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by

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ABSTRACT

A wage-earners' investment fund fund would receive income from taxation and use it to accumulate capital on behalf of wage-earners. The paper briefly surveys the various wage-earner fund proposals advanced in Europe during the 1970s and 1980s. It then analyses the arguments for and against wage-earner funds and shows that the European debate on this issue has involved much more than a purely rational appraisal of the economic costs and benefits of the various policy options. The paper then examines the experience of wage-earner funds in Sweden, the only country in which such funds have actually been established. Institutional aspects of the Swedish funds are discussed, as are their behaviour and performance.

1. Introduction

During the second world war Keynes (1940) proposed a system of state-administered savings out of wages. The purpose of his proposed system was to reduce private consumption to allow for war-time production requirements in as equitable a way as possible (see Maital, 1972 for a discussion). Keynes saw implications of his proposal well beyond the special needs of the British war-economy. He suggested (Keynes, 1940) that "the accumulation of working class wealth under working class control (could induce) an advance towards economic equality greater than any we have made in recent times." What Keynes had proposed was a kind of wage-earners' investment fund. Advocating the partial socialisation of investment was clearly consistent with Keynes' view, expressed in the General Theory, that capitalist institutions did not organise the process efficiently: " When the capital-development of a country becomes a by-product of the activities of casino, the job is likely to be ill-done" (Keynes, 1936).

During the post-war period, proposals similar to that of Keynes have been widely discussed in Europe, for example in West Germany, Holland, Denmark, Sweden, the United Kingdom and Italy. A brief survey of the various policy proposals is given in section 2 of this paper. At the time of writing (1991) the only existing wage-earner investment funds are in Sweden, where they were set up in 1984. The Swedish wage-earner funds (lontagarfonder) will be discussed in more detail in section 4 of the paper. Section 5 concludes.

A wage-earners' investment fund would receive contributions from a tax levied, for example, on wages or profits and would accumulate capital, mostly in the form of shares, on behalf of wage-earners. The fund might operate as a savings vehicle for individuals, allowing the holding of individual saving certificates, or it might have some alternative obligation imposed upon it, such as a commitment to the State pension system. Funds could be administered by the government, trade unions, independent managers, an elected management board or by various combinations of these. The ideological basis of wage-earner funds is the notion that workers, collectively, should own and control at least part of the capital stock which they have created. Moreover, this control over accumulation should lead to an increased measure of control over production itself, for example, in the form of voting rights inherent in share ownership. Wage-earner funds represent an alternative to enterprise-level forms of financial participation (of the kind discussed in Wadhwani and Wall, 1990, for example) but they clearly have a more collective character. They might be given the objective of promoting managerial participation within existing firms and, as is discussed in George (1989a and 1990), they might also play the role an of external financing agency for a fully self-managed sector under capitalism.

2. Policy Proposals

The West German economy underwent a period of rapid development in the immediate post-war period and the ownership of private capital became very unequally distributed (see e.g. Krelle, Shunck and Siebke, 1968). Voluntary savings and investment schemes emerged as part of German "Vermogenspolitik". During the 1950's the trade union economist Bruno Gleitze proposed a wage-earner investment fund to be financed from a profits tax and administerd by the unions (see Gleitze, 1968). The Gleitze proposal was developed by the German Social Democratic party and the trade unions. In 1974 a proposal was advanced which would institute a system of funds, none of which would be confined to a particular industry or region, and amongst which individuals would be free to choose. The maximum proposed rate of profits tax was 10%. Within the trade union movement there was opposition to the fund proposal, in particular from the metalworkers' union IG Metall, and no legislation was developed. The wage-earner fund idea was supplanted by the system of codetermination (mitbestimmung) which is currently in operation. Collective capital ownership was not seen as a necessary prerequisite for the unions' real objective, namely a substantial degree of managerial participation within conventional firms.

In Holland the trade unions started discussions on wage-earner funds during the mid 1960's and, in 1975, the Dutch government advanced a detailed proposal. It was for a wage-earner fund financed from a profits tax with a maximum tax rate of 20%. Contributions would be paid mostly in the form of equity. There were to be individual fund certificates, partly redeemable after a 7-10 year period and partly on retirement.

In Denmark the debate on wage-earner funds was bound up with issues of managerial participation within firms, a degree of collective worker ownership of capital being seen as complementary to other measures designed to establish industrial democracy. In 1973 a Danish Bill on wage-earner funds was presented to the Danish Folketing (parliament) in tandem with a Bill on codetermination. The latter Bill passed into law while the former was rejected. The Danish proposal was for a wage-earner fund financed from a wage tax. The tax rate would rise from zero to 5% in steps of 1/2% per year. The fund would issue non-negotiable fund certificates to individuals who would be able to redeem them after a minimum seven year period (though the unions wanted a five year redemption period). Individuals would be free to continue holding their certificates beyond this period if they so wished. Two thirds of each contribution was to be made in the form of equity which the fund would not be allowed to sell (and analagous arrangements would be made for non joint stock companies) while the remainder would be made in cash. This cash component (the so-called 'free resources') would be available to the fund for investment in the Danish economy. The fund would not be permitted to hold more than 50% of the equity of any single enterprise. The fund's management council would consist of 36 members appointed by employee organisations and 24 members appointed by the Minister of Labour.

The Danish debate provided the impetus for the British Labour Party to advance a similar proposal for the U.K. in the form of an 'Opposition Green Paper' entitled **Capital and Equality** and published in 1973. The study group which produced this paper included Mr. Neil Kinnock and Prof. Nicholas Kaldor among its membership. The proposal was for a "National Workers' Fund" , advocated as a complement to nationalisation rather than an alternative to it. It would operate along similar lines to the fund proposed in Denmark, though with three important differences. Firstly, no contributions to the fund would be made by public sector organisations, though public sector employees would receive fund certificates. Secondly the cash component of contributions would be very much smaller than the one third proposed in Denmark. The report expresses concern that the liquidity position of firms should not be adversely effected by the fund. Finally, the report rejected the wage tax as the source of fund contributions, advocating instead a tax based on company valuation. The fund's Governing Council would include a majority of union representatives, appointed through TUC channels, together with Government representatives and specialist advisors. The fund would not solely be concerned with maximising its rate of return, but also with objectives such as employment, as well as with promoting managerial participation within firms.

As mentioned above, Sweden is the only country to have actually implemented a system of wage-earner funds. Five such funds were set up in 1984. The Swedish experience will therefore be dealt with in greater detail later in this paper. The debate in Sweden was concerned, among other things, with the problem of ensuring efficient capital accumulation in a highly unionised economy, while simultaneously promoting greater equality in the distribution of income and wealth. These issues were discussed in Denmark as well, though they were seen as secondary to the objective of promoting managerial participation within firms. Central to the debate was the Swedish 'solidarity' wage policy. The degree of unionisation in Sweden is approximately 90% and wage-bargaining is a highly centralised process between a small number of agents, in particular the union organisation LO and the employers' organisation SAF. The solidarity wage policy adopted by the bargaining agents means that there is a tendency for wages in a given occupation to be equalised across the economy regardless of company profitability. There is, of course, scope for earnings drift at firm and industry level. Nonetheless the solidarity wage policy does weaken the link between wages and the firm's profits which is implied in the standard bargaining model (see, for example, George, 1986) and observed in practice. This means that unions are faced with a dilemma. If they exert wage restraint they will help to achieve policy objectives such as limiting inflation and protecting profitability but the fruits of this restraint will accrue to employers in the form of enhanced profits. A wage-earner fund would admit the possibility of taxing profits and using the proceeds to finance capital accumulation under workers' control, thus providing a quid pro quo for wage-restraint.

