

SWEDISH WAGE-EARNER FUNDS: AN EXPERIMENT IN ECONOMIC DEMOCRACY

JONAS PONTUSSON and SAROSH KURUVILLA*

This article analyzes the performance of the "wage-earner funds" established in Sweden in 1983—collective share-holding funds financed by special payroll and profits taxes. The authors' analysis indicates that although the wage-earner funds generally met the financial objectives set by the 1983 legislation, their significance in promoting "wage solidarity" (wage determination based on the work performed rather than on firm or industry profitability) and in providing workers with substantial influence over corporate decisions was limited by the size of their stockholdings and the seven-year (1984–90) restriction on the inflow of revenues into the funds. The authors conclude that the funds achieved little in terms of furthering economic democracy when compared to the effects of the network of industrial and economic democracy legislation enacted in the 1970s in Sweden.

SWEDEN'S extensive and universalistic welfare state has long attracted the attention of foreign observers. More recently, Sweden has been invoked not only as a model of progressive social policy, but also as a model of industrial and economic democracy (see, for example, Milner 1989). This article explores the most distinctive feature of the Swedish approach to industrial and economic democracy: the idea of collective share ownership as a means to enable employees and their unions to influence strategic economic decisions.

In the mid-1970s, Sweden's powerful confederation of blue-collar unions (*Landsorganisationen*, or LO) endorsed a proposal whereby the government would require corporations to share their profits with their employees by issuing new equity

shares to "wage-earner funds" (*löntagarfonder*). Commonly known as the Meidner Plan (its principal author was Rudolf Meidner), this proposal entailed a gradual transfer of ownership from private individuals and institutions to collective entities, governed by union-appointed directors and providing for direct employee representation at shareholder meetings via stock holdings. Many foreign observers hailed the Meidner Plan as a bold, innovative, and radical attempt to further economic democracy (see, for example, Albrecht and Deutsch 1983).

The defeat of the Social Democratic Party (SAP) in the 1976 elections, however, preempted any legislation along the lines of the Meidner Plan, as it resulted in the formation of Sweden's first "bourgeois" (non-socialist) government since 1932, a government strongly opposed to wage-earner funds. In the ensuing years, organized business mobilized a massive and very effective campaign against the idea of wage-earner funds, and the labor

* Jonas Pontusson is Associate Professor of Government and Sarosh Kuruvilla is Assistant Professor of Industrial and Labor Relations, both at Cornell University.

movement retreated from the more radical features of the Meidner Plan. After the Social Democrats returned to power in 1982, they introduced a much-watered-down version of wage-earner funds legislation, which was enacted in 1983.

Recent developments in Sweden render the future of wage-earner funds highly precarious. Having won three consecutive elections in the 1980s, the Swedish Social Democrats suffered a severe election defeat in September 1991. If they honor their pre-election promises, the parties that now hold government power will dismantle the wage-earner funds by 1994. The process of dismantling is yet to be decided. It is therefore possible that the innovative wage-earner fund experiment may turn out to be an "historical parenthesis." Yet, economic democracy is likely to remain a major concern of the Swedish labor movement, and may become a major concern for other labor movements as well. In any case, the present moment appears an opportune one to take stock of the Swedish experience of wage-earner funds.

Although there is a plethora of descriptive articles about the idea of wage-earner funds and the politics surrounding the 1983 legislation (for example, Martin 1984; Åsard 1985; Heclø and Madsen 1987), there exists, to our knowledge, no scholarly attempt (in English or Swedish) to analyze the activities and significance of the wage-earner funds created in 1983. The activities of the wage-earner funds have been evaluated on an annual basis for the Office of Government Auditors, but its reports (Riksrevisionsverket 1989, 1990) focus rather narrowly on financial performance, and are not available in English. The evaluations undertaken by various interested parties (LO 1988; Näringslivets Ekonomifakta 1989, 1990) address the broader significance of the 1983 legislation, but they do so in ways that are obviously biased by political considerations.

In this article, we situate wage-earner funds (henceforth, WEFs) within the broader framework of industrial and economic democracy in Sweden, and

assess the extent to which they have met the specific goals articulated by the 1983 legislation as well as the broader goals of the labor movement. More specifically, our assessment focuses on three major issues. First, has the existence of WEFs facilitated LO's policy of wage solidarity? Second, have the funds' investment activities resulted in meeting the industrial policy functions expected of them? Third, have the funds provided employees and their unions with a significant voice in corporate decision-making?

The Framework of Industrial and Economic Democracy in Sweden

Following Poole (1989), we conceive of industrial democracy and economic democracy as distinct but related constructs. Economic democracy denotes a variety of forms of employee participation in the ownership of enterprises and the distribution of economic rewards. Collective ownership of enterprises, capital sharing, employee stock ownership plans, and various forms of profit sharing arrangements all fit under the rubric of economic democracy. The primary respect in which these plans differ among themselves is the degree of employee participation in ownership. Industrial democracy, on the other hand, refers to the notion of worker participation in decision-making within the firm. Worker directors and other board representation schemes, works councils, self-management systems, and co-determination arrangements are examples of industrial democracy.

