersen 2003b). The LO still preferred some kind of legislation to solve two problems, namely the wage earners not covered by collective agreements and the interruption of pension contributions when receiving unemployment, sickness and maternity benefits. However, for the LO, obtaining occupational pensions was now the most important issue, and the LO supported the attempts of the individual trade unions to establish occupational pensions in the 1991 collective bargaining round (LO 1990). The result was that most trade unions introduced occupational pensions. In subsequent rounds of collective agreements, occupational pensions have become part of all collective agreements, and contributions have gradually increased to around 9 percent of qualifying wages (Due and Madsen 2003).

With the introduction of occupational pensions in Denmark in 1991, the pension question in Denmark had finally been answered by funded occupational pensions introduced at the trade union (as opposed to the LO) level. There was, however, no legislation to secure pension coverage for wage earners not covered by a collective agreement, and no legislation to ensure that pension contributions were still made during periods of absence from the labor market.

The final shape of Denmark's pension settlement can be explained by focusing on two stages in the decision-making process. First, the fact that large groups on the labor market already had funded occupational pensions meant that the expansion of funded occupational pensions was the only feasible solution. Both the pension commission of the LO (LO 1985: 83–6) and the labor market pension committee (Arbejdsmarkedspensionsudvalget 1988: 2–3) briefly discussed PAYG solutions such as expanding national pensions, but concluded that such a solution was incompatible with existing occupational pensions (Green-Pedersen and Lindbom 2006).

Secondly, as we have seen, the government and the trade unions had different opinions with regard to the exact structure of occupational pensions. In the end, the government got its way. Occupational pensions were introduced through collective agreements, without any legislation, and the trade unions had to give up on their preference for one large scheme introduced through legislation. In fact, the unions never even got their accompanying legislation. The reason why the trade unions were not successful can be found in the organizational advantages for the trade unions concerning occupational pensions. For the trade unions, the fact that being covered by a collective agreement also means access to an occupational pension was seen as a way to increase membership, just as the control of the pension funds was attractive for the trade unions (Due and Madsen 2003). Furthermore, since the government was not willing to introduce occupational pensions through legislation,

the alternative to the decentralized version of occupational pensions was further expansion of firm-based private pensions, which meant no union influence. Finally, it is debatable how important it was for the trade unions to get coverage for wage earners not covered by collective agreements, since this group was dominated by professionals who were not even union members. In other words, for the trade unions, the actual solution was far better than the only realistic alternative. For the government, on the other hand, one of the goals of introducing occupational pensions, namely that part of wage increases would be used for pension savings, would most likely not have been achieved if occupational pensions had been introduced through legislation, since wage earners would view the pensions as a social benefit on top of wage increases. Moreover, one of the governing parties, the Liberals, preferred the alternative solution: private pensions. Thus, the government could afford to be patient, whereas the unions could not.

Since the issue of occupational pensions was more or less settled in 1991, Danish pension policy has been a question of adapting the first pillar to take account of the role of occupational pensions. In particular, the absence of legislation requiring that pension contributions continue for those in receipt of unemployment, sickness and maternity benefits, has generated changes in some of the first-pillar schemes. Since occupational pensions are funded, defined-contribution schemes, the pressure arising from increased life expectancy and the graying of the population does not constitute the same problem in Denmark as in other countries. However, some of the public schemes, such as the national pension and the early retirement scheme, have come under pressure and have seen changes.⁹ In addition, it is not just pension policy but also pension politics that has been shaped by the introduction of occupational pensions. The fact that occupational pensions, like the ATP, are administered by the social partners means that governments leave these schemes to the social partners. If the social partners reach an agreement, it is normally accepted by Parliament without further discussion. Thus, the political dynamics of the Danish parliamentary system applies mainly to the national pension, which has seen one important reform in the period since the introduction of occupational pensions, and the recently introduced SP scheme.

