AN ANALYSIS OF WAGE-EARNERS' FUND ECONOMY

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In 1975, the Swedish Trade Union Confederation — Landsorganisationen *(LO)* — presented the first draft of a scheme for workers profit-sharing aimed at building up collectively-managed funds. The scheme is called wage-earners' funds in the Swedish debate. The technique for sharing and its consequences on wealth distribution, the stock-market and the cost of capital has been thoroughly discussed. In this connection, the theory of the labour-managed firm has been considered. However, what has not been discussed is the functioning of the economy once the funds have taken over the majority of shares in the firms in question.

The proposal for profits sharing is that 20 per cent of profits (uniformly calculated) is to be funded each year, that the funded sum is tax deductible and that the firm has to emit new shares coresponding to the funded sum to be held by the fund. In that way the money stays with the firm while the fund successively owns more and more of it.

I will not deal any further with the measures to implement the wage — earners — fund system *(WEF)* since my interest lies with the functioning of the ultimate system. Let us see what the proposal says in this respect.

Before going into what the proposal says about the rules of a fully developed WEF-system — that could come about in some 30 years — I will state the scope of this analysis and its limitations.

Scope of the analysis

The analysis of a hypothetical WEF-system deals with its efficiency as compared with the efficiency of the present system. Therefore aspects of distribution of power and money are on the whole left out, as are possible changes in the direction of the value-creation of the society. Furthermore, only one aspect of efficiency is treated, namely, productive efficiency. And even that in a narrow sense. The main stress is on the internal, efficiency of the firm. Also, some aspects of this issue are left out, notably effects on work effort.

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This has been done for several reasons. First, the number of issues relating to a change in economic system is so vast that one cannot deal with but a sample. Second, I try to make the change due to WEF as small as possible in order to avoid too much hypothetical reasoning — there is enough of it anyway. Consequently, I try to limit the change to a change of ownership, while other institutions such as markets for goods, government interference, wage policy, etc., are unaltered unless this obviously is not possible. Third, the efficiency of the firm seems to me to be of primary importance and the factor on which any economic system depends. This is revealed in the debate on socialist versus capitalist economies. Other efficiency aspects are more apt to be manipulated with thorough suitable policy. Fourth, other efficiency aspects more often than not favour workers' control — for example, the way the system deals with external effects and working conditions. The remaining crucial issue is the internal efficiency of the firm.

The analysis can be thought of as a scenario of the future. I am quite aware that other scenarios relating to WEF are possible but in my view this one is the most likely.

The ultimate system

The legal *ownership* of the wage-earners' shares is held by one single fund, common for all firms, the so-called »equalization fund« (utjämningsfonden). This fund will receive all dividends. Out of the *dividends*, the fund might engage in buying marketed shares in any firm. Otherwise, the fund is to support trade union activities. The different trade unions — including those of white-collar workers — will elect representatives to the board of the equalization fund.

But *voting* at share-holders' meetings is not to be performed by the equalization fund. The local union is entitled to exercise the voting right for wage-earners' shares up to 20 per cent of the total stock. The voting right of the shares exceeding 20 per cent of the stock is to be exercised by a branch fund, of which there will be several. Members of the branch fund are appointed in half by the trade union of that branch and in half by trade unions of other branches. The state government will have the right to appoint members to take part in the meetings of the fund but without the right to vote.

There are two restrictions on the voting right. One is that when it comes to election of the board of directors of the firm, the local union and the branch fund must agree. The other is that changes in ownership, such as the dissolution of the firm or a merger with another firm, requires the permission of the branch fund if it reduces the influence of the branch fund. If two firms merge, and this will inevitably be the case unless both firms are owned by the wage-earners to an equal extent, the branch fund will consequently have a veto right on all these decisions.

Finally, WEF will involve only firms with 50 or more employees unless they are extremely capital intensive.

Joint-stock company law

Since *WEF* is implemented in a structure of joint-stock companies and there is no intention to change their legal status, the functioning of the system will to a great extent be determined by the rules for joint-stock companies. Rules of interest in this connection are those that regulate the influence of the shareholders on the firm.

Shareholders may decide on almost anything from dividends to salaries. A shareholders meeting may give the board of directors specific instructions. The executive branch is bound to follow these instructions lest it is willing to risk a law-suit. However, it has a loophole in that it must not undertake actions that are quite clearly detrimental to the interests of the company. But 10 per cent of the owners can cummon a meeting at any time, at which it is possible to fire the board of directors (which might include the manager but need not) or instruct the board to fire the manager.

Some decisions have to be taken at meetings of shareholders. They include the appointment of the members to the board of directors (but not the manager, who has to be appointed by the board — in some firms the choice is restricted to the members of the board), changes in the company statutes (e.g. changes in company stock, voting rights of different shareholders), dissolution of the firm, mergers, dividends and disposal of profits. This limits the range of action by the management.

However, there are also some limits on the decisions that can be taken by the shareholders They are essentially of two kinds. One concerns the interests of outside creditors and of the society. This is the case of limits on dividends. Dividends must not jeopardize the existence of the firm and profits must to some extent be used to consolidate the firm: there must be funds covering at least 20 per cent of the issued stock, and stock plus funds must exceed debts or else at least 10 per cent of the profits must be funded. Another case is when a court has to sanction a merger after having investigated the interests of the creditors. The other limit concerns the right of a minority of shareholders. At mergers, dissolutions and changes in the company stock, either the shareholders have to decide unanimously or the decision has to be taken at two consecutive meetings and, at the last, be carried by a 2/3 majority. Some decisions even require a 9/10 majority, e.g. changes in voting rights.