In 1975 an LO working party chaired by Prof. Rudolf Meidner advanced a proposal for a system of wage-earner funds (see Meidner, 1978) which came to be known as the 'Meidner Plan'. The proposal was for a system of wage-earner funds which would receive contributions purely in the form of scrip issue and which would therefore not be involved in any active stock market policy. The proposal was modified and a Bill was presented to the Swedish Riksdag (parliament) in 1983. It proposed a system of five funds organised along nominally regional lines which would receive contributions in the form of cash derived from a profits tax and a supplementary ATP (State pensions) levy. Contributions would continue from 1984 until 1990 inclusive. The fund would be expected to operate an active stock market policy in the interests of long run capital accumulation in Sweden and would not be allowed to invest outside Sweden. No arrangements for individual redemption of savings were proposed, instead the funds would be obliged to make an annual payment to the State pensions system equivalent to a 3% real rate of return. The funds would be self-governing and independent of each other and would have managing boards appointed by the Government. Each board would have nine members, of which at least five would "represent the interests of employees". No fund or group of funds would be allowed to hold more than 40% of the voting rights in any one firm, but local union organisations would have the right to take up 50% of the voting rights held by the funds in their particular firm. The Swedish proposal was implemented in 1984.

At the time of writing (1991) the most recent proposal for a wage-earners' investment fund has been made in Italy. Finance minister

Formica recently suggested that the funds accumulated to make severance payments to workers could be used to accumulate shares on behalf of wage-earners. This arrangement could form the basis for a full-scale system of wage-earner funds (see Nuti, 1989 for a discussion).

3. The Policy Debate

It is important to realise that the European discussion of wage-earner funds has involved much more than a purely rational appraisal of the economic costs and benefits of the various policy options. Such funds have an obvious relevance to questions concerning the ownership and control of capital and the distribution of income and wealth. These are obviously political questions which have inevitably been the focus of conflict between powerful interest groups. Wage-earner funds clearly represent a corporatist approach to dissolving, at least partially, the conflicts between labour and capital which characterise capitalist economic systems. If one accepts that the working class as a whole produced the capital stock, it is easy to argue that it should own and control at least part of it. Classical capitalism gave way to corporate capitalism with the rise of the joint-stock company and late capitalism has seen the rise of institutional shareholders. A large proportion of quoted share capital in the U.K. is presently owned by institutions such as insurance companies, banks and pension funds. Under modern capitalism workers clearly save part of their income, but Pasinetti's (1962) observation that they should therefore be treated as capital owners seems misplaced. Workers generally save in forms such as building societies and pension funds which confer no meaningful control of capital and often very little return. The real rate of return on British building society deposits in the early 1980s, for example, was often negative. Wage-earner funds could be seen as a further development towards institutional ownership of capital, emerging, as its predecessors did, in response to concrete economic and political conditions. Whether these developments represent fundamental changes in the nature of capitalism remains an open question. Olaf Palme, political champion of wage-earner funds in Sweden referred to them as 'slow-motion socialism'. Marx, of course predicted the emergence of socialism in fully developed capitalist societies. The current collapse of state capitalism in Eastern Europe bears out this prediction. The Russian empire was a largely peasant economy in 1917, capitalism having achieved no more than a toe-hold in its economic system. The revolution therefore jumped the historical gun, with the results we witness today. It is interesting to note that wage-earner funds have to date only been implemented in Sweden, one of the world's most socially and economically advanced societies, with a per capita GDP similar to that of the USA.

In economies such as Sweden the degree of unionisation is high (about 90% in Sweden itself) and economic issues are often settled by negotiation between a small number of organisations, each representing a large interest group. The most obvious example is wage-bargaining, involving union and employer organisations and occasionally the government. Wage-earner funds fit well into such an economic system, which might be described as corporatist. Trade unions would have a substantial role in managing wage-earner funds, and they have generally been in favour of setting them up. In heavily unionised economies with highly centralised wage-bargaining, this bargaining process plays a central role in determining the rate of inflation and the rate of profit. In respect of the the former it is often far more significant than monetary policy, which may be grouped with other policies that influence labour's bargaining strength via variations in the level of unemployment. In respect of the latter, real wage restraint is often seen as vital in order to protect profitability and therefore investment, but workers are often unable to understand why the benefits of such restraint should flow exclusively to capital owners. In a highly developed democracy with high standards of education, any government which attempts to use unemployment as a means to regulate wages (real or nominal) is likely to suffer defeat at the ballot box. Incomes policy has been tried as an alternative but is known to have defficiencies. As argued in George (1989b), there is a striking contrast in democratic societies between the democratic control which prevails in the political sphere and the undemocratic control which operates within the capitalist firm. Having banished hunger, achieved a reasonable degree of security and met basic consumption needs, a natural democratic aspiration is to seek some measure of influence over the conditions of working life. It is concrete economic and political conditions such as these which generate pressure for the introduction of wage-earner funds which, as indicated in the Introduction, can provide workers with a quid pro quo for wage restraint, while simultaneously increasing worker influence over the production process itself.

Employers' organisations and the political right have objected to the compulsory and collective nature of wage-earner funds. They have typically brought forward alternative proposals for enterprise level share-ownership and profit-sharing schemes of the type discussed in Wadhwani and Wall (1990). These, it is argued, would help to align the interests of workers more closely with the interests of their employers and thus help to improve enterprise performance. The succes of this argument in weakening support for wage-earner funds obviously depends on the extent to which workers can be persuaded that they do not have a substantial community of interest with other workers but do have a community of interest with their particular employer. Presumably the compulsory nature of fund contributions should, on this view, be regarded as the fundamental evil and the collective nature of the funds a secondary one. It is hard to see any objection to trade unions, for example, levying their members and using the proceeds to accumulate capital, provided workers are free to leave unions they do not like. The compulsion involved in the payment of fund contributions is one obvious respect in which the State must be involved in any form of wage-earner fund. Thus the setting up of such funds requires a deliberate act of political will by a government, in which respect it is quite different from voluntary initiatives by trade unions or other similar organisations. A related objection is that wage-earner funds would transfer a great deal of power to trade union officials but relatively little to individual wage-earners. To emphasise this point their opponents often refer to them as 'trade union funds' funds rather than 'wage-earner funds'. There is certainly a legitimate question as to what extent individual wage-earners are likely to participate in the fund's own decisions. Trade-union representaives might be elected by union members, for example, and, in Sweden, Olaf Palme even suggested that there should be periodic general elections (i.e. involving the entire electorate) of fund managers. Incentives to participate in fund management might well be stronger for funds of the type proposed in Denmark in which individuals hold fund certificates redeemable after a fixed minimum time period. The redemption value of a certificate would reflect the rate of return earned by the fund over the period for which it was held. In a Swedish type of fund, with no individual holding of certificates, this incentive would be absent.

