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WAGE EARNERS FUNDS AND LABOR-MANAGEMENT: THE CASE OF SWEDEN

by Bo Södersten

There is hardly any other political question that has been so heatedly debated in Sweden in recent years as the question of wage earners' funds. The opponents have described the proposal as a turning point in the development of the Swedish economy and even of Swedish society. The leader of the Center party and former Prime Minister, Mr. Fälldin, in 1976 characterized the proposal for wage earners' funds as one that would change Sweden from being a market economy into an economy run according to East European or Soviet principles with a heavy dose of planning and collective ownership and little or no room for private ownership and initiative.

The proponents of the proposal, which are primarily the labor unions and sections of the Social Democratic Party, maintain that the proposal does not alter any of the fundamentals in the functioning of the Swedish economy, but that it gives the wage-earners a somewhat greater influence over the Swedish economy.

This lecture will consist of two parts. In the first part I will sketch the development of the proposals for wage earners' funds and will describe the motives and reasoning behind it. In the second part I will put the question of wage earners' funds into a somewhat broader perspective and I will characterize some more fundamental traits of the Swedish economy and ask the question: "is there a possibility that the Swedish economy might be in for some more thorough-going changes that would turn it into a labor-managed type of system?" If so, what would be the implications of such a development? I would like to stress that my lecture will be lecture in political economy with emphasis on the word political.

Wage-earners' funds: development, motives and basic content.

The first proposal for wage-earners funds was published in 1975. It was presented in a small book or pamphlet that had been commissioned by the Swedish Confederation of Trade Unions (LO), with Dr. Rudolf Meidner as its main author. Dr. Meidner was a senior economist who had been associted with LO for a long time as head of their research unit and who also had been a professor of labor economics at the University of Stockholm. The report was presented as a background study for the Congress of the CTU or LO which took place in 1976. It was then translated into English under the title Employeee Investment Funds: An Approach to Collective Capital Formation (London: Allen & Unwin, 1976). The report suggested that 20 per cent of profits of all firms with more than 500 persons employed should be set aside for purposes of capital formation. This money would not leave the business. Instead the company issues shares to that amount and these would be transmitted to a wage-earners or employee fund. These shares would then be controlled by funds which would be organized on sectorial or industry-wide basis. The dividends accruing to the funds would, however, be collected in one central national fund. When it came to the voting power, it was to be parted among the local trade unions and the sectorial or industry-wide funds. It was suggested that the first 20 per cent of the voting power would accrue to the local trade union, i.e. if the wage earners' funds would eventually own 20 per cent of the shares of Volvo, this voting power at the board of Volvo would be exercised by the local trade union at Volvo. If the ownership of shares accruing to the wage earners' funds would increase over 20 per cent, the voting power would be divided equally between the sectorial fund, in the Volvo case the fund for the whole of the engineering industry to which Volvo belonged, and the local trade union. The latter could, however, never gain more than 40 per cent of the vote.

The report also calculated how long it would take before the wage-earners funds would gain control over a company. This depended basically on the rate of profit and on the shares going to the funds. The report showed that if the rate of profit on share capital was 15 per cent and if 20 per cent of profits went to the funds that it would take 25 years before the funds gained a 50 per cent control over the company. These calculations were somewhat mechanical, and perhaps lacked meaning, but they at least stirred up heavy opposition from those who were sceptical to or adversely inclined to the fund proposal.

There were three basic reasons, the report contained, why wage-earners' funds were needed.

The trade unions had long pursued a wage policy based on the principle of solidarity. This approach had also been successful in that the spread of wages between industries had narrowed. But this type of wage policy also meant that successful, profitable companies came off too lightly and did not have to pay the wages that they really could bear, which instaed boosted their profits. Therefore a system of wage earners' funds was needed to curb profits in these companies and let the employees have control over part of them. This was then the first reason why funds were needed.

The second was that they should be used to conteract the concentration of wealth that stemmed from industrial self-financing. Ownership of Swedish industry is very concentrated to start with. A collective form of savings was felt to be needed to balance the concentration of ownership that private savings based on plowing-back of excess profits otherwise would give rise to.

