Why No Economic Democracy in Sweden?
A Counterfactual Approach

Abstract
Companies that are owned and/or governed by their employees, through a co-operative, a stock-option plan or an employee trust, have been studied empirically for almost four decades. The results show that such companies perform on average better and have higher productivity than firms that are governed by outside capitalists/owners/investors and they pay somewhat higher wages. In addition, they have far less turnover of personnel and employees are more satisfied with their working conditions. In many cases, such companies are contributing to decreasing economic inequality because, in addition to their salaries, employees also benefit from the capital in the company, usually in the form of substantially higher pensions. People working in such firms tend to be more pro-democratic and civic oriented. Given these many positive results, this paper poses a counterfactual question: why has economic democracy, in the form of employee-owned and/or governed companies, not been on the political agenda in Sweden? There are many reasons why we should have seen such companies mushrooming in Sweden, given its strong labour movement and Social Democratic party, yet the country has comparatively few. Three explanations are presented: the organisational interest of the trade unions in organisational learning, the conflation by the political left of capitalism and markets and the political debacle of the ‘wage-earner funds’ policy.
Introduction

Nowadays, political scientists very rarely engage with economic democracy. Not a single article among the more than 500 published in the Annual Review of Political Science since its first volume in 1998 is about the issue. The same goes for the discipline’s flagship journal, the American Political Science Review, where the two last decades have seen no article about economic democracy (or workplace democracy). The very ambitious and successful research programme for conceptualising and measuring democracy on a global scale—the Varieties of Democracy Institute—has also excluded the topic from its agenda (Coppedge et al, 2020).

The discipline’s ignorance of economic democracy was, however, not always in evidence. In his highly acclaimed books A Preface to Economic Democracy and Democracy and its Critics, published in 1985 and 1989, Robert Dahl—perhaps still the leading theorist of liberal-pluralist democracy—made a strong case for economic and workplace democracy. For him there was no reason why liberal democrats should shun this topic. Based in part on David Ellerman’s contract theory of power over the corporation (developed below), Dahl (1989, 1985) recommended an experimental approach to how such an economic system could be organised.

The idea that liberalism should be a central part of democratic socialism has recently been put forward by Ira Katznelson (2020), in an article entitled ‘Is liberal socialism possible?’. The proposal meanwhile by Isabelle Ferreras (2020, 2017) to democratise corporations through a bicameral system, where employees and owners/shareholders would have a chamber each, is one way to go for Dahl’s suggested experimentation. There are, though, already many other frameworks for how employees can establish democratic forms for governing the enterprises in which they work (Michie et al, 2017; Rothstein, 2012).

Contrary to various forms of state control, through nationalisation of companies and central planning, economic democracy in this form has much that speaks for it. Companies that are owned and/or governed by their employees, through a co-operative, a stock-option plan or an employee trust, have been studied empirically for almost four decades. Overall, the results seem quite clear.

Economically, such companies perform on average better than firms governed by outside capitalists/owners/investors and they pay somewhat higher wages (Blasi et al, 2014; Blasi et al, 2017; Erdal, 2011; May et al, 2019). Studies also indicate that the combination of ownership and control is an important factor in increased productivity (Rosen and Quarrey, 1987; Blasi et al, 2014; Lindkvist, 2007). In addition, they have far less turnover of personnel and employees are more satisfied with their working conditions (Freeman, 2015). In many cases, such companies are contributing to decreasing economic inequality because, in addition to their salaries, employees also benefit from the capital in the company, usually in the form of substantially higher pensions (Witkowsky, 2018; Boguslaw and Shur, 2019).

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1 I would like to thank Niclas Berggren, David Ellerman and Patrik Witkowsky for valuable comments on earlier versions.
The enormous increase in economic inequality since the 1980s makes an important but often overlooked argument for this type of economic democracy (Rothstein, 2020b; Freeman, 2015). To this one can add research showing that people working in employee-owned co-operative firms tend to be more pro-democratic and civic-oriented (Weber et al, 2020; Timming and Summers, 2020).

Given these (and many other) positive results, the starting point for this paper is a straightforward, counterfactual question: why has economic democracy in the form of employee-owned and/or governed companies not been on the political agenda in Sweden? As will be shown below, there are many reasons why we should have seen such companies mushrooming in Sweden. Yet the country has comparatively few and the issue has been almost ‘stone dead’ in the political debate since the early 1930s (Nachemson-Ekwall, 2018). Hence the counterfactual question—explaining why something we should expect to happen has not come about (Tetlock and Belkin, 1996).

**Sweden: the counterfactual case**

There are many reasons for asking this ‘why not Sweden?’ question. First, Sweden is a country known for its extensive welfare state, including generous policies for increasing political participation and gender equality (Rothstein, 2015). Secondly, the country has a comparatively vibrant and well-organised civil society (Trägårdh, 2007). The latter includes many different types of organisation, including an unusually well-organised trade union movement with the highest union density in the world (Kjellberg, 2017). In addition, the Social Democratic party has held the post of prime minister for more years (65 out of the last 100) than any other labour party in the industrialised world since representative democracy was established.