As mentioned in section 2 above, the debate on wage-earner funds has to some extent been concerned with the isssue of worker influence within firms. Fund managers might, for example, direct resources towards workers' cooperatives (a possibility taken up in George, 1989a) or conventional firms with a high degree of worker participation. This issue was particularly important in Denmark, where the Bill on wage-earner funds was presented to parliament in tandem with a Bill on codetermination. In Sweden the existing wage-earner funds have the duty to transfer half their voting rights in any particular firm to local trade union organisations within that firm if these local union organisations so request. In principle this could mean local unions exercising up to 20% of voting rights in their own firm, which would facilitate a meaningful degree of influence. As will be shown in section 4 below, actual union voting power is very much less than 20%. In West Germany, however, the establishment of wage-earner funds eventually came to be seen as unecessary for the success of codetermination within firms. In the U.K. unions have generally not even supported formal codetermination such as the German mitbesttimung. They have certainly not shown much interest in wage-earner funds, generally taking the view that collective bargaining, together with a shop steward system, is the best approach to improving workers' welfare. It is clearly open to question whether some form of social ownership of capital is necessary in order to establish meaningful managerial participation on the part of workers. In traditional capitalist firms the right to manage rests with capital owners or their agents. Any diminution in the rights of capital owners would presumably make investment a less attractive proposition at any given rate of profit. Moreover it has been argued (see for example Alchian and Demsetz, 1972) that economic efficiency requires the retention of the traditional capitalist right to manage. Such arguments usually neglect the fact that individuals will typically have preferences which cover the quality of working life as well as quantities of consumption goods and leisure. Moreover this kind of argument is usually developed in a model of a competitive market economy which, it could be argued, is not representative of late capitalism. The Swedish economy, for example, exhibits a high degree of industrial concentration and contains some very large firms, some of which are transnationals. It is less contentious to regard collective or social ownership of capital as one channel through which managerial participation by workers might be promoted, particularly participation in long run or strategic decision taking. That it is not a sufficient condition for managerial participation is easily established by even a cursory examination of nationalisation, a form of collective ownership which has clearly generated very little in the way of worker participation in management and done virtually nothing to dissolve labour/capital conflict.

The casino-like behaviour of the stock exchange has often been described in the literature and its 'mob psychology' is often lampooned. Keynes' remarks in The General Theory on this subject have been quoted above. He develops the view that institutional investors are prone to a 'short-termism' which is inimical to the public interest. On the other hand:

> ...it is the long-term investor, he who most promotes the public interest, who will in practice come in for most criticism wherever investment funds are managed by committees or boards or banks. For it is in the essence of his behaviour that he should be eccentric, unconventional and rash in the eyes of average opinion. If he is successful that will only confirm the general belief in his rashness; and if in the short-run he is unsuccessful, which is very likely, he will not receive much mercy. Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.
> (Keynes, 1936)

Herd behaviour may well, however, be rational under a wide range of conditions. This is well demonstrated by Scharfstein and Stein (1990), though their model relates primarily to corporate investment decisions rather than to the stock market. In principle a wage-earner fund could avoid these dangerous herd instincts, though in practice they may simply operate in the stock market in much the same way as private institutional investors. This is particularly likely to be true if a system of competing funds is set up which is subject to the same annual audits as private institutions. This point is returned to in section 4 below, where the Swedish experience is discussed. However, one might expect that local union pressure would induce a fund to respond differently to the possibility of a firm's bankruptcy than would a private investor. It is often argued that the possibility of bankruptcy is essential to the successful functioning of a market system. Such arguments rarely take into account the interests of redundant workers or the loss of external benefits associated with the destruction of communities. Under pressure from local union organisations, a wage-earner fund might well take a long view of a firm in financial difficulties and assist it to take the management decisions (such as a change in product line) necessary for long-term viability.

A longer time horizon for investment decisions is not the only way in which the objectives of a wage-earner fund might differ from those of a private investor. Fund managers might, for example, be placed under obligations to pursue the objectives of employment, regional or environmental policy. Any such obligation would presumably mean that the fund would be unable to match the rate of return earned by private investors. This might create problems for funds of Danish type, in which individuals hold fund certificates redeemable after a fixed minimum time period. The redemption value of a certificate would reflect the rate of return earned by the fund over the period for which it was held. This might generate pressure from certificate holders to maximise rates of return. In a Swedish type of fund, with no individual holding of certificates, this pressure would be absent.

4. Wage-earner funds in Sweden.

As explained in section 2, at the time of writing (1991), the only existing wage-earner funds are in Sweden, where they commenced operations in 1984. There are five funds along nominally regional lines which receive contributions from a 20% profits tax and a 0.2% payroll tax, levied as an additional ATP (State pensions) contribution. The relevant legislation provides that the profits tax shall be levied on all limited companies, incorporated societies (cooperatives), savings banks and mutual property insurance companies. The base of the profits tax is calculated so as to take account of inflation. Certain appropriations to investment reserves are exempt, as are the firm's other tax expenses and an extra exempt amount, which may be either 500,000 kronor or 6% of the wage bill, whichever the firm chooses. Contributions are in cash and were made in each of the years 1984 - 1990. The Swedish funds are therefore different from those modelled in George (1985 and 1987), which are assumed to receive contributions in perpetuity. Fund contributions (divided approximately equally between the five funds) in the years 1984, 1985 and 1986 were 1523.7 SEKm, 1231.0 SEKm and 2709.6 SEKm respectively. The funds are under an obligation to make annual payments to the state pension system equivalent to a three per cent real rate of return. There is no provision for individual stake-holding in the funds. By the end of 1985 the funds owned around 1% of total stock market value, which rose to around 1.7% by the end of 1986 and reached around 5% by the end of 1990, when contributions ceased. This will mean that each fund will be of a similar size to many medium-sized private institutional share-holders.

No fund may hold more than 8% of the voting rights in any one listed company. Funds must transfer half their voting rights in any particular firm to local trade union organisations in that firm if the unions so request. The management board of each fund is appointed by the Government and consisits of nine members, at least five of which are to 'represent the interests of employees' (these are normally trade-unionists). Each fund is nominally linked to a particular region of Sweden. The membership of boards should reflect some regional affiliation, for example through board members living in their fund's area. This does not mean that funds are under any obligation to bias their investment policy towards their own particular region.

The funds are obliged to invest in the Swedish risk-capital market, predominantly by buying shares (quoted or unquoted), though they are also entitled to provide risk capital to cooperatives. They may not buy shares in foreign companies and share acquisition should be primarily 'long-term'.

