Wage earner funds:

workers' "collective capital funds" the alternative to state nationalisation and private capitalist enterprise?

Photo: Struan Robertson

JOHANN MAREE* and LIV TORRES** consider the applicability to SA of Swedish wage-earner funds.They argue that these are one of the most novel and radical forms of "collective capital formation" by and for workers - with a greater potential for democratising the ownership and control of capital than possible under state nationalisations.

For many years Labour and Socialist parties around the world have sought ways of transforming the capitalist economy through changing the basis of ownership of the means of production.

In Sweden a system of wage earner funds has been proposed by the trade union federation as a way of transferring ownership of capital to workers in the form of company shares placed in collective funds under trade union control. These shares were to be acquired by the wage earner funds through a regulated system of profit sharing by enterprises with their employees.

Through such cumulative collective share

* *Research Consultant with the Industrial Strategy Project; and member of the* **Labour Bulletin** *Editorial Board*

** *Research Officer at the Trade Union Science Research Centre, Oslo Norway*

ownership workers would build up voting rights through their trade union representatives on the decision-making boards of enterprises.

Wage funds as a form of collective capital formation under worker control have a number of distinct advantages over state nationalisation and other approaches to the socialisation of capital [see box on p 40]

The emergence of Swedish wage earner funds

Socialisation and the democratisation of capital first became a real issue in Sweden at the beginning of the 1970s with a radicalisation of the labour movement and especially of the trade union federation the LO.

Redistribution of wealth, which was a central argument in German and Danish discussions around the concept of economic democracy, was totally ignored in Sweden. Ever since the 1920s the LO's "solidaristic" wage policy aimed at levelling out differences in wages between higher and lower paid industries. It was pursued by the unions through centralised bargaining with employers and was basically a policy of equal pay for equal work, where pay is determined by the kind of work done rather than a firm's ability to pay.

During the 1960s the solidaristic wage policy had began to bear fruits: wage differentials narrowed and the wage-structure tended to correspond better to the egalitarian ideals of the Swedish labour movement. However, sharp criticisms have been raised against the "reverse side" of this wage policy, namely that voluntary wage restraints among highly paid workers easily lead to "excess profits" in already profitable branches and, accordingly, to increased wealth accruing to the owners of capital. The adverse effects of wage restraints by higher-paid workers on wealth distribution between capitalists and wage earners became more serious and endangered the policy of wage solidarity.

The idea of "economic democracy" in the form of channelling profits into collective funds was taken up as a solution to these problems. In 1975, a study group, headed by LO economist Rudolph Meidner, came up with the idea of wage earners' funds which broke with the tradition of "functional socialism" based on a belief that socialism could be introduced without abolishing private ownership as a legal form.* The new approach represented a realisation in the labour movement that society could not be changed fundamentally without changing its ownership structure.

The Meidner study group carried out a consultation process involving some 18 000 LO members. 90 per cent of the members were of the view that ownership was either essential (69 per cent) or important (21 per cent) for employee influence, and 95 per cent favoured collective wage earner funds for the purpose.

Meidner plan for collective wage earner funds

On these bases Meidner developed a plan for collective wage earner funds. In 1976 the LO congress endorsed three goals for the funds:

1. to provide employees with a share in the benefits accruing to "excess profits" in the most profitable industries;

2. to counteract the increasing concentration of capital in ever fewer hands in the private sector of the economy.

3. to increase the influence of wage earners in decision-making in the workplace, based on collective ownership of capital.

The Meidner Plan provided for

- 20 % of the annual profits before tax of each enterprise being compulsorily transferred in the form of shares in the company to a single central collectively-owned employee fund, which would be administered solely by the trade unions. Estimates suggested that wage earner funds could hold the majority of shares in companies within 20 years if the transfer of shares was based on a 20 per cent average profit rate and up to 75 years if the profit rate averaged 5 per cent.
- This capital could not be removed from the

* *'Like the monarchy before them, the capitalists would be gradually deprived of their real functions'*

company but had to be issued in the form of new shares of corresponding value. Individuals could have no access to the capital and could not use it for consumption. Individual rights to sell shares would be incompatible with the need for collective capital formation. It could also result in a further concentration of capital since the buyers might well be the former owners, in which case the goal of strengthening the influence of wage-earners via ownership would be defeated.