Thirdly, the country has been dominated in almost all sectors of society by very strongly organised interest groups, which for most of the 20th century worked in close co-operation with the state as well as with each other in a system of neo-corporatism (Rothstein, 1991, 1992a; Williamson, 1985). Thus, doing things by organising ‘together’ for common purposes has been a defining part of Swedish political culture. Fourthly, Sweden, together with the other Nordic countries, is world-leading when it comes to social trust. According to the World Values Survey, the country average for the percentage of the population that agrees with the statement ‘in general, most people can be trusted’ is 29 per cent; in Sweden, it is about 60 per cent (Holmberg and Rothstein, 2017).

One way to think about a democratic corporation is that it has the same character as what in her modern classic, Governing the Commons (1990), Elinor Ostrom called ‘common pool resources’. As she showed, such resources are not doomed to what Garrett Hardin called ‘the tragedy of the commons’, caused by extensive ‘free-riding’, because local communities often turn out to be able to manage them in a sustainable way through democratic procedures. Ostrom did however contend that one reason for the successful cases was that these communities could rely on a huge amount of
historically established ‘social capital’, in which social trust is a main ingredient (Ostrom, 1990: 12). A country such as Sweden, with unusually high social (interpersonal) trust and social capital (Rothstein and Stolle, 2001), would be well suited for employee-owned and/or managed corporations. Moreover, producer and consumer co-operative economic enterprises have been and still are plentiful in the Swedish economy. Large parts of the agricultural sector—food production and sawmills, for example—are co-operatively owned by the producing farmers. One of the main supermarket chains in the country is organised as a consumer co-operative. Housing co-operatives are abundant, including not only in the more affluent part of the population but also among many working-class and lower-middle-class families. It should be added that housing co-operatives in Sweden are ‘more co-operative’ and democratically governed than their counterparts in most other countries.² One could go on but doing things ‘co-operatively’ is very common in Sweden, as well as in the other Nordic countries.

In short, if there would be one country where economic democracy—in the form of employee co-operatives or other forms of institutionalised, representative democracy within corporations—should have been high on the agenda, much suggests it should have been Sweden. Yet the reality is the opposite: compared with other countries, such companies are quite rare (Nachemson-Ekwall, 2018).

Figures are difficult to get but it is estimated that less than half a percentage of the workforce work in companies where the employees have a majority of the shares. According to a report from the European Union, Sweden has around the fewest institutional devices in place for supporting employee ownership (Lowitzsch and Haschi, 2014). Moreover, there is no large and well-known employee-owned company in the country—such as the Mondragon conglomerate in Spain, the John Lewis company in the United Kingdom or Publix in the United States—that can work as a showcase or model.

It is symptomatic that the recently published, 700-page Oxford Handbook on this topic does not have an index entry on ‘Sweden’ (Michie et al, 2017). The employee-owned companies that do exist are small and not well-known and seem to keep a low profile. They appear, though, to follow the pattern in other countries in that they are doing well, in terms of economic performance, persistence over time and employee satisfaction with working conditions.

Initiatives to start a discussion about this potentially profound change in the economy and working life have met very little interest in the political arena and among interest groups, in particular the unions.³ This is also somewhat strange, since democracy as an ideology has an almost sacred position in the country. Being one of the most—if not the most—secular countries in the world, democracy has to quite an extent replaced Lutheranism as the dominant

² Housing co-operatives in Sweden (and to some extent in Norway and Finland) have a special legal form. One does not own the apartment but instead is a member of the housing co-operative and has the right to use the apartment and to sell that right. The members collectively manage the building by electing a board among themselves. One is supposed to live in the apartment, which implies that one can only sublet it for a short period with the permission of the board (for example if one is temporarily working elsewhere). Thus, one cannot buy a number of such apartments and sublet them to earn money—housing co-operatives in Sweden are true co-operatives.

³ This is based on personal experience: the author published his first article about this issue in Swedish in 1984 (Rothstein, 1984).
ideology. For example, the current Swedish constitution, adopted in 1973, states that ‘democratic values should be the guiding principle in all spheres of society’. So far, this has not had much impact on working life. A law about the right of employees (read union officials) to co-determination exists but it is generally regarded as a rather toothless piece of legislation when it comes to increasing the actual power of employees (Levinson, 2000). Since, from a counterfactual perspective, Sweden should have been a ‘heaven’ for establishing representative democracy within corporations, in thinking through this failure there may be important lessons for those of us who believe in the idea.