The objectives of the Swedish funds are:

(a) to strengthen the policy of wage solidarity discussed in section 2

(b) to counteract the tendency towards the concentration of wealth arising partly from the financing of investment from retained profits

(c) to increase worker influence both within firms and over the process of capital accumulation

(d) to increase the rate of capital formation

(e) to strengthen the State pension system.

Objectives (a), (b) and (c) were part of the original Meidner proposals and objectives (d) and (e) emerged as the Swedish debate proceeded. The existing arrangements differ in a number of ways from the original Meidner plan and it is of interest to examine the way in which this metamorphosis has come about. Even a brief consideration of this matter illustrates well the point made in section 3, that the debate on wage-earner funds has not been confined to a rational appraisal of costs and benefits. It also illustrates the importance, discussed in George (1989b), of political factors in the evolution of economic institutions.

The original Meidner plan left open the question as to the period over which the fund would receive contributions. Some proponents of wage-earner funds had in mind a period longer than the seven years finally chosen. A longer period would clearly have meant larger funds. This in turn might have meant a greater degree of success for the funds in achieving their objectives. The original Meidner plan involved contributions made in the form of scrip issue which would be retained in the firm from which they originated. Thus the plan would have simply transfered ownership, and the funds would not have been involved in an active stock market policy.

Wage-earner funds were a major issue in Sweden in the period 1980 - 1985. They provoked a vigourous and colourful debate in a country famous for its consensus politics. In 1983 a demonstration against the funds (variously estimated at 20,000 to 100,000 people) took place in Stockholm. A fund proposal was contained within the Social Democrat manifesto for the 1982 Swedish general election. Employers' organisations and right wing political parties opposed the proposal vigourously. Lars Nabseth, director-general of SAF, said during the election campaign: " The most acute problem facing Swedish industry is the threat of collective wage-earner funds. They would completely revolutionise our econmic system and severely worsen the conditions on which industry functions in Sweden." Many intellectuals joined the opposition to the funds. A leading Swedish economist resigned from the Social Democratic Party saying "I left the party in protest. (Wage-earner funds) will mean the collectivisation of society. Palme has been pushed into this by the unions." Nonetheless the

Social Democrats won the election and proceeded to develop their plans for wage-earner funds.

Opposition to wage-earner funds took a number of different forms. It was suggested that they would lead to a command economy of East European type and ultimately to some form of totalitarianism. Even if this apocalyptic vision never materialised, there was still the danger that the funds could become major agents in the capital market, possibly gaining a controlling stake in several firms, including some large and important ones. A dangerous increase in the power of trade-union officials was predicted as were adverse effects on firms' costs, and a stock market collapse. There was talk of business boycotting the funds in the sense of refusing to join their management boards and persuading managers not to take jobs with the funds. Less strident opposition took the form of counter proposals, along the lines discussed in section 3 above, for enterprise level profit-sharing, share ownership and participation schemes. Prior to the 1985 election the three non-socialist parties committed themselves to abolishing the funds. One important political effect of the funds has been to encourage cooperation amongst the Right wing opposition in Sweden.

Public opinion seems to have moved steadily against the funds during the period 1975-1983, though a slight upturn in support for the funds is discernible after their inception in 1984. Figures 1 to 4 show the results of opinion polls conducted by the SIFO and IMU polling organisations. Figures 1 and 2 show the responses of approximately 1000 Swedes, chosen randomly each year, to the question: "If employees were to have a larger equity stake in companies, would you prefer private employees to own shares in each company, or the trade union movement to own shares in the company?" Figures 3 and 4 show corresponding responses to the question "Do you consider the trade union movement has too much, too little or the right amount of power in Sweden?" It is interesting to note that, anti-fund opinion developed along with a general hostility to union power.

(Figures 1, 2, 3 and 4 near here)

It is also worth noting that there was a degree of extreme left opposition to the funds, on the grounds that they were insufficiently radical and would not lead to a genuine worker take-over of the means of production. It was argued that the fund approach was an attempt to subvert working class consciousness and give unions an uncomfortable dual role as owners of companies and as workers' representatives.

During the 1988 election campaign, wage-earner funds were still an important issue even though the apocalyptic visions of disaster, disseminated by the funds' opponents, had not materialised. The immediate effect on the stock market had been a minor boom. The business community rapidly came to realise that the funds were a useful source of finance and talk of boycotts receeded. Opposition to the funds was intense in the early stages of the debate, and it is clear that the idea of wage-earner funds breached the prevailing political consensus in Sweden. High taxation, high quality social benefits, low unemployment, a high degree of unionisation and high levels of industrial concentration have all been accomodated within the consensus. As discussed in section 3 above, the emergence of wage-earner funds might be thought a natural response to economic and political pressures in such an environment. Wage-earner funds clearly have implications for the distribution of wealth, the ownership of capital and worker influence within the firm. In an abstract sense at least these implications represent too much of a threat to the status quo to be readily assimilated within the Swedish political consensus. In practice however, the seriousness of this threat depends on the details of the fund arrangements actually implemented. In particular if the funds cannot grow larger than 5% of the total share capital, and are subject to the same market discipline as other agents in the capital market, they are surely best seen as a modification to the system rather than a major restructuring of it.

As has been argued in section 3, the emergence of wage-earner funds should really be seen as part of a long run development of capitalism towards collectivisation of the capital market. In the case of Sweden this development took a large step forward in 1959 with the establishment of the first three AP (state pension) funds. Table 1 shows the funds' total supplies to the capital market (equity and long-term credit) and the credit market as a whole. None of these funds is entitled to own shares, though

(Table 1 near here)

this is not true of the fourth AP fund, set up in 1973. By the end of 1982 this fund had assets of approximately 4 SEKbn. and was the fourth largest share owner registered on the Swedish stock exchange. The fourth AP fund was vigourously opposed by business interests and right wing political parties in much the same way as were the wage-earner funds, though it soon came to accepted as a normal feature of the capital market. It could be seen as simply an intermediate step between ordinary State pension funds and wage-earner investment funds. Although the political opposition to wage-earner funds has restricted their likely growth, the idea of collective capital ownership is advancing in Sweden in less striking ways. As mentioned above the fourth AP fund is allowed to buy shares, as is the newly created (1990) fifth AP fund. The LO has recently reiterated an old demand that the first three AP fund should be allowed to hold 10% of their assets as shares. In addition to this, the LO itself owns some shares, as does a labour movement insurance company. Together these institutions could control around 15% of quoted share capital. This possibility has caused right wing and business interests to raise the possibility of collusion between these institutions to the detriment of the economy as a whole. It seems, however, that the developments discussed above are simply part of a process of evolution by which an economically and socially advanced democracy responds to economic and political pressures. There are definite reasons why one would expect the emergence of collective capital ownership, with a degree of worker control, to emerge in Sweden. Explicit wage-earner funds may have stretched the political consensus a little too far, but a very similar effect may well be brought about by gradual modifications to other capital market institutions, such as the AP funds.