ATP for recipients of cash benefits

As mentioned above, the fact that an accompanying law was never passed when occupational pensions were introduced left two problems for the Danish pension system, namely a group of wage earners not covered by occupational pensions, and the loss of pension contributions during sickness, unemployment, and parental leave. These issues have attracted limited political attention since the introduction of occupational pensions. With regard to the wage earners not covered by occupational pensions, several government studies have concluded that the problem is not significant, for two reasons. First, some of the groups not covered are young people who

will be covered later in their careers. Secondly, a significant proportion of those not covered are highly-paid professionals not covered by a collective agreement, but who will be able to pay into a private pension scheme (Økonomiministeriet 2003). Therefore, political attention has mainly been directed towards the lack of coverage during unemployment, sickness, and so forth.¹⁰

As early as 1989, the board of the ATP (i.e. the social partners) had suggested introducing ATP contributions for recipients of sickness, maternity and unemployment benefits as part of a modernized version of the ATP scheme. However, resistance from the Ministry of Finance meant that the proposal for a new ATP law, put forward in the spring of 1991, did not include contributions for recipients of sickness, unemployment and maternity benefits. However, with the opposition pressing for this change, the Labor Market Committee of Parliament asked the Ministry of Labor to sketch the necessary revisions of the ATP law. In December 1991, the government put forward a new version of the revisions of the ATP law, still without contributions for recipients of sickness, maternity and unemployment benefits, again because of continued resistance from the Ministry of Finance. However, in the spring of 1992, a majority in the Labor Market Committee, Social Democrats, SF, the Social Liberals and the Center Democrats introduced an amendment to the legislation that included contributions to the proposal, and in the end it was passed unanimously in Parliament, but with skepticism from the Liberals and Conservatives who feared increased government expenditure (*Folketingets Forhandlinger* 1990–1991: L86; 1991–1992: L152; archive of the Ministry of Finance).

The Social Democrat-led government that took office in 1993 was also not particularly interested in accompanying legislation, but in connection with the budget agreement for 1996 the government suggested expanding the pension systems, with ATP contributions for recipients of cash benefits. The recipients of sickness, maternity, and unemployment benefits would get double ATP contributions, recipients of social assistance would get normal ATP contributions and recipients of early retirement benefits and disability pensions would get the possibility of paying voluntary contributions. Finally, the government also suggested indexation of the ATP contributions. The right-wing parties in Parliament were quite critical of the proposal, but the Conservatives ended up making a budget agreement for 1996 with the government. The changes to the ATP scheme were then passed as part of this agreement. However, the proposal for pension indexation was removed from the final version (*Folketingets Forhandlinger* 1995–1996: L12).

The final initiative concerning the payment of contributions to labor market pensions for those on cash benefits came in connection with the new disability pension scheme passed in the Spring of 2001 by a broad majority in the Danish Parliament. Two aspects of the legislation are important. First, disability pension recipients would now pay normal ATP contributions, with the government financing two-thirds of the costs and the recipient paying the remaining one-third. Secondly, a voluntary pension scheme was set up for recipients of disability pensions so that they could join a voluntary pension savings system organized parallel to the ATP. Contributions are approximately 2 percent of average wages and are financed in the same

way as the ATP contributions for those on disability pensions (*Folketingets Forhandling* 2000–2001: L137).

Just as the ATP is generally considered an area where Parliament does not interfere with the decisions of the social partners, civil servant pensions are generally regarded as an issue of negotiation between the Ministry of Finance and the trade unions of the civil servants. Once the Ministry and the civil servants' union agree, the necessary legislative changes are passed in Parliament with broad majorities, and changes are also made to the schemes for civil servants employed by local governments. The scheme has seen two noteworthy changes since 1980. First, reductions in the national pension for recipients of civil servant pensions have been abolished, resulting in higher overall pensions for civil servants. Further, in 1993 a new system of calculating benefits was introduced that links pensions more closely to previous wages. However, a transition phase lasting until 2022 has been agreed upon, compensating low-wage civil servants and involving higher costs for the government. Finally, it is also important to note that the number of people entitled to civil servant pensions has been cut by nearly one half. This is the result of a strategy of the Ministry of Finance to limit civil servant pensions to only a few groups, including high-ranking civil servants and pastors. Other groups of public employees are employed under collective agreements with funded occupational pensions. For instance, teachers in primary schools are no longer employed as civil servants.