The third reason why funds were needed according to the report was because they should increase the influence which employees have over the economic process. Through wage negotiations and other means the trade unions already had a considerable influence in economic matters. This was, however, of a somewhat indirect nature and the system of wage-earners' funds would in due time give the employees a more direct influence over the firms where they were employed.

These were, then, the arguments presented for the scheme in the middle of the 70´s. The report immediately created an intense debate. In order to understand that debate and be able to put it into a political perspective, let me give you a few facts about the Swedish political scene.

When the first Meidner report was published in 1975 the Social Democrats were in power, with a very slim majority. Now again we have a socialdemocratic government and the distribution of seats are as follows:

Moderates	86
FP (liberals)	21
Center (farmers)	56
Social Democrats	166
Vpk (communists)	20
	349

But from 1976 to 1982 the non-socialist parties were in majority. The margins usually are slim with each of the blocks polling around 48-49 per cent. We can see that the present social democratic government in fact is a minority government that has to be supported either by one of the non-social democratic parties or by the communists to get its proposals accepted by Parliament.

As I said, when the first Meidner report was presented in 1975 it created quite a stir. At that time the proposal for wage-earners' funds was then primarily pushed by the trade unions, and the Swedish Federation of Trade Unions also decided to accept the proposals of the Meidner report at their general conference in 1976.

The Social Democratic Party at that time also had distinct difficulties in taking a position on the issue of wage earners' funds. In the 1976 election the question carried a certain weight, but the official line was that it would be premature of the Party to take a clear stand at this time. It might also be added that in the 1976 election the question of nuclear power became one of primary importance.

It was not, however, possible for the Social Democratic Party to stall the question for very long. The two branches of the working class movement, i.e. the Social Democratic Party and the trade unions, could not march to different drumers or in opposing directions, on such an important issue.

Soon a joint committee was formed, charged with the task of coming up with a proposal that could satisfy both the party and the trade unions. In the meantime a parliamentary committee with representatives from the four large parties, the employers organization and the trade unions was instigated. For a time it even looked as if som kind of agreement could be reached among the various groups.

In the meantime the debate about the merits and drawbacks of wage earners' funds continued. Not the least active were the professional, academic economists. Most of them were against the fund proposal, which was not very surprising as most of them would have bourgeois leanings. But even some persons who at least formally belonged to the Social Democratic Party, like Assar Lindbeck, were dead set against any fund proposal.

So in early 1979 the committee appointed by the unions and the Social Democratic Party delivered their report. Now the fund proponents shifted their ground somewhat. A new argument that was stressed was that funds were needed in order to speed up capital formation. The Swedish economy had fared poorly in the latter half of the 70's, with a low growth rate, deficits in the balance of payments and large deficits in the government budget. The over-all savings ratio of the Swedish economy also fell drastically. The proponents of the funds argued that by introducing collective capital formation, the savings ratio of the economy could be increased and industry thereby get the capital that it needed. A new element was also that the funds no longer primarily would be financed out of retained profits but out of a charge or tax on the wage-bill.

One of the arguments against the funds that had been used frequently was that they would give too much power to the central leadership of the trade unions. In order to counter that criticism the committee proposed that 24 regional funds be set up. Sweden consists administratevly of 24 counties and each would now have their own wage earners' fund.

In February of 1979 the Social Democratic Party started a large drive to present the new proposal to the country and especially, to make the local party workers familiar with the proposal so that they would be able to argue for it and defend it in the upcoming election in September that year.

Somehow the new proposal never got under way. In May that same year the leadership of the party announced that, if the Social Democrats did win the election, they would not present any legislation on wage earners' funds before the 1982 election. Again, the issue had backfired for its proponents.

In the meantime the debate about wage-earners' funds did not stop. The parliamentary committee continued its work. Its Secretariat produced several reports on various aspects of the Swedish economy that were pertinant to the issue. There were reports on the development of the distribution of wealth, or the structure of ownership in industry, of how foreign owned firms and multinationals would be affected by the proposal, etc. But the main committee could not reach any agreement. After some time the chairman of the committee died. A new chairman was appointed. But after a few years he gave up, and the committee dissolved without having been able to come up with any conclusion or proposal. In the meantime the Social Democratic Party struggled with the issue. It became a very hot one at the party congress held in 1981, one year before the upcoming election in 1982. The party leadership did not, however, want to tie itself to any very specific proposal. Therefore it asked the party congress in 1981 to give it an open mandate that would not predetermine the party's final stand.