Paradoxically, the western country that in many aspects is the antidote to Sweden, the US, has a much larger proportion of its workforce working in companies where the employees are the majority owner or own a significant part of the shares. The approximately 7,000 companies with Employee Stock Ownership Plans (ESOPs) now employ about 10 per cent of the workforce and in more than 4,000 of the firms the employees are the majority owners. Moreover, establishing such companies is not a politically controversial matter, since both the Democratic and Republican parties support the ESOP model (Nachemson-Ekwall, 2018; Witkowsky, 2018; May et al, 2019). In fact, in his much noted book, Anarchy, State and Utopia, Robert Nozick argued that worker-owned firms would be perfectly compatible with his libertarian system (Nozick, 1974: 250 et seq).

What needs to be explained is why the super-capitalist US, with a very weak labour movement and no social-democratic political party, has more economic democracy than ‘semi-socialist’ Sweden, with its strong unions and politically dominant Social Democrats (Berman, 2006). I have three tentative answers.

**Trained incapacity: unions against economic democracy**

When working on an edited volume about economic democracy in 2012 (Rothstein, 2012), I decided to carry out a mini-experiment. The background was that it had become possible in Sweden for private organisations, under a kind of charter contract, to deliver public services in healthcare, elderly care and education. A puzzling question was why very few of these new companies were organised as employee co-operatives. While, for example, many private charter schools have been established, very few are governed or owned by the employees—instead, large capitalist businesses have started many such schools. One long-term study has shown that having employee co-operatives run public services works very well, for the consumers/citizens as well as the employees (Lindkvist, 2007).

The mini-experiment consisted of contacting four central trade unions, all with many members working in the public services. These were the national blue-collar union confederation (LO), the Municipal

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4 In companies with more than 25 employees, and where there is a collective union contract, the unions have the right to appoint two members of the board.

5 Sweden is the only country in the industrialised world where companies that run charter schools financed by taxpayers’ money are allowed to give dividends to shareholders.
Workers’ Union (organising, for example, people working in elderly care, pre-school teachers and bus drivers), the National Teachers’ Union and the Union for Local and City Civil Servants. The person who called introduced herself as a member of the union and asked a simple question: could she and her co-workers get some assistance and information on how to start an employee co-operative? The answers we received were completely negative or the union official genuinely did not understand the question.

There was no support available from these unions to establish democratically run companies. Moreover, a number of officials answered that if the member and her co-workers were to start a co-operative, they would become employers—and thus they should turn to an employers’ federation for support! If the local council wanted to hand over a public pre-school or home for elderly care to the private market, the unions had no preparation whatsoever for helping their members become the new owners of this operation. If the unions had taken a more positive position on this ‘semi-privatisation’ of public services in Sweden, the country could now have had thousands of employee-managed schools, local healthcare clinics, pre-schools and homes for elderly care.

In 2014, LO asked the renowned labour economist from Harvard University, Richard B Freeman, to write a report within the framework of its project ‘Full Employment and Solidaristic Wage Policy’. Freeman's report, entitled ‘Workers ownership and profit sharing in a new capitalist model’, made a similar argument to that presented here: to do something about the huge increase in economic inequality in the member countries of the Organisation for Economic Co-operation and Development required new policy instruments. One such was that employees should derive income additionally from the capital in their firms, through various forms of ownership (Freeman, 2015).

Freeman presented a very convincing argument that the best strategy for unions, facing decline in membership, was to take a lead in promoting this development. When he presented the report at a seminar organised by the union project, however, the then LO chair, Karl-Petter Thorwaldsson, told him that ‘we are never going to do this’. 6

For his superb documentary about employee co-operatives, Can We Do It Ourselves?, Patrik Witkowsky (2015) and his collaborators interviewed researchers, public intellectuals and persons working in or managing co-operatives. One interviewee was the then chief economist at LO, Ola Pettersson. When asked why union members seeking help to take over the enterprises where they were working and turn them into co-operatives received no help, he replied: ‘We do not have an organisation that can respond to these initiatives so I am not at all surprised about the answers that they got.’ He said this issue had not been on the LO agenda.

6 Email from Freeman to the author, December 15th 2020. Freeman has received similar negative comments about this idea from union leaders in Germany and Italy.
Historically, when different forms of profit-sharing have been discussed, Swedish blue-collar unions have been opposed—one reason being that they feared their members would adopt a ‘capitalist mentality’ (Nycander, 2002: 462). In the official investigation of industrial democracy established by the first Social Democratic government in 1920, the leader of the powerful Metal Workers’ Union rejected firm-based co-determination councils. Such councils would hurt the unions, it was suggested (Hermansson and Öberg, 2012: 181).