Poole suggests that these constructs are interrelated; the two may advance in parallel, or acceptance of one form *may* gradually lead to acceptance of the other. But it is possible to see advances in one but not the other. For instance, it can be argued that in the United States, with the passage of laws relating to employee stock ownership plans, advances were made in economic democracy without any legislative progress toward the attainment of industrial democracy.

As developed in the 1970s, the Swedish Social Democratic vision of economic

democracy integrates the concepts of industrial and economic democracy. The Swedish view identifies industrial democracy with the micro level and economic democracy with the macro level, and holds that progress toward economic democracy should be achieved via legislation that enhances employee influence at various levels within and outside the firm (Åsard 1980).

To empower employees at the strategic level of the enterprise, the Swedish Riksdag (parliament) enacted SAP-sponsored legislation on worker directors on corporate boards in 1972. Revised in 1976 and 1987, the legislation provides for the election of two worker directors (three in the case of companies with more than 1,000 employees) in all companies and financial institutions employing more than 25 persons. Elected from among employees of the company, worker directors have the same duties, responsibilities, power, and standing as other directors, with the proviso that worker directors should not be involved in decisions regarding corporate strategy with respect to collective bargaining. As Edlund and Nyström (1988:46) note, the unions regard the right of board representation primarily as a means for employees to gain information about corporate plans, and less as a means to influence such plans directly.

At the workplace level, numerous laws combine to provide the Swedish worker with substantial protection against, and influence over, management decisions. The Shop Stewards Act of 1974 provides shop stewards with paid leave to undertake union work, and provides detailed rules regarding working conditions and the seniority status of shop stewards. The Security of Employment Act (1974, 1982) limits the ability of the employer to hire workers for limited periods of employment, requires advance notification of layoffs, and provides for mandatory layoff compensation and detailed safeguards against unfair dismissal. The Work Environment Act of 1974 mandates extensive employee rights with respect to occupational health and safety issues, seeking to ensure that working conditions are

adapted to the physical and mental requirements of the employees.

The legislative offensive launched by the labor movement in the early 1970s was capped by the Co-determination Act of 1977 (Medbestämmandelagen [MBL]). This act was conceived as the enabling legislation, to be followed up by collective agreements on the procedures for co-determination, but it specifies certain fundamental provisions. Most important, the Co-determination Act requires the employer to initiate discussions with the union with respect to *any* change contemplated in the terms and conditions of employment. As Edlund and Nyström (1988:47) note, terms and conditions are defined in the widest possible terms and may include "questions of personnel reallocation, recruitment, managerial appointments, new working methods and production, budgetary factors and other organizational changes." The Act also requires the employer to keep the unions continuously informed about all such matters.

If co-determination negotiations do not result in an agreement, the company may introduce such changes unilaterally. The act provides unions with a veto over certain issues regarding subcontracting, however, and states that in contractual disputes regarding non-wage issues, unions have a priority right of interpretation, that is, union interpretation of disputed contract language shall take priority over employer interpretation until the dispute is formally settled.

Motivation for Wage-earner Funds

The concept of collectively owned investment funds is neither new nor peculiarly Swedish. In fact, the original Meidner Plan of 1976 drew inspiration from a proposal for collective profit sharing put forth in the 1960s by German economist Bruno Gleitze (Gleitze 1968; Swenson 1989). Similar proposals were also advanced in Austria, the Netherlands, and Denmark in the late 1960s and early 1970s; these proposals were dropped in the face of considerable political opposition (EIRR 1983:5; Matthews 1989), but variants of them are still under discussion

in Denmark and, more recently, in Czechoslovakia and Poland (*Wall Street Journal*, June 28, 1991). Collective capital formation in the form of *pension funds* is quite common in Western Europe. The legal rules governing the investment practices of pension funds, however, typically restrict their ability to hold assets that involve risk or yield influence over corporate decisions. In the Swedish case, less than 1% of the savings generated within the public pension system had been invested in corporate shares prior to the WEF legislation in 1983 (Pontusson 1992).

We can distinguish five basic motives behind the Swedish labor movement's pursuit of collective profit sharing and collective share ownership.¹ The first motive, and clearly the most important objective of the original Meidner Plan, was to facilitate the implementation of the "solidaristic wage policy," one of the cornerstones of the Swedish collective bargaining model. The principle of the solidaristic wage policy espoused by the confederation of blue-collar unions, *Landorganisationen* (LO), is that the wages must be based on the work performed rather than on the profitability of different firms and industry sectors. In addition, inter-occupational differences should be narrowed to bring about a more egalitarian society. Although LO did achieve a significant compression of intersectoral wage differentials in the 1960s and early 1970s,² the resistance to this policy has grown in recent years.