The congress concurred with that wish. Thus it was decided that the Social Democratic Party would try to introduce wage earners' funds, were it to win the election in 1982. These funds should be collective. Their aims would be to support the solidaric wage policy and to help achieve a more equal distribution of wealth. They should also help further the influence of the employees over investment decisions of firms and they would increase capital formation.

Apart from the issue of unemployment and the general running of the economy, the question of wage earners' funds became one of the leading issues in the 1982 election. The campaign against the proposal now tended to be taken over by the Swedish Employers' Association (SAF), the counterpart of LO, and of various organizations for small business. The three non-socialist parties were definitely against having wage earners' funds but they tended to play second fiddle. The Social Democrats did not try to make the fund issue a leading issue - they preferred instead to stress questions like unemployment and the securing of the purchasing power of pensions - but in front of mounting attacks they at least had to take a defensive stand and argue for some system of funds. The Communists, did not show much of an interest in the issue but were talking in more general terms of the deficiencies of the capitalist system.

Election Day, on September 19, 1982, and a new social-democratic government was returned to power. The new government had to take som immediate steps for economic recovery, especially a 16 per cent devalutaion of the Swedish krona, followed by a certain austerity program that had to be accepted by the trade unions. After having gotten this out of the way and with a certain recovery of the economy in sight, the government could no longer avoid to stall on the issue of wage earners' funds.

Two new government committees were appointed, one concerned with how the funds should be financed and the other concerned with how the money accruing to the funds should be used. This time they had to work fast and by July of this year they were also ready with their proposals.

In the meantime, opposition against the fund proposals reached a new frenzy. After all these years of stalling and postponing, perhaps the adversaries thought the funds would never materialize. It now became obvious that the government really meant business and would present legislation introducing a system of wage earners' funds. Confronted with this perspective the adversaries made an all-out effort to have the government change its mind.

A vigorous campaign against the funds was mounted, and a nation-wide organization to combat the funds was set up. It was called the October 4th Committee. This was because the campaign would culminate with a big rally and demonstration in Stockholm on that date. It so happened that this also was the day when the Parliament would convene for its new session, in connection with the dedication of the new parliament building.

The demonstration also turned out to be a remarkable success as some 75 000 demonstrators assembled in Stockholm, ranging from leaders of Swedish industry and some members of the old capitalist families down to shop-keepers from all over the country.

With this demonstration a long and drawn-out struggle had come to an - at least temporary - end. A month later the government presented its legislation concerning wage earners' funds to Paliament.

As for the financing of the new system two sources will exist. Part of the means accruing to the fund system will come from profit sharing. The formula for profit sharing is fairly complex but it builds on the assumption that only "real" profits would be taxed by the funds so that effects of inflation would first be deducted. After a certain exempted amount, 20 per cent of inflation-adjusted profits would accrue to the funds. There is also a floor so that small firms with net profits below 500 000 kronor will not be touched at all. Furthermore the funds will be financed by a special supplementary pension charge of 0.2 per cent. The capital accruing to the funds is expected to amount to around 2 billion kronor per annum. About one-third of this will come from the tax on profits and roughly two-thirds from a special charge on the wage bill.

When it comes to the financing of the final proposal we can see that it retains a small part of the original Meidner proposal, and that the charge on the wage bill now is the most important aspect. It is supposed that this charge will be deducted by the unions when they make their claims in future wage negotiations. It can also be observed that the present system is only supposed to be in function until 1990.

The system will comprise five funds, each with a certain regional connection. Each fund would be independent and run by a board of nine members, appointed by the government. A majority of the board members would represent employee interests. Each fund can acquire up to 8 per cent of the shares in any single firm. As there are five funds and as there also exists state pension fund which can acquire shares up to 10 per cent in any single company, it is theoretically possible for the combined fund system to acquire shares amounting to 50 per cent in any single company were the funds to exercise a joint effort to do so. If the local trade unions in a company so requires, the funds have to hand over 50 per cent of their voting rights to them.