Take the well-known Swedish car company, Volvo. In 2008, the company was owned by Ford, which because of its own economic problems wanted to sell Volvo. The civil engineers’ union at Volvo took an initiative to make the company into an employee-owned corporation, forming a special consortium to organise the takeover. The plan could not however be realised for several reasons. One was that the large public pension funds in Sweden—in which the unions have a considerable influence—refused to give any credits. Another was that the blue-collar union at Volvo refused to support the idea (Nachemson, 2018: 124). Today, Volvo is owned by a Chinese capitalist with strong ties to the Communist Party, an organisation not known for its internal democracy.8

One of the few large-scale profit-sharing plans in Sweden was introduced in one of the largest banks (Svenska Handelsbanken) in 1973. The employee-controlled foundation is now the largest shareholder and an employee retiring after three decades of work receives about $2 million: the amount is strictly related to how long the person has worked in the bank, regardless of whether they were a cleaner or the chief executive. When this scheme was introduced, the Swedish Employers’ Federation was firmly against it—but so was the Swedish Union of Bank Employees (Banktjänstemannaförbundet) (Wallander, 1989).

There are probably many reasons for this lack of interest in any form of employee-owned or managed firms on the part of the comparatively strong Swedish union movement. It has not so much to do with their ideology but should be understood from two somewhat different perspectives: organisational interest and organisational learning.

The main idea of the former is that, when forced to choose between strengthening the organisation and striving to realise ideological goals, most organisations will prioritise their strength.9 Unions in Sweden have built their strength on being skilled in playing the ‘adversarial negotiation game’—not only in wage negotiations but perhaps even more so in operating the large and complicated Swedish system of industrial-relations laws of which they are a well-integrated component (Carlson et al, 2008). These laws are about co-determination, how to handle lay-offs, employment protection, safety regulations, board representation and so on.

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7 The formal name in English is the Association of Graduate Engineers.
9 The statutes of LO say that the organisation will ‘promote societal development on the basis of political, social and economic democracy’.
Much of this power works as a ‘selective incentive’ for employees to become union members. For example, if there will be lay-offs and one knows union officials will have a considerable say in who has to go, one better become a member. Also, if one runs into a serious conflict with the employer—perhaps over working conditions, harassment or discrimination—it can be very costly to take legal action against the company (Carlson, 2007); much better to have the union official onside. Almost all the industrial-relations laws build on the idea that employees have rights as union members, not as individuals: the whole system is constructed such that the union is one party and the management the other, engaged in almost day-to-day negotiations, at least in larger companies. If the employees would become the owners of the company and/or have the right to appoint the management, the very raison d’être of Swedish unions would evaporate.

The organisational-learning perspective focuses on the huge amount of competence invested in how to operate this system of negotiations. It has been developed over many decades, with union officials experiencing huge amounts of training (formal and ‘on the job’) to develop skills as negotiators. If their members would govern the companies by some form of representative democracy, this competence in negotiating with representatives of the owners would become almost worthless: there would be no one sitting on the other side of the table. Even if employees only received substantial compensation as dividends, wage negotiations would become less important. This is what in classical sociology is known as a ‘trained incapacity’ (Merton, 1940).

While ideologically blue-collar unions may favour economic democracy, as organisations they seem to perceive that they have much to lose and nothing to win by supporting firms governed by the people who work in them. This is probably the reason why we see many more such corporations in the US. History can be very ironic: a country with a very weak union movement, which only organises 7 per cent of the workforce, has a considerable number of employee co-operatives, while Sweden, where unionisation is almost ten times as high, has very few such firms.

In sum, the Swedish experience does not give much support to the positive role ascribed to strong unions for establishing economic democracy.

The left’s misunderstanding of capitalism and markets

If we define the ‘political left’ in Sweden as radical social democrats, union activists, the Left Party (Vänsterpartiet), leftist public intellectuals (including radical feminists and people challenging various forms of ethnic discrimination), very few have been engaged with issues concerning economic democracy. Surprisingly, the enormous increase in economic inequality that has occurred since the early 1980s in most OECD countries (Pontusson and Weisstanner, 2017)—and Sweden is one of those

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10 Although almost 70 per cent of the Swedish workforce is unionised, confidence in the unions is not high. The Society-Opinion-Media (SOM) institute at the University of Gothenburg has carried out surveys measuring confidence in various institutions since 1986, with the question about the unions asked almost every year. There are five possible answers—very low, low, intermediate, high and very high confidence—and the resultant measure can go from -100 (all respondents answer ‘very low’) to +100 (all answer ‘very high’). The average for the unions over the years is about -15, and in no year is it a net positive. In comparison, the police and the courts score about +40, public radio/TV +45 and public healthcare +55 (Martinsson and Andersson, 2018; Holmberg and Weibull, 2010). This bears out that high union membership is to a considerable extent a result of the ‘selective incentives’ stemming from the construction of industrial-relations laws (cf Rothstein, 1990).