An interesting rule is that no one may cast more votes than 20 per cent of the total stock unless the statutes prescribe otherwise. The importance of this rule is largely unknown today[1]) because it is little practical interest. But with WEF it will become of great interest because if the rule is in effect the branch fund won't get any voting rights since the first 20 per cent go to the local union.

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[1]) Lars Lidén, *Makten över företaget*, 1966.

Changing the rules

Discussing the ultimate system brings the regulations for changing the rules into focus. What is ultimate is largely determined by these rules. This is an open question since the way to set WEF into motion has not yet been determined. It makes a difference if WEF is set up by law or negotiation between employees and employers. What is specified in the law or in the negotiated agreement and what is left to the trade unions to determine on their own also makes a difference. For example: the rules which govern the sharing of the WEF voting right might be legislated, inculded in an agreement, or left to the trade unions to determine. However, I will regard the proposed rules as final. The analysis might show in what direction and by what forces the rules might evolve.

Ownership functions

I propose to analyze the ultimate WEF system as a question of transferring ownership. In order to do that, we have to clarify the functions of ownership. The next step will then be to see how these functions will be carried out under WEF.

»Function« is a term applied rather loosely. Pavel Pelikan proposes in a forthcoming book term »role«. »Role« is very close to »function« in the everyday use of these words. »Role« and »function« is something else or rather something in addition to »activity», which is the closest equivalent term used by Koopmans-Montias in their description of economic systems.[2]) »Role« and »function« describe »activities« with respect to aims. »Activities« connected with shareholding are, for example, receiving dividends, voting at shareholders, meetings, selling and buying shares. But the »role« and the »function« of shareholding involves an interpretation of the aid of these activities, such as to maximize return or to exercise power.

The aims are not directly related to the personal goals of the agents performing the role. Instead they are related to a system whose operations require that specific functions be carried out. The same social system can be viewed in several ways, each defining a system of its own, each linking a different function to one and the same agent and his activities. The role or the function of the household is one in the production system and another in the political system.[3])

Now we ask what are the functions carried out by the shareholders within the production system? I deliberately leave out the political system and will only touch on it in concluding this paper.

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[2]) On the description and comparison of economic systems, Tjalling C. Koopmans and John Michael Montias in *Comparison of economic systems*, ed. by Alexander Eckstein, 1971).

[3]) The functionalist approach has often had a conservative bias. Instead of investigating the actual role of an agent the analysis has idealized the conventional and established way of looking at society. Also, agents have been identified with roles to the extent that an analysis of a redistribution of roles has been prevented. But this need not be the case. An example is the present analysis.

Selection of managers

In the early days, owning a firm was equivalent to running it. Since then, running has been divorced from ownership — faciliated by the institution of shares (though history has known of absentee ownership long before this institution). Running is performed by professionals who are hired for the job by the owners. This includes managers and, to a considerable extent, also the board of directors.

Within the production system, there have to be appointed managers since it contains such roles. The function of appointing managers is performed by the board of directors which, in turn, is appointed by the shareholders. Indirectly, it is the function of the shareholders to appoint managers. Sometimes it is carried out directly, when a dominant owner is a member of the board of directors. Sometimes shareholding is widespread and the board is in reality appointed through cooptation within itself and the top echelon of management or by interest groups outside the firm — banks, customers, suppliers.

The Swedish picture differs from the English or American in that the owners play a more significant role. In 1963, 30 per cent of the shares on average were represented on the board of directors in firms with shares traded on the stock-market. In other firms there were on average only nine shareholders. This is a verdict on the very strong position of the owners when it comes to appointing management.

Another facet of the Swedish picture is that ownership is heavily concentrated. Also, in 1963 17 groups of owners — 15 of which were »families« — controlled, in the sense that they at least had dominant minority interests, and industrial production amounted to 36 per cent of value added in the Swedish industry[4]) Two of these groups represent banking interests. The influence of banks extends beyond these groups with many firms completely dependent on credit from a specific bank. The sector of institutionalized ownership, like holding companies, foundations and insurance companies has been growing rapidly for some time now. Among the big firms only very few can be said to be independent — Volvo, the car manufacturer, being the most frequently-cited example. Also, the consumers' cooperative union — Kooperativa Förbundet — and some producers' cooperative unions — in agriculture and forestry — can be said to be independent of both banks, other businesses and owners due to effective financing on the one hand (member fees and small or no-existent dividends) and a very diffused ownership on the other.

Summing up the position of owners in relation to management, we find that owners perform the function of appointing management quite actively throughout the main part of business — exeptions are a few big firms and cooperative firms, — that ownership is highly concentrated and being increasingly institutionalized, and that management is in general separated from ownership with the exception of many small firms. I will turn to an analysis of what the consequences will be with regard to a transfer of ownership to WEF after having considered some other aspects of ownership.

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[4]) Koncentrationsutredningen, SOU 1968 : 7.

Structural decisions

Another function of the owners of the means of production is to gear the structure of the enterprise system. Management may be king within the enterprise, even influencing the structure of the enterprise system indirectly by policies on expansion, agreements, buying and selling small subsidiaries. But when it comes to mergers, selling out or closing down substantial portions of the firm, these are actions which require the consent of the shareholders. Management is then pretty much in the hands of the owners, even if they lack effective organization. The function of owners is to supply or withdraw capital. Management cannot solely rely on banking credit but has to balance dependency on banks and on owners. Thereby, capital-requiring decisions cannot be handled by management on its own.