To put the fund system in a certain perspective, it might be useful to add that yearly profits of Swedish industry amounts to some 25 billion kronor in recent years, to be compared to the 2 billions the funds are envisaged to spend each year.

The gross value of the shares traded on the Stockholm Stock Exchange amounts presently to some 250 billion Swedish kronor. In 1990, when the fund system is complete, the total value of the shares it has acquired should be around 20 billion kronor or some 7-8 per cent of the total value of the Swedish stock market.

I should add that so far Parliament has not yet adopted the government's proposal of wage earners' funds. It is in fact the standing committee on finance that presently struggles with the issue. But we can be quite confident that on December 21st this year Parliament will pass the new legislation.

I have now given a survey of the rather drawn-out process that has characterized the issue of wage-earners' funds in Sweden. Perhaps the longevity and the cumbersomeness of this journey is not so astonishing; proposals of this nature have been debated in several countries but I think Sweden is the only one so far that has put them into practice.

This concludes the first part of my lecture. Let me then briefly touch on some more principal aspects of labor-management and what it would imply were it to be introduced in some developed industrial society.

Towards a Labor-Managed Sweden?

I think most economists would agree that every economic system will have to work according to some inner logic. In the capitalist system profits play a central role. They do so not only as an incentive to the owners and monitors of a company, but also as a guarantee that resources are efficiently allocated. Under a competitive system the residual must be positive for firms to survive in the long run.

At the same time I think it is fair to say that modern capitalism, at least in those developed countries where the counter-vailing interests are well organized and the trade unions strong, builds on an inner contradition.

This has to do with the difference between the long and the short run and the fact that capitalism builds on the existence of two critical groups, on the one hand the capitalist-monitors who have the final say when it comes to investment decisions, and on the other hand the employees who have a great influence on how much should go to wages and consumption. In some countries labor can have a very definite say on how large a share of value added should got to wages. If they try to increase this share they may gain in the short run. But for the longrun survival of the firm it is also necessary that enough is invested so that the firm can keep its competitiveness and grant reasonably secure jobs.

It is therefore fair to say that labor on the one hand, and capital on the other, is locked into a battle that can only be successfully won provided that the two groups can reach a modus vivendi. They will have to find a reasonbaly efficient way to cooperate so that the savings ratio can be kept large enough. This means that the workers will have to show a certain degree of restraint. But the capitalists will then have to use the residual for investment purposes and show enough foresight so as to invest in an intelligent and efficient matter.

There is little doubt that this is an important problem as far as Sweden is concerned. For a long time the so-called EFO-model, or the Scandinavian model as it is sometimes referred to, formed the basis for wage-policies in Sweden. This model divided the economy into two sectors, the internationally competitive sector (K-sector) and the non-traded or protected sector (S-sector). The leading sector when it came to wage determination would be the K-sector. According to the model, wages should be determined by two basic factors, the productivity growth in the competitive sector and the increase in international prices (prices of K-products). So if productivity increased by 7 per cent a year in the K-sector and international prices increased by 2 per cent (which was roughly the situation of the 60's) then wages could go up by 9 per cent. By the rule of solidaric wage policy this wage increase would then also occur in the protected sector. As productivity was distinctly lower here, it implied that the domestic rate of inflation would be higher than the increase in prices of the K-sector. Wether that would have some specific implications for the exchange rate was never spelled out. Anyway I will not go into any criticism of the model itself; it is quite obvious that it was not a general equilibrium type of model.

Let me, however, make a couple of comments that are relevant to our discussion here today.

Most interesting are not the theoretical short-comings of the model, but the fact that it functioned very well as a foundation for wage-policy in Sweden for almost 20 years from the early 50's to the early 70's. It built on certain implicit assumptions. One was that the profit-share to start with would be "correct", not too large, not too small. Another was that productivity was really an exogeneous factor. For quite a few years these assumptions also seemed to be fulfilled.

By the end of the 60's and early 70's these assumptions no longer seemed to be fulfilled. Pressures for wage-increases became stronger than before. The capability of Swedish industry to absorb these wage-demands seemed to decrease. This had two effects. One was that profit-margins fell. Another was that the productivity criterion started to be obtained "through the backdoor". In order to be able to meet the wage demands industry started to increase rationalizations and to stream-line operations. Firms and parts of businesses and divisions which showed low profitability were closed down. This led to that the internationally competitive part of the Swedish economy became too small. A structural deficit in the balance of payments also ensued.