- Half the dividends earned on employee-owned capital would be used to increase the share-holding of the employee collective and the other half exclusively for union purposes such as training for employee representatives on the boards, research in the fields of work environment and job security, information services etc.
- The voting rights on a company's board of directors - corresponding to the share-holding by the fund - would be exercised partly by the local unions and partly by the funds of the different industries, in order to strike

NATIONALISATION AND DEMOCRATISATION

A transformation of the capitalist economy through changing the basis of ownership has been one of the most fundamental ideas of the labour movement throughout the world. Bringing productive assets and resources into some form of public control can be described as a process of *socialisation of capital.*

Capital socialisation became identified with state ownership, which was to be achieved via *nationalisation,* and as such a goal for Labour and Socialist parties around the world. However, nationalisation is of itself only a change in the legal form of property. It does not necessarily lead to redistribution of wealth.

Furthermore, a transfer of ownership to the state does not necessarily lead to a transfer of control. A transfer of control can be refered to as *democratisation of capital* if more and more people affected by economic decisions are also given decision-making power to influence these decisions.

Democratisation of capital thus implies a general expansion in the number of economic decision-makers. Exclusive public control of enterprises via state ownership, has often been found not to lead to greater worker influence. In fact, labour under centrally planned state ownership has often been stripped of decision-making power in the workplace.

There seems to be growing agreement that the route to socialisation of capital through nationalisation is but one of many available to the labour movement.

In the debate about South Africa's economic future, alternative ideas have been postulated such as multiple forms of ownership, as well as state ownership with leasing to private enterprises and real ESOPS (Employee Share Ownership Programmes) as opposed to the once-off handouts of shares schemes existent in South Africa.

It is in this context that the collective capital funds created by the wage earner fund system in Sweden are significant. It has the advantages of:

- redistribution of ownership as a compromise between the major opposing positions of nationalisation versus privatisation;
- democratisation of capital by changing not only the ownership structure of the economy but also the decision-making structure of the economy;
- advancing participation by labour in the economy not indirectly through parliament/government but directly in production;
- not rupturing prevailing property relations but transforming them over time to a point where worker control exists.

And collective capital funds also have potential advantages when it comes to promoting economic growth. ❖

a balance between the demand for decentralisation and the need for some co-ordinating body covering employees in different companies.

- The board of the central fund in which all wage-earner funds were to be deposited should be elected by the unions.

Opposition and modifications

The debate that followed these proposals broke with the traditions of industrial peace and co-operation between employer-employees and marked a process from consensus to confrontation. In December 1983, a quite unusual demonstration took place in Stockholm, when about 80 000 people, primarily representing employer interests, took to the streets to express their opposition to the funds.

The Meidner Plan represented a radical step towards eventual full socialisation of ownership of Swedish industry. Not surprisingly, it received criticism from many quarters. The idea of "profit-sharing" had been around for a long time. The point of disagreement, however, was the manner in which labour had chosen to do this, that is through collective ownership.

For their part, the Swedish Social Democratic Party (SAP) and the LO did not present a unified position on the plan. SAP - LO's life-long ally - found the wage-earner funds to be a difficult product to sell in election campaigns. However, after the defeat of SAP in the general election of 1976, SAP and LO jointly elected a working group which was asked to reconsider the issue of wage-earner funds.

This was when a fourth goal of wage-earner funds was set up by this working group, a goal which became increasingly accentuated by LO and especially by SAP. The fourth objective was to increase collective capital formation necessary for productive investments and job creation.

The wage funds system that was finally established in Sweden in 1983 was a heavily watered-down version of the original proposals.

It provided for the build-up of five wage-earner funds only for the years from 1984 to 1990, by which time the funds would have attained approx 5% of the total value of all listed shares in Sweden. They were to be financed by a 20% tax on excess profits (real profits over a minimum exempted amount) and the annual revenues generated by a 0,2 per cent payroll tax.