11 This is not to say that unions could not have a positive role in democratically governed firms. For such arguments see Ellerman (1988) and Freeman (2015).
countries where inequality has increased the most—has also not been of much concern to the political left. Yet, according to one leading Swedish political scientist, inequality has reached a level where there is a clear threat to social cohesion (Bennich-Björkman, 2019). A recent report from the Nordic Council shows that Sweden is now the most unequal country in the region.\(^{12}\)

This has occurred despite those very strong unions, which makes the lack of interest of the political left in policies, such as employee ownership/control, that could work against this development quite surprising. As Francis Fukuyama has noted for the US case, during the last two to three decades leftist radicals have mostly engaged in picking the ‘low hanging fruit’ of often symbolic identity issues, instead of taking on the more complex challenges of economic inequality and power (Fukuyama, 2018; cf Piketty, 2019). My firm impression is that the same has happened in Sweden (Franzén, 2015).\(^{13}\)

Ironically, while the political left has largely lost interest in economic inequality, four major international economic-policy organisations which historically did not care much about inequality—the OECD, the World Economic Forum, the World Bank and the International Monetary Fund—have been issuing warnings that current economic inequality in most developed countries is not socially sustainable (Freeman, 2015).\(^{14}\) When it comes to power in the corporation, the issue which has concerned the Swedish Social Democrats the most during the last two decades has been quotas to increase the number of women on boards. From a gender-equality perspective this may be seen as progress, but since they, as with male board members, are accountable to the dominant capital owners, it has nothing to do with democratising the corporation or increasing economic equality.

A major mistake in this discussion is that the political left has confused markets with capitalism.\(^{15}\) As shown by, for example, Ferdinand Braudel (1985), the leading figure in the Annales school of historians, markets are much older than capitalism and will in all likelihood remain when capitalism has faded away. In short, markets and capitalism are two very different things (Wallerstein, 1991; Wright, 2019). Capitalism should be defined as an economic system where those who are in possession of the capital invested in a corporation also have the management power over the corporation. But, and this is very important, the right of the capital owners to have this management power cannot come from their ownership of the capital. Instead, as developed by David Ellerman (2007), it comes from the construction of the ‘renting contract’:

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\text{When labour (= the workers) and capital (= the capital owners) meet in the market-place, it is not legally preordained which way the rental contract will be made.}
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15. Among the latest examples of this conflation of markets and capitalism is Martin Hägglund’s (2019) much-acclaimed book, This Life: Why Morality Makes Us Free (see for example pp 278-81 and 304-08). In Hägglund’s ‘democratic socialism’, demand from individuals will have no effect on what is going to be produced. Instead, ‘we can decide through democratic processes how and what we produce, based on which abilities we seek to cultivate and which needs we have to satisfy’ (p307). I suppose that when there are changes in tastes and fashion, for example from low- to high-heeled shoes, the majority will decide if production should follow—my guess is that, in Hägglund’s utopia, the majority would vote for very flat and truly ‘sensible’ shoes.
Capital may hire labour, labour may hire capital or some third party may hire both labour and capital. The direct control rights over the use of the capital and the labour in production are determined by the direction of that rental contract—by who hires what or whom (Ellerman, 1983: 269).

This contract theory of power over the corporation fundamentally changes the parameters for establishing economic democracy. Not realising the importance of this logic has probably been the second most important mistake by the socialist and Marxist left over the last hundred years. People who invest their pension money in state bonds do not as a consequence have ownership rights over the state—indeed they do not have even a minimal right to command what the state is going to do. The policy that would follow from the contract theory of power over production is that shares traded on the stock market that give ownership over corporations would first be transformed into bonds. Then, in a radical (revolutionary) one-shot transformation or in a more gradual, reformist manner, seats on the board would be transferred to representatives of the employees, as I suggested in my first article about this (Rothstein, 1984). The company bonds would be traded and give a dividend related to the profit and their value would thus be based on how the market valued the economic situation for the corporation. But these corporation bonds would not give their owners the right to have any influence over the running of the company. Since a very large part of today’s capital invested in large corporations comes from pension and mutual funds, this would not make any difference in practice to the large majority of owners of shares. The logic of Ellerman’s contract theory is easy to understand. When a number of persons decide to start a business together and get a loan from the bank, the bank which is the owner of the capital used in the firm does not decide how they will operate their company. Capitalism can be defined as a society where, in Marxist parlance, those who own (or control in the name of the owners) the capital of a firm exercise managerial power in the relations of production. According to Marx, the central source of power in a society is not located in the ownership of capital but in the relations of production.

If so, socialism cannot become a reality by just changing who these owners are (the state, the central planners, the unions, the pension funds ...). Instead, socialism must logically be defined as when those who work in a company wield the power in the relations of production. Thus, we can rephrase the initial question to ‘Why has Social Democracy not been able to establish liberal socialism in Sweden?’