The workings of the Scandinavian model for wage-determination and its break-down in the 70's, is I think, an interesting illustration of the dilemma of modern capitalism as it appears in the present-day welfare states of Scandinavian types with strong and influential labor unions.

Viewed in this light, the issue of wage-earners' funds can be seen as a new attempt to reestablish "the Swedish model" in the 80's. By taking a new responsibility for capital formation, while at the same time showing restraints in their wage demands the employees might be able to infuse new life into the Swedish form of capitalism.

At the same time there are signs that the Swedish model could develop in another direction, towards a labor-managed economy. I will now end my lecture by taking a somewhat utopian view and briefly discuss what could be some characteristics of a labor-managed Swedish economy. Labor will play the central part in a labor-managed system. During the 1970's the Swedish labor market has also undergone important changes. Security of employment has been improved by the so-called Åman laws; they have made it difficult and costly for companies to fire people. Board representation for employees and laws on co-determination have also strengthened the position of wage-earners.

Many academic economists and businessmen have critized the new laws, emphasizing that they make the economy function less well and that the mobility of the labor force and the adaptability of companies are diminishing. But these reforms give all employees greater security and influence and contribute to the view of the workforce as something permanent and stable; labor is turned, as it were, into a fixed factor of production. This is precisely what we would expect labor to be in a labor-managed firm. It could therefore be argued that the Swedish economy in that respect has already moved in the direction of labor-management. Labor management rests on the fundamental idea that work is essential to human life. It also views economic organizations as best formed as teams; to that extent it does not distinguish itself from capitalist forms of organization.

In the labor-managed firm we can expect the number of employees to become more of a constant unit than would be the case in the capitalist firm. There are several reasons for this. From the literature we know that it is reasonable to assume that under labor-management the firms would try to maximize income per employee (Vanek 1970, Meade 1972 and Södersten 1973). Maximizing income per employee is not the same thing as maximizing profits. The easiest way to illustrate this point is by analyzing the effect of a price increase. A profit-maximinzing firm would simply react by expanding production and employing more workers. In a labor-managed company employees on the one hand have an interest in having as many people as possible working in a factory to share the capital costs. On the other hand, the fewer are employed, the higher will be production per person with a given capital stock. If the price rises, then, the latter tendency will dominate. It will be profitable to cut down the number of employees as the price goes up, for then the average income will be higher than would otherwise be the case. Therefore the supply of the labor-managed firm will be rather insensitive to price changes. This might give rise to a short-run inertia and a certain lack of adjustment on the part of the labor-managed firm. The work-force of the labor-managed firm being a rather stable entity, might give rise to some negative effects but also some positive inferences can be drawn as I will return to soon.

With regard to capital. In the full-fledged labor-managed economy private owership of productive capital cannot exist. The only factor that qualifies for influence is work. Hence capital must be owned collectively. There are of course various forms in which this can be organized. One way could be to have a certain number of regional funds such as with the Swedish system of wage-earners' funds that I described earlier in this lecture. These funds would then rent out capital to the various labor-managed enterprises.

Capital will remain an important factor of production in the labor-managed economy. It has to be allocated according to criteria of economic efficiency, and the firms will have to pay a rent for the capital it borrows from the social fund. The right to use this capital should, however, rest with the single firm. If they invest it efficiently so that their internal rate of return is higher than the market rate this extra dividend will go to the employees of the firm. The interest rate will basically be determined by market conditions.

The problem of capital accumulations and how to reach the optimum saving ratio can be solved rather elegantly in a labor-managed system. Suppose that the capital-output ratio is 3. Say that the national income is 600. Then the capital stock would be valued at 1 800. If the real rent for capital is 5 per cent then 90 or 15 per cent of the GNP would go to the Social Fund. This income can be used in many ways but the natural thing would be to reinvest it by renting it out to the labor-managed firms. The larger the investment opportunities are, the higher would be the interest rate and the higher also the rate of expansion of the labor-managed economy.

For a labor-managed economy to perform well it is important to have a well-functioning capital market. This is one aspect in which the Yugoslav economy - which at least partially is based on labor-managed principles - has shown marked deficiencies.