Each fund was administered by a nine-person board of directors appointed directly by government, of whom at least five were to be wage-earner representatives without specifying how these were to be selected. No members have been formally nominated by the unions.

Voting rights corresponding to the holding of shares are to be exercised by the regional governing bodies of the funds together with the local union organisations represented in the individual company.

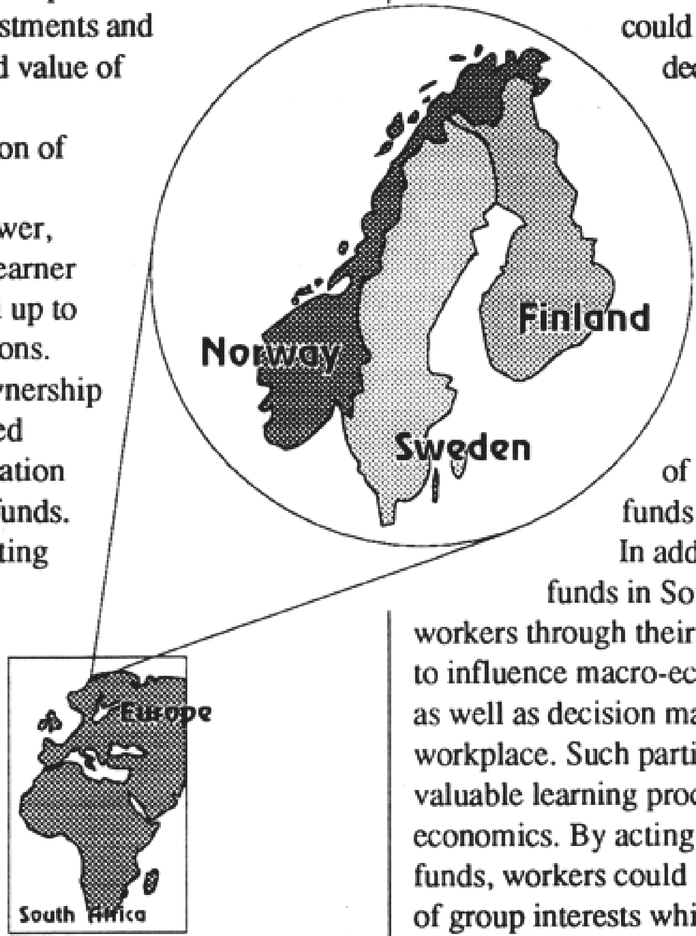
The most important ways in which this version of wage-earner funds differed from the original plan are:

- the change from compulsory share issues within the enterprise to cash payments for the purchase of shares on the open market;
- the linkage to a system of investment of public pension savings in the stock-market, operating in much the same way as private portfolio investors and assuming an essentially passive ownership structure;
- the limitation on the use of wage earner funds for social objectives that did not conform with market forces, by the stipulation that each fund must annually allocate to pension payments 3% the current value of the money it has received;
- the curtailment of potential ownership power by stipulating that each wage-earner fund could not acquire more than 8 per cent of the share-holder votes in any one firm, restricted further to a limit of 6 per cent in 1988;
- the limitation of the combined votes of all five wage funds to only 40 per cent of any company, and for the pension fund to a maximum of 50 per cent of any company;
- the greater emphasis placed on the goal of wage earner funds as a source of investment capital for the economy as a whole rather than increasing collective worker capital ownership and influence;
- the justification of the funds entirely in

terms of the need to secure wage-restraint and to provide business with risk capital, with no reference to the democratisation of economic decision-making.

There are clear indications that, from a financial point of view, the funds have been a success in the sense that they have fulfilled the requirements of an acceptable rate of return from the investments and attained the intended value of shares.

As to concentration of ownership and decision-making power, however, the wage-earner funds have not lived up to their original intentions. Concentration of ownership has actually increased since the implementation of the wage-earner funds. Concentration of voting rights in the economy has increased even more due to companies issuing shares with dual voting rights.



The funds as they materialised have been described by unions as having had only a marginal effect on employee participation in enterprises.

Advantages and risks to South Africa?