As already discussed, the non-interference of Parliament and the government in the matters decided by the social partners also applies to occupational pensions. This became clear in 2002/2003 when the Liberal-Conservative government which had taken office in 2001 floated its ideas about introducing choice into funded occupational pension schemes, that is, allowing participants to transfer their savings to another pension fund. A government committee issued a report on the issue (Økonomiministeriet 2003), but it became clear that with regard to the occupational pension, introducing “free choice” would mean a major conflict with the social partners since they see these schemes as an issue to be dealt with through collective agreements. Consequently, the government gave up on the idea.¹¹

The national pension and the SP scheme are considered within the authority of Parliament and the government. Since the introduction of occupational pensions, these areas have seen reforms that can best be explained by the logic of party competition in the Danish Parliament.

Increased means testing of the national pension, 1993

In early 1993, a government consisting of the Social Democrats and the three small center parties, the Social Liberals, the Center Democrats and the Christian People's Party, formed a majority government; the only one in Denmark since 1971. At that time, the Danish economy had improved, especially public finances and the current account, but unemployment was still high. The new government introduced a tax reform that would provide a fiscal stimulus for a few years, but would thereafter

mean tax increases. The aim was to kick-start the economy through tax relief—and the policy was successful (Nannestad and Green-Pedersen (forthcoming)). Part of the tax reform involved transforming a number of existing net cash benefits into higher, taxable, gross benefits. The net amount would remain the same, but the effect would be make all cash benefits taxable, in line with existing policy for most other types of benefit. With regard to the national pension, this meant that the enhanced personal tax exemption for single pensioners would be abolished, as had already been proposed by an internal government commission in 1989 (Socialministeriet 1989). The government argued that such a change would also be necessary to ensure that the tax relief would also benefit pensioners (*Folketingets Forhandlinger* 1992–1993: L314).

The abolition of the special tax exemption of course meant that pensioners needed to be compensated with higher pensions. For a transitional period until 1999, all single pensioners would get a new supplement equal to the value of the special tax exemption, but after that the supplement would be transferred to the income-tested part of the pension supplement. Obviously not all pensioners would be entitled to this supplement. Finally, the basic amount was decreased slightly for all pensioners, but the pension supplement was raised by an equal amount. The government had designed the combined effect of the tax relief and the change in the national pension to ensure higher net income for all pensioners. However, in the long run the increased income-testing in the scheme also means savings for the government—not least because the number of people with pensions besides the national pension and the ATP will increase due to the expansion of occupational pensions.

Unlike the normal Danish minority governments, this government could use its majority to implement the changes without negotiating with the opposition, and it did just that. The right-wing opposition was critical of the tax reform and therefore voted against it and against the changes in the national pension as well. The opposition had nothing against the reform to make benefits part of gross income, but was critical of increased income testing, mainly because it diminished the incentives for pension saving. This had been a standard argument of the right-wing parties against income testing of the national pension for a long time (Green-Pedersen 2003a). In the long run, the consequences of increased income testing are significant, but nevertheless the reform did not create much public debate. Attention was focused on the tax reform in general and on labor market reforms passed at the same time. Furthermore, due to the complexity and the long-term effects of the changes, it was difficult to arouse much opposition. In other words, the changes are another good example of what Pierson (1994) calls strategies of obfuscation, where reform is structured in ways that make it hard for voters to comprehend negative effects. Furthermore, the fact that the change was made by a Social Democratic-led government also contributed to the “de-politicization” of the issue. The right-wing parties had little to gain from attacking the government on this retrenchment issue, and instead focused their opposition on other parts of the new government’s policies, especially the tax reform.