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16 The first main mistake has been the idea that the industrial working class would be the engine behind a new (socialist) mode of production. Looking back at major economic transformations in history, this makes absolutely no sense: It was not the slaves who did away with slave society and created feudalism. And it was not the peasants that abolished feudalism and introduced capitalism. A subordinate social class can fight for more of ‘the pie’ (slave rebellions, peasant upheavals, workers’ striking) but they will not be able to bake the new ‘pie’. For this, a new social class is needed. Today, we see quite a lot of employee ownership in the high-tech sector, a process driven by the new ‘information and knowledge’ class (Freeman, 2015: 10). When six very successful young entrepreneurs in the ‘new economy’ wrote an op-ed about what policies they requested from the government (published in the main Swedish daily newspaper, Dagens Nyheter, March 13th 2015), their first demand was that government should make it easier for them to make their employees co-owners.

17 It should be added that conflating capitalism and the market economy is standard among most economists—see, for example, Freeman (2015).

18 There is for sure a problem of how to handle entrepreneur-owners in this model but I have presented a solution I think would work (Rothstein, 1991). Those who start a company using their own or borrowed capital should have the management rights, due to the company being their ‘intellectual property’. However, when they leave the company, their shares would be transferred to bonds. Their heirs would inherit the capital as bonds—not shares that give them power over how to run the company. That power would be transferred to the employees.
In his exposé of Braudel's theory about the difference between 'capitalism' as control and monopoly, on the one hand, and 'markets' as openness, transparency, competition and liberation, on the other, Immanuel Wallerstein (1991: 361) wrote: ‘The policy implications for the contemporary world are massive. If capitalism—real capitalism—is monopoly and not the market—real markets—then what is to be done is a question that may be answered very differently from the ways in which antisystemic movements have been answering it for the past one hundred years.’

As argued by Elisabeth Anderson, again in historical perspective, the ideal of a society based on the principles of the free market was once a cause for the left. By ‘the left’, she means egalitarian social movements and thinkers from the late 17th to the mid-19th century. Free markets where seen as liberating and as promoting equality in status and standing, and a counterforce to hierarchical structures such as guilds and feudal estates (Anderson, 2017). Democratised corporations in which the employees control management are, and will in the foreseeable future be, operating in markets. When it is stated that such corporations are doing well economically (see above), this means they are doing well in a market economy.

By a market economy, I am talking about a diversified and pluralist system for voluntary economic exchange, regulated by the state in such a way that the interests of consumers, the environment, work and product safety are safeguarded (cf Block, 2020). In this, I include an encompassing, mostly universal, set of social policies that protect citizens in cases when they are unable to work. So we can answer ‘yes’ to the question posed by Ira Katznelson (2020): ‘Is liberal socialism possible?’

The left’s critique of the market has often been based on the idea that markets are built on and will increase selfish, ‘economic man’ behaviour. A recent example is the philosopher Martin Hägglund (2019: 307), who writes that what markets will lead to is ‘to see ourselves as essentially self-interested, atomically constituted individuals who have no inherent motivation to care for the common good’. And for sure, many neo-classical economics take this as the ‘default’ for all human behaviour. To which the left’s alternative is that well-functioning societies must be built on solidarity, social trust and co-operation.

A large research project however indicates that both these dominant notions can be completely wrong. This group of (very prominent) researchers conducted experiments aimed at measuring whether people were willing to share a sum of money they were given with another person whom they did not know and would not interact with again. Many such experiments have been performed over the years, showing that people are generally far less selfish than the Homo economicus model assumed. But this interdisciplinary project indicated a caveat.

Anthropologists collaborated with economists in carrying out the experiment in 15 small communities, some with indigenous peoples, who lived off various forms of farming, livestock, fishing and hunting. The

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19 The idea of joining liberalism and socialism was first coined by the Italian socialist Carlo Rosselli, who wrote a book with this title when he was imprisoned by the Fascists in the late 1920s. See Rosselli (1994) and Publiese (1999). In Sweden, Gustav Möller, party secretary within the Social Democratic party 1916-40 and minister of social affairs (with a minor interruption) from 1933 to 1951, also promoted this idea of an anti-statist, anti-bureaucratic, liberal type of socialism (Rothstein, 1985).
results were similar to those in industrialised western countries: the hypothesis about the dominance of self-interest was not supported (Steinmo, 2018; Stevens, 2019). But there were also quite large differences among the various groups in how much the individuals were willing to share with ‘the other’.

The researchers also measured the degree to which these groups were integrated into market relationships, by measuring how much of their food intake came from goods they bought from other groups. The result, quite surprising for several of the researchers (some with a strong Marxist orientation), was that the more market-integrated these groups were, the less selfish and the more generously they behaved in the experiment. Conversely, the more hierarchically production was organised, the more selfish the individuals proved (Henrich et al, 2004; Henrich, 2001, 2010).

These results indicate that both the ‘left’ and the ‘right’ may have been wrong (for more than 150 years!) about what type of human behaviour markets enhance or engender. Well-functioning markets are probably not as inherently associated with egoistic behaviour as both neo-classical and Marxist economic thinking have taken for granted. Already in 1972, the Nobel laureate in economics Kenneth Arrow (1972: 357) said: ‘Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence.’ For any productive organisation, be it private, co-operative or public, internal trust turns out to be utterly important for efficiency (Miller, 1992; Cohen and Prusak, 2001).