Despite the shortcomings and failures in the modified wage earner funds in Sweden, the relevance to South Africa of the system along the lines proposed by the Meidner Plan can be tested against its original basic aims.

On these bases a case can be made for the introduction of a wage-earner fund scheme in South Africa;

1. The distribution of income from wealth in South Africa is extremely uneven and a redistributive wage-earner funds scheme could contribute towards correcting this.

2. The high and ever increasing concentration of capital ownership in South Africa, continuing to this day, could be reversed by setting up workers' collective capital ownership schemes.

3. The extremely limited extent to which workers, especially black workers, can influence decision making in the work place could be changed by acquiring decision- making influence through collective share ownership.

4. The need in South Africa for capital to assist industry with technical development in order to foster productive investment could be one of the functions of wage funds.

In addition, collective capital funds in South Africa could enable workers through their trade unions more easily to influence macro-economic decision-making, as well as decision making within the workplace. Such participation could also be a valuable learning process in democracy and economics. By acting collectively through the funds, workers could become more conscious of group interests which would contribute to the strengthening of the trade unions themselves.

There are further economic arguments for wage earner funds that can be added. The urgent need for rapid economic growth and higher productivity that is not based on a low wage economy could benefit from wage earner funds as a collective incentive for workers to ensure the viability and efficiency of their enterprises-as in well organised co-operatives where worker-members benefit from the co-operative's profits and bear the burden of any losses that are made.

Another form of incentive could be through keeping the wage funds ownership totally collective but using a part of the dividends from the shares in the interest of the individual worker.

On the other hand, there are also potential risks attached to the scheme.

One that could emerge in the early period of the scheme, before employees have a meaningful say on the board of directors, is that either profits could be hidden or that the remaining part of profits could take flight out of the country. However, if the return on capital after the tax and the wage-earner fund contribution is still competitively high in comparison with the international market, the scheme in itself should not cause a flight of foreign or domestic capital from South Africa.

Secondly, without an active union in the enterprise, the employee representatives on the board of directors could easily be co-opted and start acting as an extension of management rather than as worker representatives on the board. Conversely, with an active union in the workplace, the union could help to ensure that the employee representatives on the board of directors take forward worker issues on the board.

Relevant differences between Sweden and South Africa

The Meidner Plan would have to be modified to suit South African circumstances because there are important differences between Sweden [see box below] and South Africa that are significant for the implementation of the wage earners funds:

* The trade union movement in Sweden has unionised 90% of the wage-earners and the TCO 80% of salaried employees, but only a minority of employees are unionised in South Africa (about 25% of the economically active population). The trade union movement in

FEATURES OF SWEDISH SOCIAL DEMOCRACY

The Swedish economy is a mixed economy, characterised by state intervention in the market through planning, regulations and taxation. The basic aims of state intervention have been redistribution of wealth and income and a commitment to full employment.

There is however, a high degree of private ownership which amounts to 90-95% of manufacturing industry, commerce, services, transport, building, etc. Furthermore, Sweden has one of the most concentrated and biased stock-ownership structures in the world. Even in proportionate terms, stockholding is more concentrated in Sweden than in the United States.

Both employees and employers are highly organised. About 85% of employees are unionised. Although TCO (The Central Government Organisation of Salaried Employees) is gaining ground, most employees belong to LO, the Swedish Federation of Trade Unions. LO has had close links with the Social Democratic Party (SAP), which has been in government most of the period after the Second World War.

One basic feature of the Swedish model has been the centralised wage bargaining in which LO and SAF, the employers' federation, negotiated central basic agreements which were then supplemented at industry and company level. This system, however, began to break down, during the 1980s, to the degree that wage drift (wage increases negotiated locally on top of the national deal) in recent years has accounted for more than half the total increase.

A number of labour laws have established workers' rights to participate in decision-making in the workplace. This right was based on the assumption that workers have the right to participate in decisions that affect them, that they have the right to exercise control over their own lives and that labour in an enterprise, in and of itself, legitimised that demand.

There has been a high degree of stability and peace in industrial relations with the organisations being relatively successful in resolving problems without conflicts or state intervention. ❖

South Africa would therefore not be able to act as the sole representative body of the South African labour force as the LO and TCO could do in Sweden.