Relevant for further discussion on this point is the structure of ownership in different branches of the economy. The »fifteen families« have concentrated their ownership to specific branches, Wallenberg to electrical and mechanical engineering and transport equipment, Johnsson to metal works, mechanical engineering, transport equipment and shipping, Kockum to transport equipment, Wethje to building materials, Kempe to paper and pulp, to give some examples. The owner groups extend across branch boundaries due to vertical integration, forming industrial blocks. The owner groups are less dominant in industrial sectors like mining, metal works, woodworks, printing, foodstuffs, beverages and tobacco, textiles, rubber and chemical industry but some of these industries are heavily concentrated to a few firms such as mining, metalworks, beverages and tobacco, and chemicals. Sectors with predominantly small firms are: printing, foodstuffs, and textiles. Outside of industry, sectors such as building and construction, retail, transport and personal services are based on many small firms whereas banking, insurance, and shipping are highly concentrated.

Trading shares is another activity of shareholders. It serves many purposes but its function in the production system must be to guide capital allocation. In order to be an efficient guide for capital allocation, trading in shares must be based on efficient valuation of enterprises. From a production point of view, this means that a firm's physical and organizational setup should be valued according to the uses it could be put to, which are very specific and vary between owner interests, according to what productive facilities they command. The stock-market has very little to do with valuations of this kind and its rates are seldom used at mergers, take-overs, etc. Its primary function is to serve as a lottery. What matters in this connection is the existence of a market for enterprises, not for shares, plus a well-fuctioning credit market.

What is the role of owners regarding new enterprises? The birth of new enteprises follows some different patterns. One is the small workshop that starts to grow. Another is the medium-sized firm which is started by a combination of owners-managers-innovators (sometimes all in one). Still another is the establishment of new, relatively large firms by other enterprises, sometimes in companionship. Again, the involvement of the owners depends on the financing problem. The latter type sometimes reflects decisions on the owner level but may also be part of the managers domain.

Guardian of efficiency

An efficient resource use requires that each and every resource is controlled by somebody with an interest in the efficient use of that specific resource. Distribution of custody[5]) of resources is then a crucial question to every economic system. In the capitalist system of production, the control of the use of the means of production is in the hands of separate owners. Of course, owners need not be separated from management and work but since they are, they have to delegate the task to managers, who delegate to foremen, who delegate to workers. But the ultimate concern — the ultimate custody — lies with the owners.

The efficient use of the means of production is supposedly strengthened by the right to reap the profit and risk the loss. The response function[6]) will, in addition to the distribution of custody, be determined by incentives (custody and incentives together make up the exchange opportunity set[7]) of the custodial entity) and motivation. That is, the behaviour of the manager — the way he combines inputs and outputs — is determined partly by his authority or decision space, the direct and indirect consequences of his actions in relations to himself and the way he evaluates these consequences. The point in making this division between custody and incentives is that they represent two different categories which can be manipulated in order to achieve different response functions. It is possible to separate custody and incentives and it is often necessary to do so. Workers could have part in profits but need not. However, there is some logic in distributing custody and incentives in the same way.

The alleged virtue of separating ownership from work is that no other interests will interefere with the interest to use capital efficiently. We have seen that in reality it isn't possible to separate the function of using capital efficiently from work since it has to be delegated. There are then trade-off-possibilities between separation and incentives. There is then a choice between the owners managing the firm themselves (i.e. no separation but mixing of owner and manager interests, incentives stay with the owners) and owners delegating management (separation of owner and manager interests, some incentive has to be shared). Seperation increases efficiency but creates a problem of incentives since it also implies delegation.

The present situation is characterized by substantial delegation of custody to workers and management of capital resources, without a corresponding sharing of incentives. In order for the system to function

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5) Koopmans-Montias, op. cit.
6) J. Kornai, *Anti-Equilibrium,* 1971, p. 47.
7) P. Pelikan, not published.

properly, managers and workers must to a large extent adopt owner interests and motivation as their own. This comes about by »the propensity of man to identify himself with his task and role«.[8]) This creates what Kornai terms the *autonomous functioning* of the economic system. The functioning of the system is then dependent on what roles are created (and by whom). In this way, a role is synonymous to *expected behaviour*. Formulating these expectations is an important function of the owners and is most efficiently carried out if owners are separated from other interests.

In reality, it is difficult to distinguish the role of guardian of an efficient use of capital from guarding profitability. Profitability can be increased both by efficient use of resources and by pushing others' prices down and own prices up. Contracting with other parties is part of the job of achieving an efficient use of the means of production since prices on other factors of production guide the use of capital. Bargaining about prices on inputs and outputs requires a detailed knowledge of production possibilities and must therefore be delegated to management. There could of course be substantial advantages in collusion. But since different owners have interests that overlap in different branches, this comes about only on a limited scale concerning outputs, and generally on an even more limited scale concerning inputs. The great exception is, of course, wage-bargaining where overlapping of interests is negligible due to separation of the ownership function.

The effects of a change of ownership

After the description of ownership functions and how these are carried out under the present system of production, I will attempt to analyze how these functions will be carried out under a wage-earners' fund system. First let us see what will be the general standing of owner interests in firms owned by WEF.

According to the rules, the local union and the branch fund have to agree on the people appointed to the board of directors. Let us for the moment assume agreement between the local union and the branch fund. An obvious effect of WEF is that ownership interests will stand even stronger than under the present system in that the board will represent approximately 100 per cent of the shares. I find it less likely that other branch funds and firms of other branches will be accepted on the board due to their economic influence.

Separation of owner and management functions will still be important. The branch fund will represent an almost pure owner view but the partownership of the local union will make the separation less rigid since management and workers will tend to integrate.

The position of the manager will then change in two respects. The increased owner influence will set its mark on the creation of the manager's role. This would change the tendency — though often overstated — for managers' identification with owners to lessen. A stronger influence on the role of the manager will simplify delegation and reduce

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[8]) Kornai, op. cit. p. 91.

the problems of incentives. Also, the increased mixing of owner and management will lessen the problems of delegation and incentives — but this is relevant only as long as there is agreement between the local union and the branch fund.