The successful implementation of the solidaristic wage policy presupposed some degree of wage restraint by better-paid employees irrespective of the ability of their firms to pay more wages. Highly

successful and export-oriented companies earning high profits actually benefited from this policy, since wage restraint on the part of their employees resulted in even greater profits relative to less profitable companies. Profitable firms were willing, however, to concede to the demands of their employees for wages above those negotiated at the national level, in order to recruit and retain the best workers. Consequently, substantial wage drift ensued, resulting in upward pressure on wages in the economy, and presenting a serious threat to the success of a solidaristic wage policy. Highly paid blue-collar and white-collar workers began to chafe at the implementation of the solidaristic wage policy, since it involved considerable wage sacrifices. It was to encourage wage restraint, and the sharing of these excessive profits among workers by means of a system other than wages, that Meidner and his colleagues proposed the introduction of WEFs. Consistent with the principles of a solidaristic wage policy, such sharing of profits would be at a collective, not an individual, level.

The second motive behind the pursuit of WEFs was the reduction of inequalities of wealth. Although less pronounced than in West Germany, Britain, or the United States, the inequalities of wealth in Social Democratic Sweden are considerable. In 1976, the richest percentile of households owned about 17% of total net wealth (total assets assessed for income tax purposes minus standard deductions), the richest 5% owned about 38%, and the richest decile owned about 55% of the nation's net wealth (Spånt 1980:24). In terms of stock ownership, 0.3% of all households in Sweden held 50% of all corporate shares in Sweden in 1975 (Spånt 1980:25).

The objective of counteracting the concentration of wealth and power was closely linked to a third goal identified by Meidner and his colleagues, namely, to reinforce and extend industrial and economic democracy. LO viewed collective share ownership as a complement to co-determination rights based on legislation, and expected that the collectivization of ownership would provide employees

¹ See Meidner (1978) for an abbreviated, English language version of the original WEF proposal. The following discussion also draws on Åsard (1978), Albrecht and Deutsch (1983), Martin (1984), Hecló and Madsen (1986), and Swenson (1989).

² The differences between wages paid to workers above and below the average wage, and the average wage, declined from 30% in 1959 to 13% in 1979 (Rehn and Viklund 1988:12). In addition, as Figure 1 indicates, wage differentials narrowed steadily until 1981-82.

with influence over corporate decision-making that would result in significant employee input into decisions regarding new investment and layoffs. LO suggested further that WEF might help to prevent foreign multinationals from taking over Swedish firms and Swedish multinationals from moving vital employment-sustaining operations abroad.

Endorsed by the LO congress of 1976, the Meidner Plan was revised by a working group appointed jointly by LO and SAP. The proposals presented by this group in 1978 and 1981 reiterated the three objectives identified by Meidner, but also introduced a fourth objective: promoting the supply of investment capital to Swedish industry. Accordingly, collectively owned investment funds were to serve a national or regional development purpose by providing industry with capital for technical and productive investment without redistributing income from workers to private owners, thereby facilitating the extension of societal influence over the pattern of economic investment. The shifting of the emphasis from wealth redistribution to capital formation provided the LO and SAP with a more politically defensible rationale for the introduction of WEFs, but at the cost of diluting the original Meidner Plan substantially.

Finally, seeking to garner popular support for the WEF proposal, LO and SAP contrived to link WEFs to the supplemental pension system (ATP) by specifying that WEFs should pay a portion of their return on investments into the supplemental pension system. The Swedish pension system has two components: a basic old age pension, financed by tax revenues, payable to everyone above 65 years of age; and an income-related supplementary pension (ATP), financed by employer payroll fees, payable to people over 65 years old. Together, the two pension schemes provide a retiree with an amount roughly equal to two-thirds of his or her average earnings during the final 15 years preceding retirement. Supplementary pension contributions by employers and self-employed persons are paid into the National Pension

Insurance Fund, commonly known as "AP Funds," which invest savings generated by the pension system. By early 1980, pension payments had caught up with pension contributions, and the pension funds began to shrink. In this context, shoring up the pension system came to be invoked as yet another justification for the introduction of WEFs.

It should be clear, however, that the link to the pension funds served as a device to market the concept rather than as a fundamental objective of the plan. As Myrdal (1980:326) notes, "the only advantage of linking wage-earner funds to the pension system is that an otherwise hardly popular method of socializing Swedish industry is made to look like pension reform. If the objective was to increase pension funds, that could have been directly accomplished by an increase in employer contributions to the NPIA."

From the point of view of marketing the concept, the linking of WEFs with pension funds served two purposes. First, it provided individual citizens with a more direct material stake in the WEFs. Second, it rendered the WEFs comparable to the Fourth AP Fund, which had been created in 1974 for the purpose of investing a small share of ATP savings in the stock market. Quite controversial at the outset, the Fourth AP Fund had become broadly accepted as a natural component of the mixed economy by the early 1980s (Pontusson 1992a). By linking WEFs to the ATP system, the SAP sought to project the WEF proposal as an extension of existing arrangements rather than as a radical new departure. The WEFs that were finally introduced in 1983 were closely modeled on the Fourth AP Fund. In fact, the 1983 legislation might be summed up by saying that the government created five smaller Fourth AP Funds. At the end of 1989, the assets of the Fourth AP Fund were worth almost exactly as much as the combined assets of the five WEFs, corresponding to roughly 3% of the total value of listed corporate shares in Sweden (Annual Reports of the Wage-earner Funds).