Instead of having any confidence in the market, the left, in Sweden as elsewhere, has staked almost all its political efforts on state intervention. In some areas, such as social services, the regulation of markets and large infrastructure projects, the state has often been quite successful. However, when it comes to production of consumer goods and many services, this strategy has been nothing but disastrous.

One doesn’t need to point to the failure of central planning to make this point—the results of nationalisation of many industries in Britain, for example, after World War II should suffice. The crushing defeat of the British mineworkers under the leadership of Arthur Scargill in the mid-1980s took place in a nationalised industry (Adeney and Lloyd, 1986). One of the most serious labour disputes in Sweden in modern times was the miners’ strike in northern Sweden in 1969. Again, the owner of the mining company was the Swedish state.

The political left ought by now to have realised that, in a parliamentary democracy, the state is a very unreliable ally in achieving social justice. The latest main idea of the left, ‘universal basic income’ (UBI), is a thoroughly statist idea in making everyone a recipient of money from the state. Not only can states

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turn totalitarian—many, even though democratic, are plagued by various forms of populism, corruption and clientelism. As I have argued elsewhere, a UBI would be likely to crush the viability of the many services welfare states ought to produce, create enormous problems when it comes to implementation and thereby destroy the legitimacy of redistributive policies. It is moreover morally indefensible, since ‘more working hands’ are much needed in many areas (in elderly care, for example). It would also not work as a remedy against economic inequality—on the contrary, it would be likely to extend the category Marx (with a surprisingly derogatory term) called the ‘lumpen-proletariat’ (Rothstein, 2017).

**The wage-earner funds killing economic democracy**

The well-organised and strong labour movement in Sweden has not been completely silent about economic democracy. In the 1970s, LO launched the idea of ‘wage-earner funds’. The original proposal was very radical, suggesting that all large companies should put 20 per cent of their profits into union-controlled funds. The main reasoning behind the funds was however not to introduce economic democracy but to handle the problem of ‘excess profits’ caused by the unions’ solidaristic wage policy.

After a decade of intense political strife about this policy, a watered-down version was implemented by a Social Democratic government in 1983. The funds were abolished by a conservative-led administration in 1992 (Furåker, 2015) and the issue has never since returned to the agenda. Even the word ‘fund’ has almost become a term not to be used within the Social Democratic party (Rothstein, 2004).

Wage-earner funds led to one of the most crushing defeats for the Swedish labour movement. The proposal managed to mobilise and unite the often-divided centre-right parties in Sweden and to radicalise the employers’ federation and many other business organisations which had been keen on collaborating in various neo-corporatist arrangements with the unions and the state under Social Democratic leadership (Lindvall and Sebring, 2005).

Moreover, the labour movement lost the battle for public opinion on this issue. When the wage-earner fund idea was introduced, about half of LO members supported the policy but when they were established it was only one in four (Gilljam, 1988). The ideological defeat over the wage-earner funds can thus be seen as the starting point for the end of the dominance of the Social Democratic party in Swedish politics.

The wage-earner funds differ from the more successful Social Democratic reforms (pensions, healthcare, schooling, sickness insurance, paid parental leave ...) in that they were not connected to any specified social rights for the individual and did not cater to citizens in general but to a specific, class-based segment of the population. Nor, contrary

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21 The recent Swedish government commission reviewing the country’s coronavirus policies concluded in its first report that the policy for protecting those in various forms of elderly care had been a huge failure and that much of this could be explained by serious understaffing (Statsens Offentliga Utredningar (Government Public Investigation), 2020:80 Äldreomsorgen under pandemin).

22 As described by Furåker (2015: 122), ‘This policy meant that wages were held down in profitable and expanding industries and increased in less profitable and contracting ones. In that manner it was possible for companies in expanding industries to obtain higher profits than they would otherwise have done. Accordingly, it could be argued that workers subsidized profits in these companies by refraining from using their full strength to achieve wage increases. Wage-earner funds might thus be seen as a method of dealing with the problem of overabundant profits.’
to earlier successful reforms, were they based on the principle of universalism (Rothstein, 2015).

The implications for individual employees working in the companies where these union-controlled funds owned shares were never clear. An empirical study of how the funds operated showed that employee influence through shareholding in companies was insignificant (Whyman, 2004). It was also not obvious how the situation for the employees in the companies where the funds would have a considerable influence through ownership of shares would differ from that in the companies where the funds did not invest. And as argued by Jon Elster (1991: 99), ‘from the point of view of promoting social justice, it seems perverse to give employee voting right only to workers in firms which for some reason happen to be chosen as investment objects for the funds’.