Selection of the board of directors and the manager

Besides an increased owner influence, in what other ways might the selection change? This necessitates an analysis of the selection process. What comes out of the process is to some extent determined by what is fed into the process. Through what *channels* are managers recruited?

Next, what are the *success criteria* on which people are promoted? Possibly, one could distinguish between the set of criteria used for promoting people to managers and the set of criteria on which managers are fired if they are thought to differ. Appointing might be random but firing is based on relevant success criteria: this could ensure a decent selection in the long run, regardless of the promotion criteria.

Success criteria are related to the *goals* of the organization. These goals are in turn determined by the *interests of the members of the organization* and by *environmental demands* on the organization. Between these two categories there is interdependance. Environment might for example, demand a law-abiding conductor else the organization would be dissolved. Law abiding will then become an organizational goal only if its members have an interest in preserving the organization. Another example: competition is often thought to demand that the organization is operated efficiently, which is true only if its members are not willing to lower their wages or the return on their capital, in relation to their competitors.

But the goals are seldom applicable as success criteria. They concern the behaviour of the organization as a whole, whereas success criteria concern the behaviour of individuals. Very rarely are they equated. Instead, individuals contribute in different ways to organizational goals. Being a good goal-keeper is not equivalent to winning the cup. Good goal-kreepers don't necessarily make good coaches. What is needed is an analysis of what makes a good manager. Again, this is not equivalent to making profits — if that is one goal of the organization. Instead, the analysis of the *role* of the manager should specify those behavioural characteristics that are deemed to promote the organizational goal, such as expediency, fast decision-making, ability to cooperate, etc. Consequently, different organization will have different success criteria for promotion due to the different roles for managers (if there are any managers!). *Ex post*, it might be possible to judge a person on results instead of the ways in which he achieves them. That is, the firing mechanism may be more closely related to organizational goals.

Taking the selection process step by step, we start with the channels. In all those small firms that are not involved in WEF, managers will continue to be selected among owners to a great extent. But in larger firms, WEF will discontinue this practice. Still the body of self-appointed managers of small firms will constitute a pool for recruitment to WEF-firms.

Today, internal recruitment is quite common in bigger firms. This channel is likely to be reinforced under WEF, whose ruling organizations have more vertical contracts than the present managerial and owner classes. Another way which is opened up by the new system is via the trade unions. But unless it is recognized that trade unions will be drastically reduced in importance once their raison d'etre — the private owners — is gone, the importance of this channel will be grossly overstated. Still it is likely that a diminished purely labour dispute oriented trade union will remain through which some people will make their way.

Increased internal recruitment and increased recruitment from trade unions may cause the selection process to go wrong. On the lower part of the ladder within an organization, abilities that count are irrelevant to positions on the upper part, but people are promoted according to role fulfillment (ex post judgment) on their part of the ladder. There is then a risk that a good goal-keeper will be promoted to coach of the team — which then gets a lousy coach and has lost its goal-keeper. This is a problem in all hierarchial organizations since the only way to move is upward.

A counter- balancing force in firms under WEF could be a lesser need to move upwards to better ones situation. This would be so if the organizational structure became less hierarchial. If pays are evened out and jobs provide more opportunities, the search for jobs would to a larger extent coincide with abilities and interests.

Another aspect of increased internal recruitment is the upturn in social mobility.

Next, regarding success criteria, they are dependent on interests, environment and roles. Assuming that environment is unchangingly competitive, will the impact on organizational goals change due to a change in the interests of the members of the organization? Generally, one would expect a stronger preference for the preservation of the organization, foremost among the local workers but also on the branch fund level, i.e., the local workers might accept a smaller pay to keep the firm going. Whether they are permitted to do so depends on the wage policy. Also, the branch fund might accept a smaller return on capital to keep the firm going.

The combination of wage policy and dividend policy is crucial. What is most oftenly feared is that workers' control will manifest itself in a lack of interest in the efficient use of capital. But if dividend policy reflects this disinterest — e.g. accepting whatever losses — inefficiency will result only insofar as wages bear no relation to the results. For example, a combination of solidaric wage policy — a policy which is pursued by LO under the present system and which implies that wages should be uniform regardless of the efficiency of the firms — and disinterest in dividends would be detrimental to efficiency. But there are other combinations. Giving up the solidaric wage policy in order to furnish the local worker collective with an incentive would take care of efficiency, regardless of dividend policy. If, on the contrary, a solidaric wage policy is deemed desirable, it has to be coupled with a dividend policy that at least threatens the existence of the firm in case efficiency runs too low. Since the branch funds have no direct interest in dividends that system seems to require giving up the strictly solidaric wage policy.

Different forces will work on the creation of the manager role. On the one hand, the existence of collectivly-owned funds will increase the responsibility of properly managing the property i.e., in role creation the separation of ownership will still be an important determining factor. On the other hand, the manager role will inevitably be influenced by local interest. This might involve a preference for slack. But an opposite force which will be quite strong is the perpetual critique on inefficiencies that workers experience first hand. This will be forthcoming, even without the least material incentive on behalf of the workers due to the general human, interest in avoiding waste, WEF will open up a channel to the board and manager for such critique. Efficiency in the sense of using existing physical capital efficiently will be part of the manager role, perhaps even more strongly stressed than at present.

As a proxy measure of efficiency, profitability will surely survive. But there will be restrictions on actions due to changes in the management role. The management role will be stressing a social responsibility which rules out collusive practices — hypothetically price increases could be negatively valued. This, in addition to restrictions on actions which harm local workers' interests — which might include environmental considerations, — will cause measures of profitability to be less important.