The Wage-Earner Funds of 1983

The legislation enacted in 1983 established five WEFs organized on a regional basis.³ The legal provisions governing their activities can be summarized as follows.

Administration. Appointed by the government, the boards of directors of WEFs reflect the regional affiliation of each fund. The legislation stipulates that five out of the nine board members are to be "wage-earner representatives." In practice, these representatives have been nominated by LO and TCO (the white-collar union federation). The other board members have been appointed directly by the government. As private businessmen have thus far refused to serve as board members, the government has nominated members from academia, cooperative enterprises, local government, and the civil service. Each fund is independent, with its own headquarters and administrative personnel.

Financing. WEFs were financed by two revenue sources. One was a tax of 20% on pre-tax profits exceeding one million SEK (about \$150,000) or 6% of a firm's total payroll costs, whichever was higher, after appropriate allowance was made for inflation and other appropriations.⁴ This profit-sharing tax was paid by all Swedish companies (including foreign-owned companies incorporated in Sweden). The second financing source was a 0.2% tax of total payroll costs of all corporations, private and public. Each of the WEFs got one-fifth of the revenues generated from these two sources, although an inflation-adjusted ceiling (set at 400 million SEK [about \$60 million] for 1984) was imposed on each fund. Any revenues in excess of this ceiling were absorbed by the ATP system.

³ For simplicity, we refer to the funds by their number. Each fund has adopted a name that reflects its regional affiliation. In numerical order, their names are: Sydfonden, Fond Väst, Trefond Invest, Mellansvenska Löntagarfonden, and Nordfonden.

⁴ The threshold for the profit sharing tax was raised from SEK 500,000 to SEK 1,000,000 in 1986. One SEK (Swedish Kroner) equals approximately U.S. \$.15.

Most important, the WEFs were subject to a "sunset clause" (Rock 1987), whereby this financing was provided only for a seven-year period following the 1983 legislation. Given the marked opposition to the WEFs from opposing political parties and employers, the SAP felt that such an experimental period was necessary. In the absence of further legislation, 1990 marked the end of new revenue inflows into the funds. Since 1990, the funds have been confined to managing their existing assets.

Investments. The 1983 legislation permitted WEFs to invest in both listed and unlisted securities and in stocks of incorporated societies (cooperatives). Investments are restricted to Swedish companies, thus meeting the fundamental aim of improving the supply of capital that will benefit Swedish production and employment (Law No. 1092, 1983, paragraph 34). Beyond this legislative stipulation, the law provides that the investment activities of WEFs should be guided by three criteria: investments should be *widely diversified* (to spread the risks), should be *long-term in nature*, and should generate a "good" rate of return on investments. With respect to the return on investments, the legislation requires the WEFs to contribute to the ATP system a sum corresponding to 3% of the inflation-adjusted value of the tax revenues they have received. In other words, the WEFs are required to obtain an annual real rate of return on their investments greater than 3% in order to grow.

To encourage the WEFs to diversify their portfolios, and to protect private owners against takeovers by the WEFs, the 1983 legislation stipulated that each fund cannot control more than 8% of the voting stock in any one corporation or enterprise. A 10% ceiling on ownership engagement already applied to the Fourth AP Fund. Together, then, the five WEFs and the Fourth AP Fund could theoretically control up to 50% of voting stock in a corporation, provided they coordinated investments. When a Fifth AP Fund was created in 1988, with a 10% ceiling on investments in any single corporation, the

ceiling for individual WEFs was lowered to 6%, thus maintaining the theoretical 50% limit of collective ownership. (As it is common in Sweden to issue shares with differential voting rights, the funds' share of equity capital may exceed these limits so long as their share of voting stock does not.)

Voting rights. In an effort to meet the objective of providing workers with influence over corporate decisions, 50% of the voting rights associated with the WEF's stockholding in any company must be delegated to the employees or trade union locals of that particular company, if the employees or trade union locals so request. In case there is more than one trade union at that company, the unions must agree on how the voting rights are to be exercised, and in the absence of such agreement the management board of WEFs shall apportion voting rights on the basis of the number of members of each union working at the company.

The legislated version of WEFs contains numerous departures from the original Meidner proposal. The differences may be summarized as follows. Whereas the Meidner Plan envisaged the build-up of WEFs exclusively on the basis of profit sharing, the enacted WEFs relied on payroll tax (symbolizing wage restraint) as well as a tax on profits. And whereas the Meidner Plan entailed the obligatory issue of new shares, the WEFs as enacted relied on market transactions as the mechanism whereby share ownership would be transferred from private individuals or institutions to WEFs. In other words, WEFs can become owners only if existing owners of shares are willing to sell shares in the stock market. The 1983 legislation also departed from the Meidner Plan in restricting profit sharing to "excess profits," confining the build-up of WEFs to a seven-year period, and imposing a ceiling on ownership of voting stock by WEFs. In contrast, the Meidner Plan envisaged the continuation of profit sharing *ad infinitum*, without any limits on collective ownership.