As mentioned above one of the objectives of the Swedish wage-earner funds was to strengthen the 'solidarity' approach to wage bargaining. That approach has been an important aspect of the centralised wage bargaining system which has come to be known as the Rehn-Meidner model, and which has been under threat since the mid eighties. There has been a steady increase in the relative importance of the service sector (particularly publicly provided services), which is not subject to the pressures of international competition, and a corresponding decline in manafacturing, which is subject to these pressures. In addition to this there has been an increase in the relative importance of skilled labour as against unskilled which has, in turn, increased the bargaining strength of white-collar union organisations such as TCO and SACO/SR relative to that of the blue-collar LO. All this has happened against a background of extremely low unemployment which even in 1989 stood at only 1.4%. These low levels of unemployment are largely frictional and, in effect, we may regard the Swedish economy during the 1980's as experiencing labour shortage. Under these conditions employers have had to compete for labour, a process which has occurred mainly at enterprise level. Wage drift between centrally bargained wages and earnings at enterprise level has increased dramatically. Among white collar workers in the private sector, wage drift accounted for approximately 15% of pay rises during 1974-79, 36% during 1982-86 and 66% in 1987. There has also been a substantial increase in the number of enterprise level profit-sharing and share-ownership schemes and a corresponding increase in the proportion of earnings paid via such schemes. All this has had the effect of undermining the centralised wage-bargaining mechanism and its central characteristic of the solidarity wage policy. The largest LO union is now the local government workers' union which is not operating in a sector exposed to foreign competition. With no price discipline imposed by international markets and a partial breakdown of the central bargaining process, there is clearly ample scope for wage inflation. The rate of inflation was approximately 10% p.a. in 1990. Given a political unwillingness to use unemployment (1.4% in 1989) as a means to lower the rate of inflation, there is a strong case for rejuvenating the central bargaining process. Under these circumstances the rôle of worker ownership of capital as a quid pro quo for wage restraint would take on a new importance. The LO view is that the wage-earner funds, as at present constituted, are too small to have any significant impact on wage-bargaining. They do, however, attach considerable significance to the reforms of the AP funds (discussed above), which are intended to move them closer to wage-earner funds proper.

The number of companies in each fund portfolio is shown in table 2 along with an indication of the proportion of each portfolio representing the five largest holdings. An idea of the funds' portfolio performance in purely financial terms can be obtained by comparing its growth with that of a standard Swedish stock market index. The one chosen here is the 'Veckans Affarer' (VA) total index. Tables 3 and 4 show the value of fund capital at the end of 1985 and 1986 against the value which would have been achieved if the funds had invested all resources available at the beginning of each year in the index portfolio (column A in the table). Although there is some variation between the funds, taking the two years together, the funds perform approximately as well as the index. The funds

(Tables 2, 3 and 4 near here)

have concentrated their portfolios in quoted shares. The proportion of portfolios in quoted shares (for the five funds together) has varied between 80% and 90% though, for individual funds, it has been as low as low as 65% (Sydfond, 1984) and as high as 92% (Mellanfond, 1984). The remainder of fund portfolios has been in unquoted shares and convertible debt instruments. The funds have placed a small proportion of their resources in the venture capital market but fund managers tend to see this as insufficiently rewarding, given the high risks involved. Table 5 shows the funds' shareholdings by sector. A decline in holdings of manafacturing shares is discernible. Fund managers point out that they are audited each year and their performance compared with other wage-earner funds and other institutional investors. For this reason they feel that, in general, there is little scope for adopting a view of the stock market which is substantially longer term than other investors. Nonetheless, they point out that pressure from the unions may well cause them to act differently in the case of impending bankruptcy of a firm in which they have invested. They probably have a greater tendency than other investors to seek managerial decisions aimed at securing long-run viability, as opposed to seeking prompt declarations of bankruptcy. All the funds have met their annual obligation to pay a 3% real rate of return to the pension fund system.

(Table 5 near here)

Voting rights have been transferred to local union organisations in the vast majority of cases even though they represent a very small proportion of the total votes (0.5% - 4.0%). Unions feel that the votes are worth having for a variety of reasons ranging from the provision of information by management to the provision of free lunches at annual general meetings. Fund managers and local union officials do not always take the same line on company policy but there is usually close cooperation between them.

There is little sign of regional bias in investment policy of the funds and Fond Vast is the only fund to have its head office outside Stockholm (in Gothenburg). It is also the only fund to have a chairman with a trade union background as distinct from a professional or business background. Some fund managers point out that the period of the funds' existence to date (1984 to 1991) has been one of boom in the Swedish economy. In the event of an economic downturn, a greater pressure from the unions towards a regional investment bias may well arise.

At present the funds may not invest outside Sweden though many of the large Swedish firms are transnationals, so that foreign investment by the funds, in a sense, occurs anyway. Fund managers vary in their attitudes towards foreign investment. Some are keen to have the right to invest a proportion of their portfolios abroad while others are lukewarm. The possibility of extending this right to the fourth and fifth AP funds is currently (1991) under discussion and it is likely to be an issue which the wage-earner funds will soon have to face.

5. Conclusions

In summary then, arguments advanced in favour of wage-earner funds have included the following.

(1) They provide a means to counteract the tendency towards increasing inequality in the distribution of wealth, particularly when this arises from the financing of investment from retained profits. Since workers collectively have produced the stock of capital they should own and control at least part of it.

(2) In highly unionised economies they provide a quid pro quo for wage restraint. This means that wage-restraint can be used in such economies to limit inflation and to protect profitability.

(3) They can promote worker influence over the process of production itself. This might be achieved via the rights inherent in share-ownership or by the direction of resources towards participatory firms such as workers' cooperatives and conventional firms with a high degree of worker participation.

(4) They can take a long view in the stock market and thus help to mitigate the 'casino effect' described by Keynes. In addition, investment is promoted via the protection of profitability described above.

(5) Via their influence in the stock market they can pursue policy objectives such as employment, environmental policy or regional policy which would be of little or no interest to private capitalists.

From the debate surrounding these arguments, six policy issues emerge which would have to be settled before any fund proposal could be implemented. They are summarised below:

(1) The structure of fund contributions. Should the base of the contributions tax be the wage bill, the profits bill, some measure of company valuation or some combination of these? All the tax bases involve problems of definition. In particular, if profits were adopted as the tax base, should the definition of profits exclude a 'normal' return on capital? If so, the role of 'supernormal' profits in influencing the allocation of capital would presumably be attenuated. Obviously the burden of the tax might be shifted. Such a posibility is analysed in George (1987) where the burden of a contributions tax levied on wages is shown to be partially shifted, in the short run, to profits. A related question is: what proportion of contributions should be in the form of a scrip issue and what proportion in cash?

(2) Redemption arrangements. Would wage-earners be allowed to hold individual fund certificates? If so, what minimum period would be required before they could be cashed in and how would their redemption value be calculated? Should the redemption of savings be allowed only at retirement, or be specifically linked to the State pension system?