Granted that efficiency will be an organizational goal, what personal promotion criteria will be used? There is no unique translation from efficiency to behavioural or even organizational characteristics. Even if the internal organization of the firms remains unchanged under WEF, that is assigning to managers the same functions, these functions might be carried out differently. The job of coordinating different parts of the organization can be performed by faciliating communication between these parts or by taking command. The job of stimulating the work-force can be done by delegating or supervising. There is — in my opinion — perfect substitution within a considerable range of different ways to achieve efficiency. Goals other than efficiency will determine the desired personal characteristics. The strong position of the local union in appointing both board and manager will ensure that democratic values will be used as promotion criteria: abilities to delegate, cooperate and communicate.

Structural decisions

Where the general interest in preserving the existing enterprises might promote efficiency on their operation, the same interest might promote an inefficient enterprise structure. Structural decisions are pretty much left to the branch fund but to varying degree, depending on wage and dividend policies. If these policies threaten the existence of the firm when efficiency slips, there will be a search for partners, mergers, and new production lines that preserve jobs locally. If these policies imply material incentives to the worker collective, there might be less search in order to preserve jobs and more search for projects that will create new jobs. However, the labour-managed firm will still miss opportunities for structural change due to the preservation attitude.[9] There would still be a need for outside interference in the structuring of the production system, for example, on the part of the branch funds.

Disregarding motivation of the branch fund — it has no direct material incentive — what are its possibilities for taking efficient structural decisions? This concerns the amount of information that the branch fund has access to. It won't lack methods for decisionmaking, which are well known but will it acquire the needed data? The relevant data are on the enterprise level — it is at best revealed in bargaining between firms about take-over prices. Bargaining between firms under WEF is not thought to be efficient in this respect. Then, will the managers serve the branch fund with relevant data? Not necessarily, since they may have weak or even negative incentives concerning structural changes. Of course, the branch fund may get more information by a deliberate design of the manager's role and specific information systems aiming at this. But very likely, if structural decisions are to be performed efficiently, it necessitates an active involment by the branch fund, having a permanent information collection and research department.

The people from other branches are of interest in this connection. They may be viewed as consumer-interest representatives preventing the particular branch from neglecting its social responsibilities. However, I find it more likely that they will serve to faciliate cooperation between branches. Consequently, it won't be immaterial what branches they represent. This should be determined by the possibilities for forward an backward integration.

The general overview and the range of possibilities will no doubt increase by transfer of ownership to branch funds. Within the particular branches, common ownership will faciliate the implementation of structural decisions. However, between branches, structural decisions that imply transfer of authority will be more difficult and substituted by cooperation.

Setting up new firms can be done either by private firms (those with less than 50 employees) and individuals or by WEF-firms. Possibilities for private interests to start up new firms depend on the existence of a banking system that is independent of the branch funds. It isn't likely that a branch fund will use its money to promote private ownership. This, then, is a question of whether private firms organize banks of their own or government supports independent banks.

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[9]) According to the theory of the labour-managed firm (Vanek and others), structural decisions will be inefficient.

If WEF-firms start new firms, there is the important question as to what owner relations there will be. Is a new firm to be 100 per cent owned by those firms that set it up? That would give the mother firms an almost unchallanged influence in their subsidiaries and the branch fund would only have an indirect influence. This would provide firms that want to get out of the grip of the branch fund with a great stimulus to organize themselves as holding companies. Will the funding system be set in motion in such firms if they have 50 or more employees? If then, WEF-firms might also want to organize themselves into 49 person firms.

Guarding efficiency

I have already dealt with the question on separating ownership from other interests in connection with the role of managers and the distribution of incentives. What remains is the ownership function to bargain with custodial entities controlling other factors of production. Whether bargaining will have any role to play in the forming of prices depends on market structure. On the perfectly competitive market, there is no bargaining — prices are what they are. However, many markets are not perfectly competitive. The intensity in bargaining about prices will then be determined by the stress on profitability — this will, for reasons mentioned above, be relaxed and consequently the price system will become less efficient.

Wage bargaining presents a problem of its own. Under the present system, it is possible for the owners to delegate this task to the managers. I have argued that under WEF, management will often side with local labour interests. If delegated to management, it is synonymous with instituting labour-managed firms. This would contradict the efforts to equalize wages through the solidaric wage policy. Equalizing would have to be performed by the tax system. Instead, owners would have to engage in wage negotiations themselves. That would mean that branch funds would bargain with labour unions. But since members of both the local unions and the branch funds belong to the same trade unions, it doesn't seem likely that any real bargaining could take place. Instead, wages would be determined inside the trade unions, the same way the trade unions today make up their wage policies. The political element would thereby play a more significant role but market forces would, of course, — as long as the labour market permits workers to choose their jobs — still work on the outcome. Adherence to central agreements is imperfect today and there would still be problems on how to implement the determined wage policy under WEF. Still, it seems likely that adherence would present less problems since there would be more social pressure on local worker collectives and more open display and discussion regarding wage statistics. Trouble presents itself if it is thought desirable to give the worker collective material incentives. That might open up possibilities to undermine any wage policy unless present wage systems are dispensed with. What might be considered is a system of fixed wages with bonuses in relation to profits. Such a system could be handled to strike a balance between efficiency in bargaining and adverse effects on wage structure, price increases and social responsibility. There again, this choice must be made.

The credit market

Another way to bring about an efficient use of capital is through the credit market. Today, firms employ more, borrowed capital than capital of their own. But the price of borrowed capital is far too low today to screen projects on a profitability basis. Instead, loans are rationed according to bankers' preferences. A network of old customers has been established which prevents capital from seeking its best use.

The situation isn't likely to change significantly upon the introduction of WEF. Internal financing will probably increase and the present banks will probably not survive but rather be displaced by branch banks. The firms and their branch funds won't accept so potentially a powerful branch as the banks. They will start banking on their own and that will divide customers along slightly different lines.