With regard to the overall Danish pension system, the increased role of income testing is interesting since the policy direction in the 1980s had been the opposite.

Thus, while the governments of the 1980s had eased income testing to make occupational pensions more attractive for low earners, the government moved in the opposite direction once these occupational pensions had been introduced. Recently, the Danish national pension has been moved further in the income-tested direction, with the introduction of the so-called “elderly check,” which was passed in connection with the budget for 2003. This check is paid only to pensioners who have no other income than the national pension. It was introduced as a concession to the Danish People’s Party to obtain support for the budget. As before, improvements in the national pension were used by the political parties to shore up their social profile.

Introduction of the Special Pension scheme (SP)

The latest addition to the Danish pension system is the Special Pension scheme (SP). The scheme was initiated in the fall of 1997. The Danish economy was booming and the government wanted to curb private consumption (Nannestad and Green-Pedersen (forthcoming)). Therefore, the government suggested that all wage earners and the self-employed should pay an extra contribution of 1 percent of work-related income to the ATP in 1998. With an election coming up, the government wanted to avoid being accused of raising taxes, and therefore launched this temporary increase in pension contributions. The government obtained support from the Liberals and the Conservatives for the proposal on condition of one change, namely that unlike the ATP scheme, benefits, in this case a lump sum, should depend on the size of the contribution paid. The parties argued that the original government suggestion, where the lump sum contribution would only depend on the number of hours worked, as in the ATP, was in reality a tax increase (*Folketingets Forhandlinger 1997–1998: 1. samling, L31*).

After the election in March 1998, the Social Democratic government wanted to introduce even more drastic measures to curb private consumption and it agreed on a tax reform with the left-wing parties in Parliament (Nannestad and Green-Pedersen (forthcoming)). As part of this tax reform, the Special Pension scheme was made permanent and the benefit structure changed so that the value of contributions would not matter for benefits, as it did in the ATP scheme. However, the contributions paid for 1998 would be paid as originally agreed upon with the right-wing parties (*Folketingets Forhandlinger 1997–1998: 2. samling, L108*). This conflict over the connection between contributions and benefits was in fact a conflict over whether or not the scheme should have a redistributive function, and the struggle continued after the 2001 election. The new Conservative government, with support from the Danish People’s Party, changed the scheme again so that benefits are linked to contributions. The government also liberalized the investments in the scheme. From 2005, contributors can choose between different investment profiles within the SP or transfer the savings to other pension funds, banks, etc. This law was passed by the center-right majority in the Danish Parliament (*Folketingets Forhandlinger 2002–2003: L195*).¹²

The political dynamics around the SP scheme seem more like a traditional “politics matter” situation, where the Social Democrats argue for redistribution and the Conservative parties argue against it. Thus, a “Nixon goes China logic” seems less important here. The reason is probably that the scheme receives limited political attention. Thus, the current Liberal government, for example, can pursue traditional center-right policies here, whereas in other areas with much more political salience, for instance health care, its policies have been very social democratic in the sense that they have brought further expansion of the welfare state.

V CONCLUSION

In many countries, pension politics over the last 20 years has been dominated by efforts to reduce the costs of earnings-related PAYG systems, where expenditure is threatening to rise dramatically in order to pay for benefits for graying populations. Furthermore, the “double payment” problem has made even modest moves in a funded direction politically difficult. Denmark does not have a large pay-as-you-go earnings-related pension scheme, and hence pension politics has followed a different path.

Summary of the magnitude of changes

Two decades ago, the pension question in Denmark was partly unanswered in the sense that around two-thirds of wage earners only had access to the national pension and the ATP, implying a significant drop in income following retirement. Today, Denmark has a multi-tiered pension system close to World Bank recommendations in which almost the entire work force is covered by occupational pensions. In this sense, the Danish pension system is more or less settled. The national pension still provides universal benefits and was actually expanded in the 1980s. The scheme did, however, see a significant retrenchment in 1993. New elements such as the SP and SAP have been added and the ATP scheme expanded to provide some coverage for recipients of cash benefits. In other words, the changes have been significant, but retrenchment has been very limited.