One final difference should be noted. In the Meidner Plan, the dividends received by WEFs were to be used to finance adult education, wage-earner consultants,

and other activities designed to help wage-earners and union leaders to learn to exercise the new ownership role bestowed upon them. Under the 1983 legislation, dividends were used for pension payments or further investment in the stock market (or both).

These modifications of the Meidner Plan represent a retreat in the face of massive opposition from organized business and the non-socialist parties (Pontusson 1987). It must be noted, however, that many prominent figures within the Social Democratic party leadership were, from the very beginning, critical of the more radical aspects of Meidner's plan. Divisions within the SAP and the labor movement certainly contributed to the public opinion success of the campaign against the WEFs.⁵

Appraisal of Wage-Earner Funds

Wage-Earner Funds, Economic Growth, and Wage Policy

Due to an unprecedented stock market boom,⁶ each WEF realized a rate of return far in excess of the stipulated 3% during its first five years in operation. Having received 15.2 billion SEK (\$2.53 billion) in revenues (at 1989 prices), the five WEFs together held assets with a total market value of 22.7 billion SEK (\$3.78 billion) at the end of 1989. The WEFs also contributed 1.2 billion SEK (at 1989 prices) to pension payments during the period 1984-89 (Riksrevisionsverket 1990). To get some perspective on the latter figure, it might be noted that the annual deficit of the ATP system was 4.5 billion SEK (\$0.7

⁵ The proportion of voters declaring themselves in favor of WEFs dropped from 33% in 1976 to 22% in 1982, and the proportion declaring themselves against WEFs increased from 42% to 61% during the same period (Holmberg 1984:170, 186). Most telling are the figures for SAP voters, whose support for WEFs declined from 55% in 1976 to 43% in 1982. See Pontusson (1987, 1992a) for a more extensive discussion of the debate over wage-earner funds and an analysis of why the labor movement was forced to retreat from the Meidner proposal.

⁶ The stock market index of the Stockholm stock exchange increased from 120 at the end of 1979 to an all-time high of 1,689 in August 1989.

billion) in 1989 (SCB 1992). Clearly, the WEFs have contributed to shoring up the ATP system, but the long-term viability of the ATP system depends on the performance of the Swedish economy, and from this perspective the crucial question is whether (or to what extent) the WEF legislation of 1983 has contributed to economic growth and competitiveness.

The Swedish labor movement originally viewed collective profit sharing as a means to facilitate the implementation of the solidaristic wage policy. Subsequent WEF proposals explicitly linked this objective to the exercise of wage restraint. When the Social Democrats returned to power in 1982, they opted for an economic recovery strategy that sought to raise corporate profits, and hence the rate of investment, by means of a massive devaluation of the Swedish Kroner and a sustained effort to keep the lid on wage increases.⁷ The WEF legislation of 1983 should be seen as part of the package deal whereby the government secured union cooperation in this recovery strategy.

This recovery strategy coincided with the general worldwide economic recovery, and was very successful at the outset. As corporate profits soared, industrial investment, employment, and output grew at a steady rate in the mid-1980s. However, this "economic miracle" proved short-lived. The Swedish rate of inflation remained higher than the OECD average throughout the 1980s, and accelerated while the average OECD rate decelerated in 1988–90. The reasons for this appear to be fairly straightforward: high corporate profits generated wage drift and inter-union wage rivalries, making it increasingly difficult for LO and the other union confederations to comply with the government's insistence on contractual wage increases below the rate of inflation. The excessive wage drift contributed to widening wage differentials and a weakening of the solidaristic wage policy. As Figure 1 illustrates, the long-term tendency for wage

differentials to decline was reversed in the 1980s.