However, the credit market offers possibilites to bring about efficient capital allocation that might be tempting. If the branch funds get control of the banks — whether new or old — and pursue a policy of high interest rates, and this is combined with a policy of sharing out most of the firms' profits in dividends, internal financing would be reduced and greater care taken in the selection of projects. Part of the temptation stems from the possibilities that an efficient price on capital — as earlier mentioned — opens up to lessen the burden on wages policy.

Resolving conflicts

Up to now, WEF has been analyzed without taking account of the possibility that there might be conflicts between the new owners. For sure there are conflicts between present-day owners that can sometimes be quite detrimental to production. By majority voting it is, however, in all instances possible to arrive at some solution. Under WEF this isn't possible when it comes to appointing the board of directors and the manager. Since appointing the board and the manager is the most versatile instrument for running the firm in the hands of the owners, this might change the functioning of the production system quite fundamentally under WEF. When conflicts arise between the local union and the branch fund regarding the policies to be followed by the firm, this cannot be settled by the election of management since branch fund and local union have to agree on the appointment.

What means are there in the hands of the branch fund to subdue the local union? By a vote exceeding a 2/3 majority, the branch fund can dissolve the firm or merge it with some other, more cooperating firm. It can, during a succession of years and through a high dividend policy, squeeze out the resources of the firm. At shareholders' meetings in can decide on instructions for the management but has to sue management later on in order to levy any sanctions, and still the outcome would be uncertain since management, according to law, must not undertake actions that are not in the interest of the firm as such. Common to all these measures is that they are either very costly in terms of disorganized production (like dissolving the firm) or ineffective (like giving management instructions). There is nothing in between, such as dismissing the manager.

What are the means in the hands of the local union? The fundamentals of local interests is that if there is no agreement on management, the real management of the firm is in the hands of the local worker collective.

This lack of smooth means in the hands of the branch funds for handling local firms might be considered a big deficiency in the proposed WEF sheme. But less than substantial conflicts between the branch fund and the local union will be too costly to solve. Instead, they might be forgotten to the advantage of the local self-management. Substantial conflicts — e.g. over the closing down of a complete firm — will present no problems for the branch fund to deal with.

Extending the analysis

I will finally attempt a short discussion on economic and political changes that might evolve.

I have argued that a closer owner-interest and scrutiny will increase internal efficiency of the firms. Ceteris paribus competition would increase. On the other hand, the selection process of managers is likely to favour people who don't compete but rather cooperate. Which tendency will prevail? Will competition twist the firms into competitive-oriented organizations that will eventually select competitive-minded people? Or will the cooperative spirit spread across firms and branches, thereby dulling the edge of competition?

This is likely to be influenced by wage and dividend policies chosen by branch funds. The solidaric wage policy can be pursued in a way so that the local worker collective has to fight other firms, other worker collectives, in order to survive. Quite another tendency will develop if the solidaric wage and dividend policy is pursued so as to secure jobs and incomes. In the former case, competition might become quite ruthless. In the second case, competition might be dead. I believe it could be animated without taking on ruthless proportions by combining security with material incentives above the threshold of survival.

What incentives are left with the workers collectives determines the ned for branch fund involvement. If there are no incentives for the worker collective, a substantial part of the burden of adjustment and change rests with the branch fund. In the present proposal, branch funds are not well-equipped to perform such a role. It will require means other than sitting in on shareholders' meetings.

If the branch funds get a hold of the — new or old — credit institutes they will — in combination with dividend policy — have quite sufficient means to gear the structural development of the *branch* — granted that workers collectives have some incentive to furnish the branch fund with information.

It has been suggested that WEF would further segment society.[10]) Each branch would unify in endeavors to win advantages at the expense of the others. And this would include political means.

The underlying assumption is that the marriage between labour and capital is especially conductive to the mixing of economics and politics. Why would that be so? In the first place, there are many examples of capitalists who mingle in politics and extract favours from the government, whether government is left or right. Secondly, government intervention is often aimed at solving contradictions between interests, e.g. between labour and capital. There will be less need for this kind of intervention if workers master their own firms. Also, there will be less need for intervention due to the fact that workers as a whole will have more interests in harmony with a democratic government than have capitalists as a whole. Implicit in the segmentation hypothesis is that firms will cooperate with other firms in their branch rather than regionally to achieve foward or backward integration. Segmentation under the present economic system seems very much to follow branch lines though integration occasionally crosses branch boundaries. Under WEF, local trade unions will introduce an overlapping ownership within the same region. This has manifested itself in the response to the WEF proposal. An overwhelming majority among local unions favours regional funds instead of the proposed branch funds.

Conclusions

Substituting wage-earners' funds for the present owners will change the economic system in a way that will make the separation of owner and management less rigid though still important. This will decrease efficiency in the ownership functions selecting managers, in taking structural decisions and in guarding efficient use of the means of production.

In relation to the branch fund, this change will be less significant. It will represent pure owner interests reinforced with social responsibility. The significance lies in the position of the local unions as part-owners. The above conclusion on delegation holds true as long as there are no conflicts between owners — the branch fund and the local union. In cases of conflict, the branch fund will be faced with more serious problems than present-day owners since management is apt to side with the local interests. This is because of increased internal recruitment, less hierarchial organization, selection criteria which favour cooperation and — most important of all — the local union veto on appointment of members to the board and the manager.

[10]) Företagen i den nya politiska ekonomin, Daniel Tarschys, Ekonomisk Debatt 1/76.

The stenghthened position of owners might reinforce efficiency as an organizational objective — at least regarding internal efficiency. Allocative efficiency is more dependent on competition and the need to survive — in turn determined by wage and dividend policies.