No plan was presented as to the types of company or branches of industry in which the funds would become owners. Nor was there any connection with the individual wage-earner’s economic situation: in the government committee that prepared the policy, the unions and the Social Democratic party said no to any form of individual profit-sharing. It was also unclear what the funds would imply for the individual employee’s possibility to influence her working conditions.

Seen from an ideological perspective, the wage-earner funds where thus a very ‘un-Social Democratic’ type of social reform. The policy would give central union officials ownership power but it was never made clear what this power was going to be used for nor how this would benefit ordinary members. From the perspective of income inequality and economic democracy, as well as from the huge amount of research about which types of social reform are likely to secure broad-based political support, the wage-earner funds were a particularly bad idea. Negative experience with the funds has unfortunately made economic democracy a ‘no go’ area—not only for the Swedish Social Democrats but likely for most social-democratic parties—ever since.

In line with the contract theory of power over the corporation presented above, the main mistake with the wage-earner funds was of course that they were built on the fundamental capitalist idea—that it is ownership of capital that gives power over the corporation. It was by owning capital, not changing the rental agreement between capital and labour, that workers (read central union officials) would get control of their workplaces. As I have argued elsewhere, it is astonishing that over a century and a half of socialist thought have not confronted the basic capitalist idea—that owners of capital have the right of command in the relations of production. The idea behind the wage-earner funds was in fact fundamentally the same idea as that on which capitalism is based—that ownership of capital should give owners the right to command in the production process. Indeed, this is a nice example of what Antonio Gramsci called bourgeois ideological hegemony (Rothstein, 1992b).

Conclusions

As mentioned in the introduction, economic democracy is not an issue on the current agenda in political science. I would therefore like to recall Dahl’s (1989: 327) case for extending the discussion of how
to theorise liberal democracy to the economic arena. It deserves to be quoted at length:

*Why should citizens in an advanced democratic country be concerned with the internal governments of firms? We might better ask: How could they possibly not be? Work is central to the lives of most people. For most people, it occupies more time than any other activity. Work affects—often decisively—their income, consumption, savings, status, friendships, leisure, health, security, family life, old age, self-esteem, sense of fulfilment and well-being, personal freedom, self-determination, self-development, and innumerable other crucial interests and values. Of all the relations of authority, control, and power in which people are routinely involved, none are as salient, persistent, and important in the daily lives of most persons as those they are subject to at work. What governments have such immense consequences for daily life as government of the workplace? Where could despotism work its effects more insidiously?*

Dahl reminded us that, not that long ago, there were claims that political democracy in huge entities such as the nation state was unrealistic and impossible. Democracy, it was argued, could work at the village and parish level but not on such a large scale. Then representative democracy was invented as a solution to the scale problem. There are for sure problems with how to organise economic democracy but, as indicated above, there are now many solutions on the table.

There are many reasons why Sweden should have been a showcase for economic democracy, in the form of employee-owned or managed firms: a country infused with democratic ideology, a strong labour movement, a long history of producer- and consumer co-operatives, high social trust and a vibrant civil society. Moreover, in their extensive analysis of the ideology of Swedish social democracy in this area, Hermansson and Öberg (2012) conclude that there is nothing that would contradict utilisation of contract theory to pursue economic democracy, as presented in this paper. Despite all this, Sweden has comparatively few such companies and very limited institutional support for establishing such firms.

To explain this puzzle, a counterfactual approach was applied—trying to find causes for what had not taken place, though it ought to have happened. Three factors have been identified.

The first, and probably the most important, has been the interests of the strong Swedish trade union movement. One would expect that strong unions would be interested in developing economic democracy. Applying an organisational approach to the unions, however, their negative position towards employee-owned or managed companies is very logical. Such a development would threaten most of the sources of power on which the Swedish union movement is built—in particular, the construction of the many industrial-relations laws which give unions a lot of their power.

This may also be the reason why this form of economic democracy is much more prevalent in the US, a country with a very weak union movement. Thus, we have discovered a paradox: the stronger the working class is unionised, the less likely it is that we shall have economic democracy (or if you prefer liberal socialism).
The second factor has been the political ideology of the Swedish left, in particular its conflation of capitalism and the market-based economy. The dominance of anti-liberal identity politics has probably also played a role in the reluctance of the left to mobilise around the issue of increasing economic inequality.

The third factor is the disastrous experience from the experiment with wage-earner funds in Sweden, from the late 1970s until the funds were abolished in 1992. The construction of the funds was particularly ill-suited for developing broad-based support and political legitimacy for economic democracy. It was the opposite of what characterised the many successful reforms launched by the Social Democrats in building the much-appreciated Swedish welfare state (Svallfors, 2015; Rothstein, 2015). Being based on the fundamental capitalist idea that ownership of capital is what gives the right to power in the corporation, the policy was doomed to fail as a strategy for launching economic democracy.

These three factors can perhaps be important lessons for the future, and for other countries, on how to go about—and how not to go about—establishing economic democracy.
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