(3) Stock market policy of the fund. Should fund managers be obliged to seek a maximum rate of return? Should they be restricted to investing in the domestic economy or obliged to pursue objectives, related, for example, to employment, regional or environmetal policy? Should funds be required to retain a predetermined stake in particular companies or be restricted in the voting rights they may hold in any particular company?

(4) Scope and coverage of the fund. Which wage-earners would be covered and which parts of the economy? For example, would public sector employees be covered and, if so, would the public sector make contributions to the fund?

(5) Regional/branch funds. Should there be a single central fund or a system of funds? In the latter case, should the funds compete with each other or should each be confined to a particular geographical region or branch of the economy? Should individuals have the freedom to choose the fund in which their savings are placed?

(6) Worker participation. How would wage-earners exercise control over the capital stock which they would own via the fund? Would the fund be expected to promote worker participation within enterprises and if so, how?

Despite stretching the Swedish political consensus quite substantially, the five wage-earner funds are now well established in Sweden. The extensive anti-fund campaign by the business community and the political Right has now (1991) lost much of its vigour and the wage-earner funds are accepted as five more institutional investors in the stock market. They are substantially modified versions of the original Meidner plan and will only own a maximum of approximately 5% of share capital in Sweden. This is probably too small to significantly influence the wage-bargaining process but given current (1991) developments in the Swedish economy (particularly in the labour market) the case for more and/or larger wage-earner funds is likely to be strengthened. To secure political acceptability, this case may be met by developments of the AP system rather than by the creation or enlargement of wage-earner funds proper. The funds have demonstrated adequate financial performance as well as easily meeting their obligations to the pension system. They have also facilitated a degree of worker influence over investment decisions and a small but useful degree of worker influence within firms. The emergence of wage-earner funds can be seen as a natural development in a highly unionised economy operating at full employment within an economically and socially advanced democracy.

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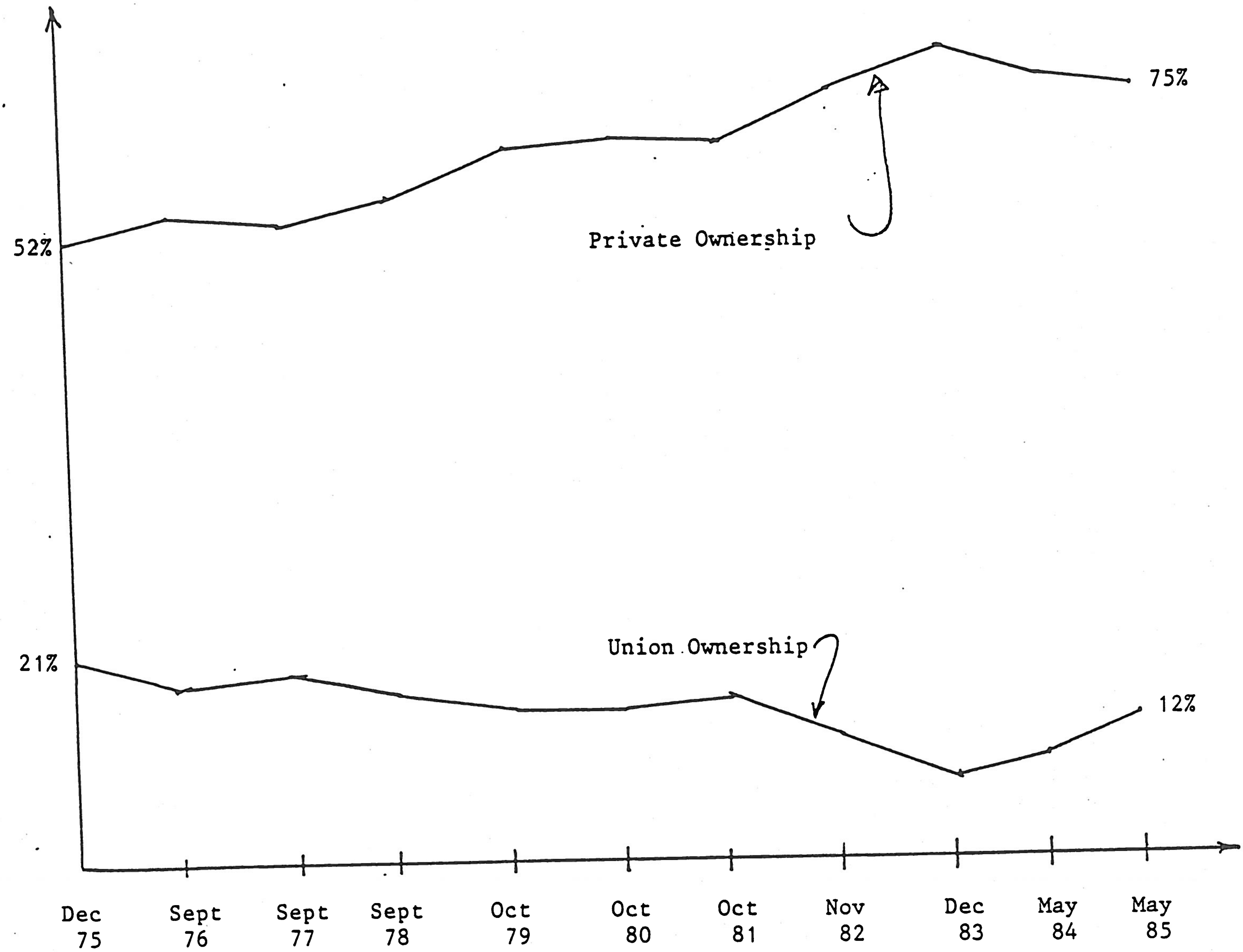

Fig. 1 Opinion poll results for Swedish population as a whole

Responses to the question: "If employees were to have larger equity stake in companies, would you prefer private employees to own shares in each company or the trade union movement to own shares in the company?"