* There is a very low level of unemployment in Sweden (never more than 3,5% over the past thirty years) in contrast to the extremely high, and rising, level of unemployment in South Africa. Workers employed in the formal sector of the economy cannot be deemed to be representative of the labour force as a whole. This raises tough questions with regard to the control of the funds.

* The trade union movement in Sweden is highly centralised and homogeneous, and most unionised wage earners in Sweden are represented by a single trade union federation, the LO, but in South Africa the union movement is politically fragmented and ideologically divided between three significant trade union federations, COSATU, NACTU and the right wing South African Confederation of Labour (SACLA), as well as a large number of unions not affiliated to one of the three federations.

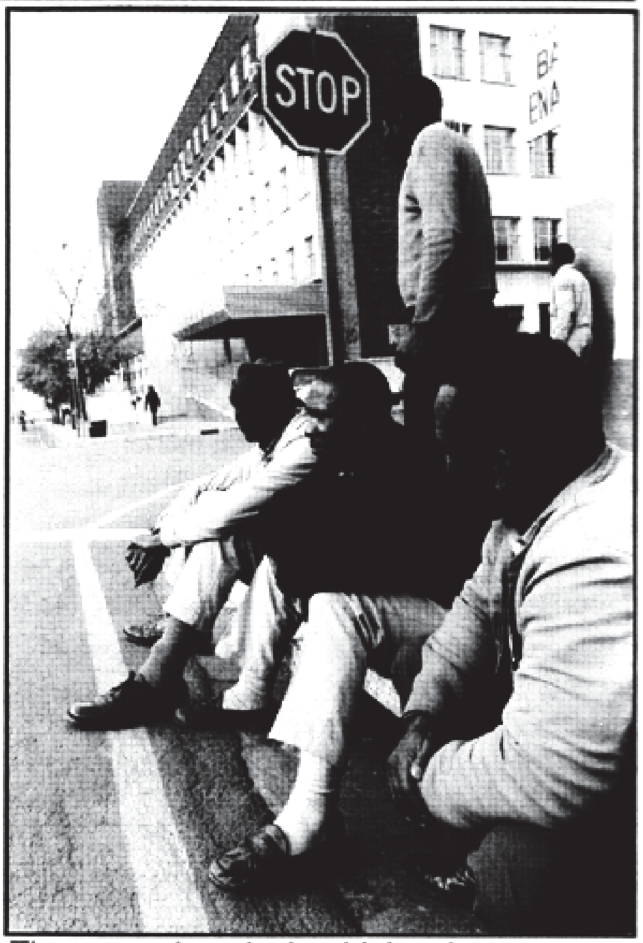
* The mixed composition of the South African trade union movement, along with its deep political and ideological cleavages, would therefore complicate the representation of workers on the board of the central fund. In addition, it opens the possibility for strong differences of opinion which could hamper the board's ability to operate.

* In Scandinavia unions have for a long time been part and parcel of the system of worker participation at all levels of the enterprise and tend to regard it as a channel of influence for both workers in general and for the unions in particular.

* In South Africa there is still considerable suspicion of schemes drawing workers into participation in management structures of decision-making and control.

Conclusion

The fact that the initial goals of the Swedish trade union movements wage earner funds have not been met in Sweden should not lead to the assumption that a similar fate automatically awaits a South African wage-earner fund scheme.



The unemployed: should they have a say in wage earner funds?

Photo: Shariff/Labour Bulletin

The political balance of forces in South Africa is different from that in Sweden. While there are forces in South Africa that would wish to see such a scheme sink without trace, there is also a powerful constituency that could lend strong support to a collective capital formation scheme that has as its aims the redistribution of wealth and democratisation of the ownership and control of capital.

South Africa enters unchartered waters in an unprecedented period of negotiation politics. As the two major negotiating parties hold political, ideological and economic views far apart from each other, some creative compromises may have to be found in order to reach a settlement. Nowhere is this more the case than in the economic field where serious attention has to be given to the question of the new economic system and the redistribution of wealth. ✩