It is of course an open question if you would expect a labor-managed economy to do better or worse than a capitalist one. One very important aspect here is the question of incentives. I think one has to admit that incentives will be quite different in the two systems. In traditional, monitored, capitalist firms employees are considered separate from management whose task it is to supervise the employees, judge their performance and give them rewards accordingly. Employees themselves are basically regarded as mere factors of input whose main motivations is some kind of performance-related salary.

In a labor-managed firm the employees are at the center. In principle they are equal and have to take joint responsibility for the running of the firm. In reality experts - and the management mandated by the employees - may have a greater influence than the average member of the labor collective. But no particular education is needed to be part of the labor council or steering committee that ultimately has the governing funcion of the company. These different principles should give rise to quite different structures of incentives.

In a capitalist, profit-maximizing firm there may be little reason for an employee to make an extra effort. In principle this will only lead to an increase in the residual, i.e. in profits. Piecework pay and other instruments can be used to measure an employee's performance, but it does not seem to be a very attractive form of pay and - if anything - the trend seems to be going in the opposite direction.

In the labor-managed firm, the employees are collectively responsible for the performance of the firm. If someone makes an extra effort he will also benefit from part of the residual thereby produced. This is, of course, most evident in the small company. But it should also hold for larger firms even though we here may run into the 1/n problem, which refers to the fact that the larger the firm (the larger is n), the smaller will be the share accruing to a person from any specific effort.

Still incentives certainly differ. Employees will know that they alone are responsible for the result. Social control should work in a positive direction. If someone shirks under labor-management he takes a piece from the common cake. If he does so in a capitalist firm he simply takes from the residual accruing to the owners of the firm.

Technical progress and capital accumulation are the two most important factors in economic development. Both should be influenced by the organizational forms in which economic activity is carried out. In a labor-managed system it is quite natural, for instance, that technical progress should go in the direction of being labor-using and capital-saving, where the striving especially should be to increase the marginal productivity of labor, while it often is the other way around in a capitalist setting.

The efficiency of the educational system of the Western industrialized countries has been under debate in recent years. It has been pointed out that educational systems are often used for screening or filtering purposes, rather than being vehicles for teaching useful and positive knowledge (Arrow 1973, Stiglitz 1975). In a labor-managed economy schools would presumably be less inclined to apply screening devices an income distribution criteria to the education that they provide. At present it is fully possible that the social returns to screening may be negative, even though the private returns to certain individuals may be positive. In a labor-managed economy, where the majority principle rules, it is difficult to imagine that a minority could impose on a majority and educational system which would be disadvantageous to the latter. (Södersten 1976).

Another interesting aspect of human capital formation has to do with on-the-job-training. In the capitalist setting, such training tends to be underdimensioned. Firms hesitate to invest in training and education since their employees frequently move somewhere else after having completed their training. It has also been stated in the economic literature that such specific training is inadequate (Becker 1964).

As we pointed out earlier, we can expect employee loyalty to be strengthened under labor management while the average duration of employment will increase and mobility of labor will decrease. It will then become more profitable to invest in on-the-job training. The difference between private and social return of education tends to diminish; the labor force will be better educated and the firms will become more efficient.

Before ending my lecture I will touch on another aspect that has a distinct relevance, in the Swedish setting; that is the interaction between plan and market in a labor-managed economy.

Fundamentally, the labor-managed economy is a market economy. In a labor-managed economy power is decentralized. Democracy in the economic context means a possibility to influence one's own conditions of work and production. Therefore individual collectives of employees must have a high degree of autonomy. They can have that only if they act as individual decision-making units in a market. Decisions on the organization of production, wages and work conditions must therefore be the privilege of the individual collective of wage-earners. In addition to the economic sphere, there is the political one. It comprises problems of importance to society as a whole. The power to decide over the political sphere belongs to the parliament and to the government. There is an area where the economic and the political spheres interrelate in a decisive manner. It comprises the investments of the firms and other decisions that have implications for their future size, location and so on. This is the area where the two spheres have a union and which we may call the area of planning. The signals of the market will give guidance as far as the day-to-day decisions of the firms are concerned. As far as the future is concerned, however, market information is rarely sufficient. At the same time investment decision, especially of larger firms, affect the functioning of the economy as a whole.