Impact of the political system on pension politics

The fact that occupational pensions in Denmark are the domain of the social partners means that the political system has mainly been relevant in connection with the national pension. This is a matter for the political parties and changes to the

scheme are best understood through the logic of electoral competition. The national pension is one of the most popular welfare schemes in Denmark (Andersen 2003) and the political parties rarely, if ever, suggest retrenchment. Thus, it is hardly surprising that the scheme did not suffer retrenchment in the early 1980s, and that when the center-right government needed to improve its social image in the mid-1980s, improvements to the national pension played a significant role. Another example was the “elderly check” passed in connection with the budget agreement for 2003. The only important retrenchment in the national pension was the increase in income-testing introduced in 1993. This was passed by a Social Democratic government with a strong pro-welfare state image, and the change is a prime example of what Pierson (1994) calls the “politics of obfuscation.” The retrenchment effects of the law are long-term and difficult to understand. The development of the national pension in Denmark thus shows the importance of the dynamics of electoral competition for public policy developments.

Interest group influence

Today occupational pensions and the ATP scheme are the domain of the social partners and they have been able to avoid government interference, as for example in connection with the “free choice” discussion after the change of government in 2001. This speaks for the strength of organized interests, but it is important to keep in mind that part of the reason why decentralized occupational pensions became so dominant in Danish pensions was the inability of the political system to agree upon a public earnings-related pension system. The disagreements at the parliamentary level thus left room for the social partners.

Constraints of policy design

The fact that around 20 percent of wage earners already had funded occupational pensions in 1980 meant that the only realistic answer to the remaining part of the pension question was funded occupational pension schemes. Thus, the Danish case shows that path dependence in pension systems is not just a question of the double payment problem, but it is also important with regard to funded systems, since a shift in the PAYG direction is also highly problematic (Green-Pedersen and Lindbom 2006). In reality, the funded part of the Danish pension system was a result of the many occupational pensions that had been introduced in the labor market during the 1960s and 1970s, when political agreement over other pension solutions could not be reached.

However, within this path, which all actors have recognized, there has been room for pension politics. In relation to occupational pensions, political conflict concerned the exact structure of occupational pensions. The LO wanted a centralized version through legislation, and the government wanted a decentralized solution introduced

through collective agreements. In the end, the government won because unions had an obvious interest in the introduction of occupational pensions. Such a scheme maintains the importance of the system of collective bargaining, and gives the individual trade unions control over pension funds. The trade unions never got accompanying legislation covering wage earners not included in collective agreements and securing contributions during periods outside of the labor market due to unemployment, parenthood, and so on, but the system set up through collective agreements is still much more attractive for trade unions than the expansion of private pensions, which would have been the only realistic alternative.

The fact that the Danish pension system is structured as a multi-pillar system with funded, defined-contribution occupational pensions as the most important element also leads to a de-politicization of pension issues. Thus falling interest rates, and the stock market crash of 2001 and 2002, have not been transformed into political issues. They will lead to lower pensions from all the funded schemes in the future, but this is considered to be an automatic element of having these pension schemes. Political conflict with regard to the funded elements has centered on taxation issues. At the beginning of the period, private and occupational pension were indirectly subsidized through the tax system. This has changed significantly, due partly to the taxation of interest income, which also covers the ATP, the SP and the SAP, and partly due to the fact that three tax reforms passed in 1985, 1993 and 1998 have all reduced the tax deductibility of private and occupational pensions. Politically, the right-wing parties have opposed such changes in principle, but the taxation of interest gains on pension savings, for instance, was passed by a right-wing government due to the need to improve public budgets.