The selection criteria will be different and might work their way through the economic system so as to create a general atmosphere of cooperation rather than competition. The other possibility is that competition will set the criteria for firing so as to favour competetiveness in spite of the criteria upon which people are appointed.

Allocative efficiency, efficiency in bargaining and the price system and structural decisions pose a problem of choice between incentives and command that is much more difficult to evade through role creation than is the equivalent problem concerning internal efficiency. In the proposed scheme, branch funds are not equipped with the neccessary means to take command — nor have they any material incentives to do that. A possible development then is the reinforcement of the branch funds — financially through control of the credit market and administratively. Another development is the introduction of incentives on the firm level. It is possible to rely either on the organizational interest to survive or to better its position. In the former case, a strict solidaric wage policy must be combined with a dividend and preferably a credit market policy that will make the firms vulnerable if efficiency silps. In the latter case, the solidaric wage policy has to be abandoned, permitting workers to share personally in profits and losses.

Structural decisions under the present system are mainly handled within owner groups or corporations. Under WEF, they will be handled within the branch funds. This will widen the range of possibilities within the branch and narrow it concering possibilities across branches. This will further branch specialization and concentration. *Regional* funds would have different consequences. In the proposed scheme, the only possibilities for balancing this tendency lie in the representation of other branches on the branch fund and — perhaps more important — the regional organization of local unions.

Establishment of new firms might well continue if credit institutions are not monopolized by branch funds. The inclination to grow would be smaller though this would also be true for WEF firms if dominated by local interests. Consequently, there would be less buying up of small firms and they could exist in a fair number to »fill in the holes in the market« and supply the WEF firms with a pool of differently-selected managers.

As the proposal now reads — in 1976 — WEF will mean a strong influence for the local unions. This contradicts the conventional opinion that WEF would create a centralized economic system. My conclusion rests on the fact that the local unions are the first to acquire votes as shareholders. The local unions will have established a strong position long before the branch fund gets any votes. This is because 20 per cent of the vote is in many firms more than enough to control it completely. Even more important is the right to veto members to the board and the manager suggested by the branch fund. Appointing and dismissing the manager is the most flexible instrument by which to run an enterprise. Without this, the branch fund is left only with potentially powerful but at the same time destructive means to subdue the local union. Conflicts will mainly be solved to the advantage of local self-management.

Some of the conflicts of the system that I have pointed out may institute changes in the rules for the game in motion once WEF is introduced. Then it is important to keep in mind that the whole idea of wage-earners' funds suggests a will on behalf of the labour movement to become independent of the government machine — why else suggest wage-earners funds instead of nationalization? This proposal cannot be understood unless the will of the workers to become independent is recognized — by capitalists and government alike.

(Rad primljen decembra 1976)

ANALIZA PRIVREDE U KOJOJ POSTOJE RADNIČKI FONDOVI

Richard MURRAY

R e z i m e

1975. godine Švedska sindikalna konferencija — Landsorganisationen (LO) — prezentirala je nacrt sheme o učešću radnika u dobiti. Ta učešća obrazovala bi fond kojim bi se kolektivno upravljalo. U švedskoj debati ova shema je nazvana »radnički fond« (RF). Podrobno je raspravljano o tehnikama učestvovanja u dobiti i njihovim posledicama na raspodelu bogatstva, tržište berzanskih papira i cenu kapitala. S tim u vezi razmatrana je i teorija samoupravnog preduzeća. Međutim, nije bilo razmatrano funkcionisanje privrede u uslovima preuzimanja većine akcija preduzeća od strane radničkih fondova.

Prema predlogu, 20% profita (uniformno računato) treba svake godine da se slije u fond, pri čemu će ta suma biti oslobođena od poreza; preduzeće mora da emituje nove akcije u iznosu izdvojenom za fond, a vlasnik tih akcija postaje fond. Na taj način novac ostaje u preduzeću, a fond postepeno dolazi u posed sve većeg dela tog novca.

Titular svojine radničkih akcija jeste jedan fond, zajednički za sve firme, tzv. »egalizacioni fond« (utjämningsfonden). Ovaj fond prima sve dividende. Iz dividende fond može na tržištu da kupuje akcije bilo kog preduzeća. Osim toga, fond služi za finansiranje aktivnosti sindikata. Različiti sindikati — uključujući tu i službeničke — biraće predstavnike u odbor egalizacionog fonda.

Međutim, o d l u k e o raspoređivanju sredstava fonda ne donose se na nivou egalizacionog fonda. One se donose na skupovima akcionara. Lokalni sindikat je ovlašćen da odlučuje o 20% od ukupnih sredstava fonda. Glasačko pravo, vezano za odlučivanje o sredstvima koja prelaze realnost akcija od 20%, ostvaruje se na nivou granskog fonda. Predviđeno je postojanje nekoliko granskih fondova. Polovinu članova

ovih fondova imenuje sindikat određene grane, a drugu polovinu imenuju sindikati ostalih grana. Državna uprava će imati pravo da imenuje članove koji će moći da učestvuju u sastancima fonda, ali bez prava glasa.

Postoje dva ograničenja u vezi glasačkog prava. Jedno se odnosi na izbor odbora direktora preduzeća, za koji je potrebna saglasnost lokalnog i granskog fonda. Drugo je vezano za promene u vlasništvu, kao što su, npr., ukidanje preduzeća, pripajanje drugom preduzeću, što zahteva odobrenje granskog fonda u svim slučajevima koji vode smanjenju uticaja tog fonda. To će se neizbežno desiti u slučaju spajanja dve firme, ukoliko u njima učešće radnika u akcijama nije istog obima. U skladu s tim granski fond će imati pravo veta na sve takve odluke.

Konačno, RF će obuhvatiti samo preduzeća sa 50 i više zaposlenih, ukoliko ona nisu u izuzetnoj meri kapitalno intenzivna.