Source: SIFO/IMU

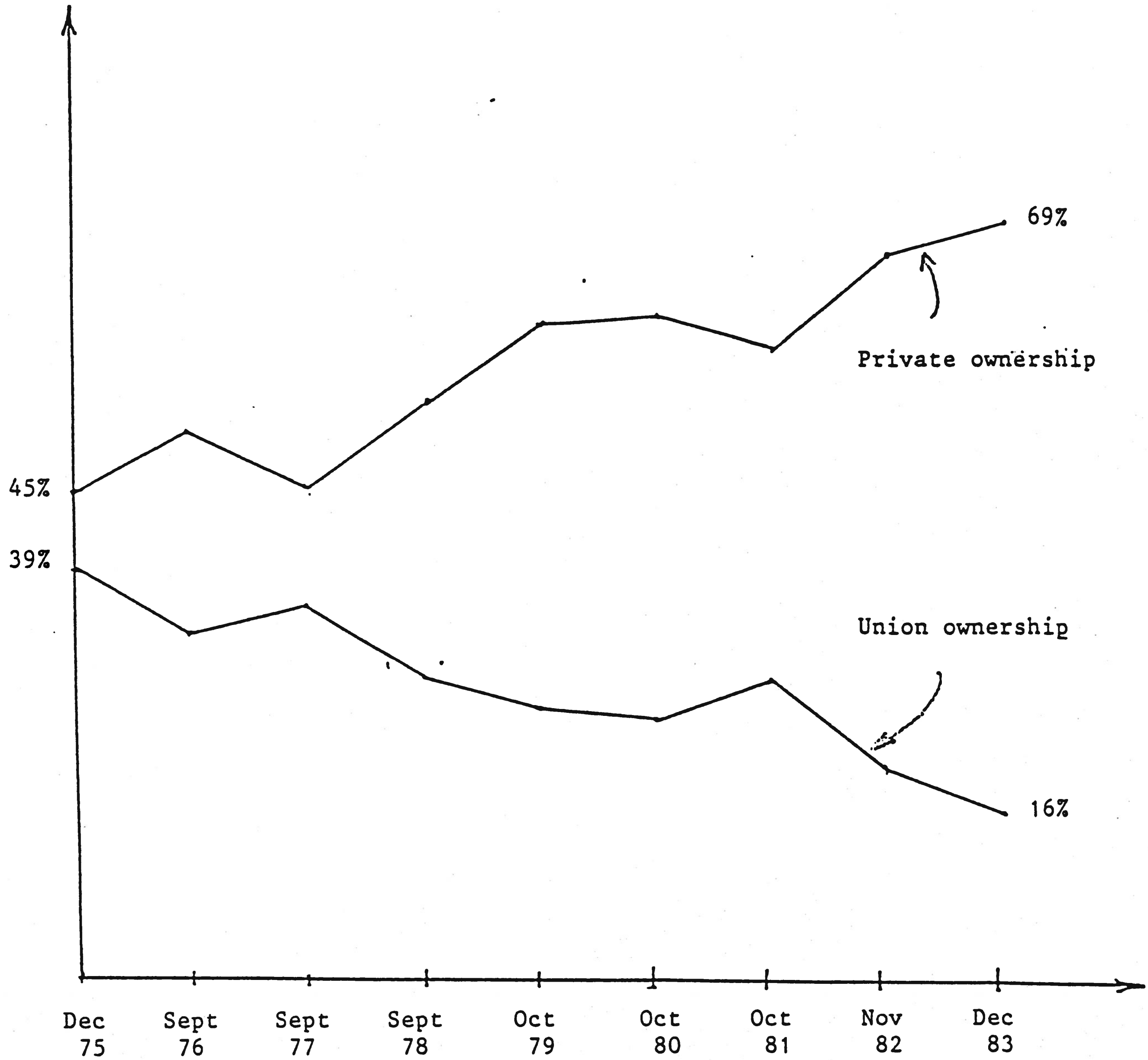

Fig. 2 Opinion poll results for Social Democrat plus Communist voters.

Responses to the question: "If employees were to have a larger equity stake in companies, would you prefer private employees to own shares in each company or the trade union movement to own shares in the company?"

Source: SIFO/IMU

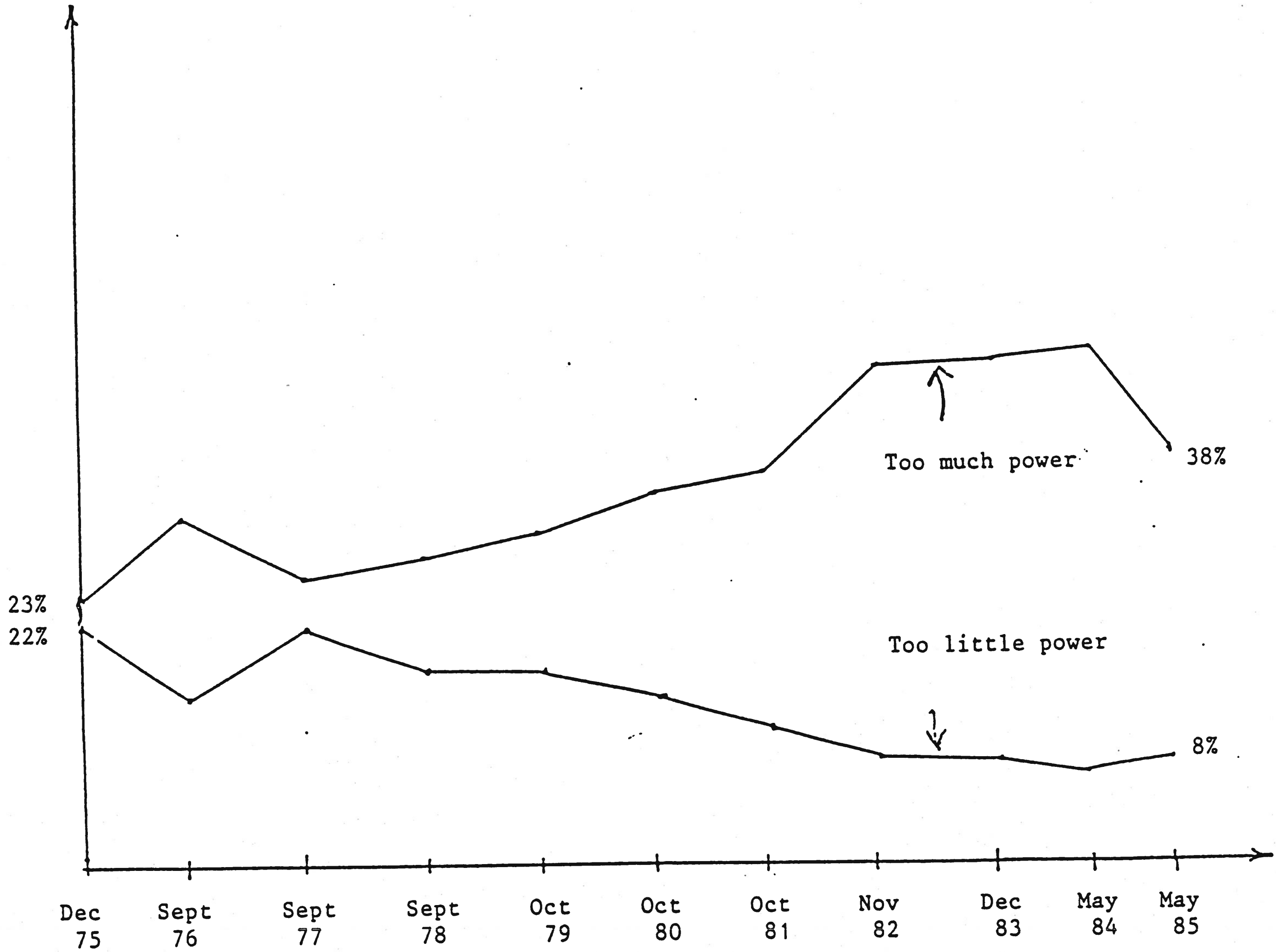

Fig. 3 Opinion poll results for Swedish population as a whole

Responses to the question: "Do you consider the trade union movement has too much, too little or the right amount of power in Sweden?"