In general, this suggests that pension politics within pension schemes that do not have a major PAYG earnings-related component depends on the exact structure of the funded elements. The fact that the Danish pension system relies so strongly on funded, defined-contribution schemes, mostly controlled by the social partners, ensures that there is fairly little party political conflict with regard to the pension system, besides the national pension, even in the presence of pressures such as higher life expectancy and the retirement of the “baby boom” generation.

Role of ideas and historical context

The historical context played an important role for the final settlement of the Danish pensions system. The fact that the discussion came during the 1980s, in the context of economic problems and an ensuing reluctance to increase taxes, was an additional factor in the choice of funded occupation pensions, besides the fact that the already existing pension system would have made any other solution difficult. Thus, although Denmark now has a pension system that seems to be modeled on the ideas of the World Bank, this pension system came about through a series of political compromises, in which both the need of minority governments to craft a legislative majority

within the constraints of the logic of party competition, and accidents of sequence and timing placed Denmark's pension policy on the path to a multi-pillar system.

Abbreviations

AC	Akademikernes centralorganisation (Danish Confederation of Professional Associations)
ATP	Arbejdsmarkedets Tillaegspension (supplementary labor market pension)
CD	Centrum-Demokraterne (Centre Democrats)
DM	Dansk Metal (Union for Metal Workers)
FOA	Forbundet af offentligt ansatte (Union of Public Employees)
FTF	Funktionær og tjenestemandforbundet (the Salaried Employees' and Civil Servants' Confederation)
HK	Handels og kontorarbejderforbundet (the Union of Commercial and Clerical Employees)
KF	Konservative Folkeparti (Conservatives)
KRF	Kristeligt Folkeparti (Christian People's Party)
LO	Landsorganisationen i Danmark (Danish Confederation of Trade Unions)
RV	Det Radikale Venstre (Social Liberals)
SAP	Supplerende arbejdsmarkedspension for foertidspensionister (additional labor market pension for those on disability pensions)
SD	Socialdemokratiet (Social Democrats in Denmark)
SF	Socialistisk Folkeparti (Socialist People's Party)
SID	Specialarbejderforbundet i Danmark (the Union of Unskilled Workers)
SP	Særlige pensionsopparing (special pension saving scheme)
V	Venstre (Liberals)
VS	Venstresocialisteme (Left-Socialists)
3F	Fælles Fagligt Forbund (Union Federation of Danish Workers)

NOTES

1. Thanks are due to Trine Toftgaard Lund for excellent research assistance, Lone Winter for help with the manuscript and to Karen Anderson, Jørgen Elklit, Ellen Immergut and Isabelle Schulze for constructive criticism of earlier versions.
2. Jones (1986) provides a useful introduction to Danish political history.
3. Damgaard (2000) provides a useful introduction to Danish parliamentary politics.
4. This description of Danish local government refers to the situation after the local government reform effective of January 1, 2007.
5. Payments to the SP scheme have been suspended for the period 2004–7.
6. A change of the scheme in 2004 has made it possible to postpone receiving the national pensions and they have higher benefits later.
7. On top of the basic amount and pension supplement, each municipality has the opportunity to give personal supplements to elderly people with high costs, for instance for

heating, glasses and medication. The central government pays half of the expenditure for the personal supplements, which equal approximately 3% of the overall expenditure for the national pension.

8. Most likely, the Social Democrats wanted the tax to be permanent because they wanted to avoid a new political debate on the issue when a temporary tax expired, maybe at a time when they were in government themselves and the pressure from the economic crisis was not there.
9. In comparative perspective, it is worth noting that the public schemes are financed out of general revenue not wage-related social contributions. The debate about pension expenditure causing high wage-costs is thus much less important in Denmark than in other countries. Thanks to Karen Anderson for pointing this out to me.
10. If you are entitled to normal pay during sickness, you are also entitled to pension contributions.
11. With regard to the ATP, the idea of free choice also had to be given up on since contributions are not individualized in a way that makes it possible to withdraw one's contributions. The only scheme affected by the free choice idea is thus the SP.
12. The same majority has suspended payments for the period 2004 to 2007.

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