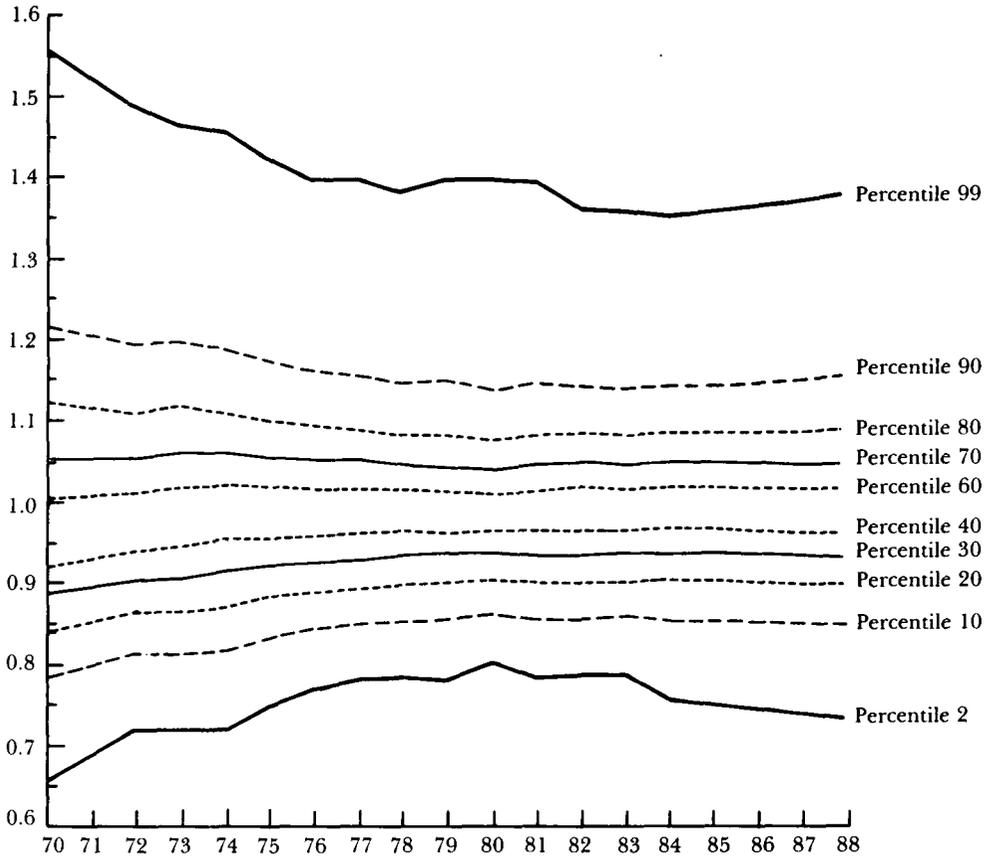
In Figure 1, selected percentiles in the annual wage distributions in the economy are tracked in proportion to the average wage for the period 1970–87. The figure shows that wage differentials declined steadily until 1982, but increased steadily beginning in 1983. In Hibbs's (1991) terms, to move from the 2nd percentile of wages to the 99th percentile of wages (going from the lowest-paid to the highest-paid), one would have needed a wage increase of 138% in 1970, but a wage increase of only 73% in 1982, indicating substantial compression and a success of the solidaristic wage policy. By 1989, however, one would have needed a wage increase of at least 88% to move from the 2nd to the 99th percentile, suggesting a significant weakening of the policy.

With the benefit of hindsight, the experience of the Social Democratic governments of 1982–91 confirms what the LO economists had argued ever since the early 1950s: over the long run, it is impossible to reconcile full employment, high corporate profits, and wage solidarity. The WEF legislation of 1983 did not enable the Swedish labor movement to escape this "trilemma" (Swenson 1980).

One might perhaps argue that the problems of wage drift and wage differentiation would have been even greater in the absence of any form of collective profit sharing (LO 1988), but it seems doubtful that such a limited scheme as the 1983 WEF legislation could have had any major impact on the process of wage formation. In this context, the limited scope of the 1983 legislation is perhaps best illustrated by the fact that Volvo's liquid assets were greater than the combined assets of WEFs and the Fourth AP Fund at the end of 1987 (Bergström 1988:52).

We have not been able to determine how the distribution of wealth has changed since the introduction of WEFs, given the absence of data. By the end of 1989, WEFs accounted for roughly 3% of corporate assets listed on the stock market (Annual Reports of WEFs). In comparison, in 1984, 25 private companies owned 17% of the stock

⁷ See Pontusson (1992b) for a more detailed discussion of the recovery strategy adopted by the Social Democrats in 1982, and the reasons for the failure of the strategy.



Source: Hibbs (1991:40).

Figure 1. Pay Compression Under Solidarity Bargaining in Sweden, 1970-1988. (Hourly Wages)

market value and 8 insurance companies owned about 15% (Hedlund et al. 1985: 85). Given that these patterns of ownership of wealth have not changed appreciably since then, the limited scope of the 1983 legislation and the stock market boom of the 1980s lead us to expect that inequalities of wealth may have remained constant or even increased. The redistributive effects of collective profit sharing may have been offset by the boost to stock prices provided by the investment activities of the WEFs themselves.

Wage-Earner Funds and Industrial Policy

In the 1970s, the labor movement conceived of WEFs as an institutional

mechanism whereby the unions would be able to influence the allocation of new investment. Specific objectives that the unions would pursue through this mechanism, however, were never clearly specified. The 1983 legislation defined the overarching goal of WEFs as providing risk capital for "the benefit of Swedish production and employment," and stated that the funds were to undertake long-term ownership engagements. At the same time, the legislation emphasized that their fiduciary responsibilities required the WEFs to diversify their holdings and to avoid subsidization of inefficient production.

Examination of the WEFs' financial performance, using the Fourth AP Fund as a benchmark, suggests that they par-

tially met these legislative criteria. On average, each WEF held shares in 62 listed corporations and 9 unlisted corporations, and the 5 largest holdings accounted for 33% of the total value of its portfolio at the end of 1989. As Table 1 (column 1) illustrates, the degree of portfolio concentration varied considerably across the five WEFs, but in four out of five cases, the degree of portfolio concentration was significantly lower than for the Fourth AP Fund. This discrepancy is all the more remarkable because the WEFs are very small by comparison to the Fourth AP Fund.