Source: SIFO/IMU

	capital market	credit market
1960-64	35%	20%
1965-69	48%	28%
1970-73	57%	35%
1974-76	40%	25%
1977-79		21%
1980-81		17%

<u>Table 1.</u> AP Funds' total supply to the capital market and credit market (annual averages).

Note. 'Credit market' excludes direct credit between firms or households. 'Capital market' is defined to mean shares, bonds with a maturity of more than seven years and other forms of long-term credit.

Sources:. SOU 1978: 11 and SCB 1982/83 (Swedish official publications)

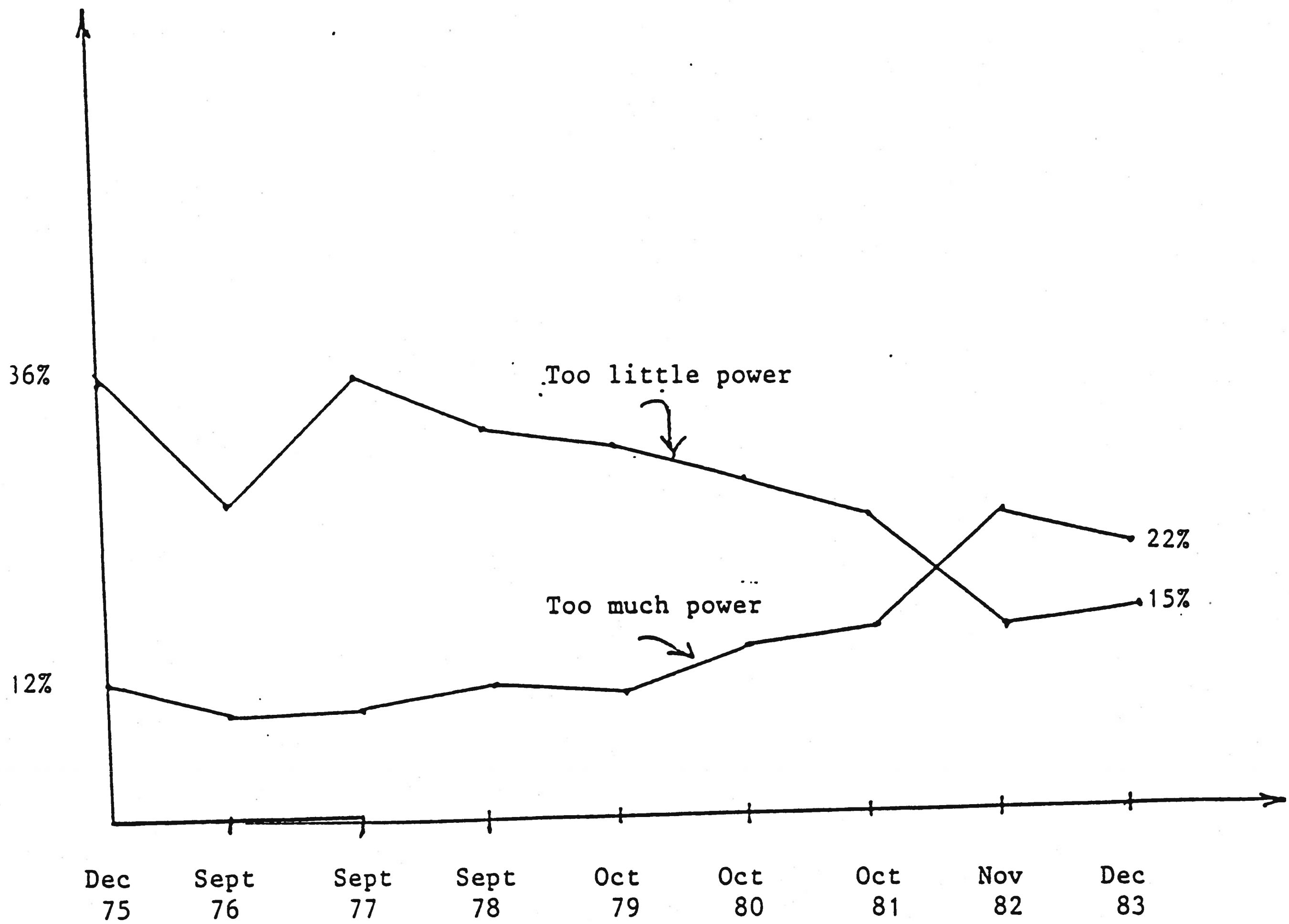

Fig. 4 Opinion poll results for Social Democrat plus Communist voters

Responses to the question: "Do you consider the trade union movement has too much, too little or the right amount of power in Sweden?"

Source: SIFO/IMU

	No. of companies in portfolio			Importance of the five largest holdings (%) of total portfolio)		
	1984	1985	1986	1984	1985	1986
Sydfonden	51	51	55	41	23	32
Fond Vast	34	56	50	38	27	25
Trefond Invest	30	54	57	37	29	25
Mellanfonden	30	49	76	48	40	20
Nordfonden	26	44	41	59	50	25
Average	34	51	56			

Table 2. Wage-Earner funds' portfolios

	No. of companies in portfolio			Importance of the five largest holdings (%) of total portfolio)		
	1984	1985	1986	1984	1985	1986
Sydfonden	51	51	55	41	23	32
Fond Vast	34	56	50	38	27	25
Trefond Invest	30	54	57	37	29	25
Mellanfonden	30	49	76	48	40	20
Nordfonden	26	44	41	59	50	25
Average	34	51	56			

Table 2. Wage-Earner funds' portfolios

	A Index portfolio (SEK thousands)	B Fund capital (SEK thousands)	B-A	(B-A)/A (%)
Sydfonden	682,059	632,901	-49,158	- 7
Fond Vast	681,316	690,223	+ 8,907	+ 1
Trefond Invest	675,642	625,038	-50,203	- 7
Mellanfonden	674,902	725,105	+50,203	+ 7
Nordfonden	648,486	720,693	+72,207	+11

Table 3. The wage-earner funds' financial performance compared with the VA index; 1985

	A Index portfolio (SEK thousands)	B Fund Capital (SEK thousands)	B-A	(B-A)/A (%)
Sydfonden	1,549,107	1,444,498	-104,609	- 7
Fond Vast	1,640,409	1,665,181	+ 14,772	+ 1
Trefond Invest	1.541.620	1.523,530	- 18,090	- 1
Mellanfonden	1,688,542	1,646.504	- 42,038	- 2
Nordfonden	1,686,178	1,440,139	-246,039	-15

Table 4. The wage-earners funds financial performance compared with the VA index: 1986

	1984	1985	1986
Manafacturing	56	53	45
Services	16	10	20
Unit trust companies	9	13	8
Banking/Insurance	7	7	5
Other	12	17	22

Table 5. The wage-earner funds' shareholdings by sector (% of total shareholding).