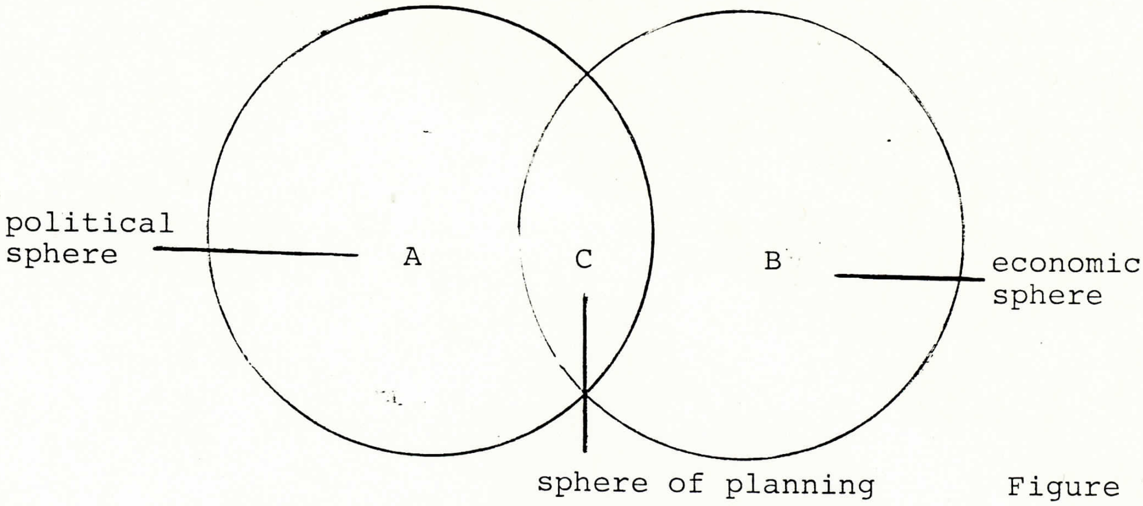

Figure 1

Figure 1 gives a simple graphic illustraion to the basic idea. This problem is particularly important in a small country such as Sweden. Even though Sweden is a small country it has a number of fairly large companies often of a multinational kind. Investment decisions taken by this small group of firms have important effects on the overall functioning of the Swedish economy.

The aggregate saving ratio of the Swedish economy is definitely too low. It is also in the national interest to increase the rate of capital formation and the investment ratio of industry in general and especially of the large, dominating firms. The devaluation of October 1982 also has increased levels of profits substantially. Ownership of Swedish industry is very concentrated. Therefore it is difficult to ask the large group of ordinary wage-earners to show restraint while profits soar and some groups of capitalists accumulate considerable amounts of wealth. A cooperation between industry and government may be needed, but it is difficult to establish under the present system and attempts have often been stifled. We can witness it right now in Sweden when an attempt at reorganizing the Swedish steel industry by government on the one hand and three large private companies on the other is being tried but does not seem to succeed.

Cooperation between a labor government and private capitalists has its delicate problems. An alliance between the state and labor-managed firms appears much more natural. It should be easier to solve the problem of investment under labor-management than under capital-owner management. Wage earners can be assumed to be much more willing to accept a higher aggregate savings ratio if it is used to finance the expansion of labor-managed companies.

This ends my remarks on some aspects of the labor-managed economy. I will not try make a summary of my lecture. Let me just end by a commentary on the wage earner's fund scheme that I started my lecture with. No one can know if Sweden and perhaps some other countries in Western Europe will move in the direction of a labor-managed system or not. Discussions about wage-earners' funds have gone on for almost ten years. The debate about the proposal has certainly been heated. Many have viewed the proposal as something that is alien to the Swedish social democratic tradition, as an outflow of the ambitions of power-hungry trade union leaders.

If one views it in the light of the theories of a labor-managed economy it seems to me to make much more sense.

We can be certain that Sweden will have the wage-earners' funds. If it also will move in the direction of a labor-managed economy remains an open question. Still some thinking about a different, perhaps utopian system might be useful in that it gives us certain insight so that we can better understand the real world in which we are actually living.

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