Although the WEFs have certainly fulfilled the government's diversification requirement, their investment activities appear to be somewhat at odds with the government's stipulation that they undertake long-term ownership engagements. Calculated on an annual basis, the average portfolio turnover rate of the WEFs during 1987-89 was 30%, a figure that was higher than that of the Stock Exchange as a whole (23%) and twice as high as the portfolio turnover rate of the Fourth AP Fund (15%). Clearly, the high portfolio turnover rates suggest considerable speculative activity by WEFs. Table 1 (column 2) indicates that there were considerable variations in portfolio turnover among the five WEFs, but in each case the turnover rate was greater than that of the Fourth AP Fund.

Interviews with fund managers suggest that this short-term orientation reflects their efforts to outperform the stock market.⁸

⁸ These interviews were conducted by Jonas Pontusson in April 1990. Although interviews were conducted with many officials involved with the five WEFs, we draw heavily on the following interviews: Dan Anderson, LO representative on the Fourth Wage-earner Fund; Lennart Låftman, Executive Director of the Fourth Wage-earner Fund; Bo Bahlgren, Director of the Third WEF; and Kurt Norberg, Director of the Fifth WEF. We also benefited from various conversations with the following persons prior to 1990: Lennart Dahlström, Executive Director of the Fourth AP Fund from 1974 to 1979; Sten Wikander, Executive Manager of the Fourth AP Fund from 1974 to 1988; Lars Ljung, LO representative on the board of the Fourth AP Fund; Kurt Lanneberg, TCO Representative on the

Against the background of the political controversy surrounding their creation, the WEFs have been very preoccupied with gaining legitimacy as stock-market investors, and they have conceived of their performance relative to the market index as a test of legitimacy. Consequently, the criterion of return on investment was given more importance than meeting the long-term investment criteria specified by the legislation. In addition, the fact that government auditors and the mass media commonly evaluate the funds' performance by comparing them to each other has arguably further accentuated this short-term investment orientation.

The high rate of portfolio turnover raises some doubts regarding the extent to which the WEFs have provided investment capital for the benefit of Swedish production and employment, a fundamental motivation for their creation. Similar doubts arise when we examine the composition of WEF investment portfolios by industry sector (see Table 2).

As the figures in Table 2 indicate, relative to the Stock Exchange Index, engineering and chemical firms were significantly under-represented, and financial corporations over-represented, in the average WEF portfolio at the end of 1989. The opposite was true of the Fourth AP Fund, in which 83% of the portfolio was concentrated in manufacturing firms. In contrast to the Fourth AP Fund, the WEFs have not articulated or pursued industrial policy objectives to a significant extent.

The WEFs have, however, followed the Fourth AP Fund's lead in investing in small and innovative businesses not yet listed at the Stock Exchange. As the law does not impose any ceiling on investments in unlisted firms, such engagements often involve sizeable stakes, commonly in the range of 15-35% of voting stock. All but one of the WEFs have concentrated this part of their investment activity on industrial firms in their own region, and

Fourth AP Fund since 1974; and Lars-Oloff Peterson, formerly of the LO Research Department. See also Anderson (1988) for public statements by board members and the manager of the Fourth WEF. Our analysis also draws on the annual reports of the Office of Government Auditors (Riksrevisionsverket 1989, 1990).

Table 1. Investment Patterns of Wage-Earner Funds in Sweden, 1989.

<i>Fund</i>	<i>Portfolio Concentration^a (Percent)</i>	<i>Portfolio Turnover^b (Percent)</i>	<i>Percentage of Capital Stock^c Held by WEFs</i>	<i>Percentage of Voting Stock^c Held by WEFs</i>
WEF 1	44.6	28	1.7	1.0
WEF 2	29.6	21	2.8	1.6
WEF 3	27.9	45	4.4	3.3
WEF 4	33.7	28	1.7	1.2
WEF 5	30.2	24	3.0	1.8
Fourth AP Fund	39.5	15	4.9	3.4

^a The five largest holdings as a percentage of the total market value of each WEF's portfolio.

^b Portfolio turnover rate is calculated by relating total new purchases and sales of stock to the average real capital of each fund in a year; the figures refer to the average annual rate over a three-year period (1987-89).

^c Percentage of holdings in corporations listed on the stock exchange in which each fund has investments.

Sources: Annual reports of the Wage-Earner Funds and Office of Government Auditors (Riksrevisionsverket), 1990.

have thus assumed a role in promoting industrial development on a regional basis. But the limited scope of investment in unlisted corporations must be noted: unlisted assets accounted for 2.6% of total WEF assets at the end of 1989.

Wage-Earner Funds and Industrial Democracy

Finally, we consider the significance of the WEFs as a mechanism for employees and unions to influence corporate deci-

Table 2. The Composition (percent) of Portfolios of the Fourth AP Fund, the Wage-Earner Funds, and the Stock Exchange Index, by Industry Sector, 1989.