Zamena sadašnjih vlasnika radničkim fondovima izmeniće privredni sistem tako, što će podvojenost vlasnika i menadžmenta učiniti manje striktnom, iako će ona još uvek ostati značajna. To će smanjiti efikasnost vlasničke funkcije pri odbiru menadžera, donošenju strukturnih odluka i očuvanju efikasne upotrebe sredstava za proizvodnju.

U isto vreme to će pojednostaviti delegiranje. Vlasnici će imati veći uticaj u ostvarenju uloge menadžera, dok će podsticaj za menadžere biti manje značajni.

Ta promena će biti manje značajna za granske fondove. Ona će predstavljati čiste vlasničke interese pojačane društvenom odgovornošću. Značaj leži u položaju lokalnih sindikata kao suvlasnika. Pomenuti zaključak s delegiranjem važi sve dok se ne pojavi sukob među vlasnicima — granskim fondom i lokalnim sindikatom. U slučaju sukoba, granski fond će biti suočen sa ozbiljnijim problemima nego sadašnji vlasnici, s obzirom na sklonost menadžera da staju na stranu lokalnih interesa. To je uzrokovano intenzivnijim regrutovanjem menadžera iz redova lokalnog stanovništva, manjim stepenom hijerarhičnosti u organizaciji, kriterijima izbora koji favorizuju saradnju i — najvažnije od svega — vetom lokalnih sindikata na imenovanja članova odbora i menadžera.

Ojačan položaj vlasnika može povećati efikasnost kao organizacioni cilj — bar kad je reč o unutrašnjoj efikasnosti. Alokativna efikasnost više zavisi od konkurencije i potrebe za održanjem.

Kriteriji izbora biće drugačiji i moći će vršiti svoju ulogu u privrednom sistemu tako, što će stvarati opštu atmosferu kooperacije, a ne konkurencije. Druga mogućnost sastoji se u tome, da konkurencija nametne kriterije za otpuštanje i tako favorizuje takmičenje nasuprot kriterijima na osnovu kojih su naimenovanja vršena.

Alokativna efikasnost, efikasnost u pregovaranju, sistem cena i strukturne odluke nameću problem izbora između stimulacija i komandovanja koji je daleko teže rešiti nego istovrsni problem u slučaju interne efikasnosti. U predloženoj shemi granski fondovi nisu opremljeni neophodnim sredstvima za preuzimanje komande, niti imaju bilo kakav materijalni podsticaj da to čine. U takvoj situaciji jačanje granskih fondova — finansijski putem kontrole kreditnog tržišta i administrativno — treba smatrati mogućim pravcem razvoja. Drugi pravac *predstavlja uvođenje stimulacija na nivou preduzeća. Moguće je osloniti se na organizacioni interes preduzeća za samoodržanjem ili na poboljšanje njegovog položaja. U prvom slučaju striktno solidarističku politiku nadnica treba kombinovati sa politikom dividendi i politikom kreditnog tržišta, što će učiniti preduzeće ranjivim ako efikasnost padne. U drugom slučaju potrebno je napustiti solidarističku politiku nadnica i dozvoliti radnicima da pojedinačno učestvuju u dobicima i gubicima.*

Strukturne odluke u postojećem sistemu donose se pretežno u okviru grupa vlasnika ili korporacija. U uslovima postojanja RF te odluke će se donositi na nivou granskih fondova. To će proširiti krug mogućnosti unutar grane i suziti »vangranske« mogućnosti što će doprineti granskoj specijalizaciji i koncentraciji. Regionalni fondovi bi izazvali drugačije posledice. U predloženoj shemi jedina mogućnost za uravnotežavanje ove tendencije leži u predstavljanju drugih grana u granskom fondu određene grane i — što je možda važnije — u regionalnoj organizaciji lokalnih sindikata.

Osnivanje novih preduzeća može povoljno da se odvija pod uslovom da granski fondovi ne monopolišu kreditne institucije. Težnja ka rastu bila bi manja, što posebno važi za RF preduzeća u kojima dominiraju lokalni interesi. Prema tome, bilo bi manje kupovina privatnih preduzeća i ona bi mogla postojati u priličnom broju »da popune rupe na tržištu«, da snabdevaju RF preduzeću menadžerima.

Prema sadašnjem (1976. g.) predlogu, RF će omogućiti snažan uticaj lokalnih sindikata. Ovo protivureči uobičajenom shvatanju da će RF stvoriti centralizovan privredni sistem. Autorov zaključak počiva na činjenici da će lokalni sindikati biti prvi koji će steći akcionarska prava. Lokalni sindikati će zauzeti jak položaj daleko pre nego što granski fondovi dobiju ijedan glas. To zbog toga što je 20% glasova u mnogim firmama više nego dovoljno da bi nad njima bila ostvarena potpuna kontrola. Još značajnije je pravo veta na izbor članova odbora i menadžera koji sugerišu granski fond. Imenovanje i otpuštanje menadžera je najfleksibilniji instrument za vođenje jednog preduzeća. Bez toga granski fond ostaje bez potencijalno snažnog ali istovremeno razornog sredstva za potčinjavanje lokalnih sindikata. Sukobi će uglavnom biti rešavani u korist lokalnog samoupravljanja.

Kada RF budu uvedeni, neki od sistemskih konflikata na koje je autor ukazao mogu dovesti do promene pravila igre. Stoga je važno imati na umu činjenicu da čitava ideja radničkih fondova sugeriše želju radničkog pokreta da postane nezavisan od državne mašinerije — zašto bi inače bili predlagani radnički fondovi umesto nacionalizacije? Predlog se i ne može shvatiti sve dok — i kapitalisti i država — ne priznaju volju radnika da postanu nezavisni.