<i>Sector</i>	<i>Stock Market Index</i>	<i>Fourth AP Fund</i>	<i>WE Funds Average</i>
Engineering	32%	42%	28%
Chemicals & Pharmaceuticals	10	22	6
Forest Products	7	7	12
Other Manufacturing	11	12	13
Real Estate & Construction	13	11	14
Wholesale & Retail	1	1	4
Shipping	1	0	4
Development Corporations	2	2	2
Holding Corporations	14	2	9
Banks	9	2	8

Source: Office of Government Auditors (Riksrevisionsverket (1989, Appendix 5).

sion-making. It is worth noting that the potential for such influence is severely restricted by the limited financial resources of WEFs, the ceiling on WEF investments in listed corporations (originally 8%, now reduced to 6%), and the highly concentrated character of share ownership in most Swedish corporations.

As Table 1 (columns 3 and 4) indicates, the percentages of holdings of capital and voting stock in listed corporations vary across the five WEFs, but their holdings are, on average, very small, ranging from 1% to 3.3% of voting stock and 1.7% to 5% in the case of capital stock. It is necessary to distinguish between equity capital and voting stock because of the Swedish practice of issuing shares with differential voting rights, ensuring that control remains in "safe hands."⁹

In theory, collective share-holding funds could hold as much as 50% of the shareholder votes in any one corporation, but in practice they seem to have done the opposite of co-ordinating their acquisitions to maximize influence. At the end of 1989, there were only nine listed corporations in which two WEFs each held more than 2% of voting stock, and none in which three WEFs each held more than 2% of voting

⁹ Typically, Swedish corporations issue shares with differential voting rights. For example, the Wallenberg group holds about 45.8% of the voting stock in Electrolux AB, even though they own only 3.7% of total equity stock (*The Economist* 1990).

stock (Annual Reports, WEF 1-5). In every one of the 20 corporations in which the WEFs and the Fourth AP Fund together held more than 8% of voting stock at the end of 1988, there existed a single private owner (or owner group) that held a larger percentage of the votes. On average, the difference between the funds' share of votes and that of the largest private owner in these 20 corporations was 28.4 percentage points.¹⁰ Given the small size of their shareholdings, for the funds to have a significant voice in corporate affairs, they must join forces with private owners.

On average, the WEFs delegated 50% of their votes to union locals in 37 out of the 43 listed corporations that they held during 1988. More so than the Fourth AP Fund, the WEFs have actively encouraged union locals to exercise their right to be represented at shareholder meetings. The unions appear to value such representation even if their voting rights are limited. Anderson (1988) suggests that it provides them with greater insight into corporate affairs, and greater legitimacy in the eyes of management. It must be noted, however, that the industrial democracy legislation of the 1970s already provided unions with substantial rights of co-determination and board representation. By comparison to these legislative measures, the significance of WEFs as a vehicle of industrial democracy is very limited indeed.

Conclusions

The wage-earner funds (collective shareholding funds financed through special payroll and profits taxes) established in Sweden in 1983 have attracted considerable international attention as a bold, radical experiment in economic democracy. Their end is now very likely at hand, since the non-socialist government formed in 1991 intends to liquidate them by 1994. We have attempted to evaluate the WEF experience

to date, in terms of the goals of the 1983 legislation as well as the original goals articulated by the labor movement. In evaluating the WEFs' behavior as institutional investors, we have used as a benchmark the Fourth AP Fund, which invests savings generated from the pension system. (Given the uniqueness of the WEFs, there exists no comparable experience in other countries that could be used as a benchmark.) Our findings might be summarized as follows.

In terms of the financial-fiduciary stipulations of the 1983 legislation, the WEFs have performed quite well. The value of their assets has increased significantly, more or less in line with the rise of the Stock Exchange Index; they have avoided risks through portfolio diversification; and they have made a substantial contribution to pension payments.

The WEF experience, however, falls far short of the broader, democratizing ambitions articulated by the labor movement in the 1970s. The scope of profit sharing has been too limited to have any major impact on wage formation and wealth distribution. The WEFs have played an active role in promoting small, innovative business on a regional basis, but the ways in which they have managed their portfolios of listed corporations do not differ very much from the practices of private investment companies. As the case of the Fourth AP Fund suggests, the WEFs could have opted for an investment strategy more attuned to the long term. Most important, the limited resources of the WEFs and the legal restrictions on their stock ownership have severely restricted the potential of employee representation through voting at shareholder meetings. As a mechanism of industrial democracy, delegation of voting rights commensurate with WEFs' current holdings is of small significance when compared to the influence workers have already gained through existing arrangements such as the 1970s legislation on worker directors and co-determination.

Although the original Meidner proposal had considerable potential to increase economic democracy in Sweden, the wa-

¹⁰ Calculated from data in Sundkvist (1989). Sundkvist provides detailed figures of ownership in all Swedish companies in his book.

tered-down version that was finally enacted in 1983 falls far short of this goal. In the context of the larger network of industrial and economic democracy in Sweden, the WEF legislation is of relatively small significance. To be sure, the

WEFs amount to something, and something is better than nothing, but the Swedish experiment with wage-earner funds can hardly be construed as a successful model of economic democracy. It is its shortcomings that are instructive.

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