

# **The Rise and Fall of the Swedish Wage Earner Funds**

## **A Cautionary Tale**

Ewald Engelen

The Swedish wage earner funds have been one of the few post-war attempts to socialise capital in order to give workers a share in capital formation and a say over corporate decision-making. They did so by obliging firms to hand over part of their profits in the form of new shares to labour-managed investment funds. That was the idea. In reality it never worked that way. From the outset the funds were designed as traditional pension providers, while there never was any actual legal obligation to transfer profits from firm to fund. The ill-fated wage earner funds were dismantled in the early 1990s, while their accumulated assets were distributed among the Swedish public pension funds, thus ending a heroic chapter in the history of Swedish social democracy.

The idea that pension savings as ‘deferred wages’ should be invested in ways that promote the long term interests of workers and citizens, has a long pedigree within the socialist movement. Recently, after two decades of near silence on this topic, a growing number of progressives and academics, as well as some mainstream investment managers, — due to the unhappy combination of a prolonged stock market decline and demographic changes — have found new inspiration in the Swedish attempts of the early-1980s and have started to investigate the possibility to use pension funds to initiate a ‘new politics of ownership’ to overcome the excesses of corporate misbehaviour of the late 1990s and have. These

investigations have resulted in proposals that range from the detailed and well researched to the wild and fanciful. What they have in common, though, is a measure of optimism that has everything to do with the nature of their intentions, for none of the authors pays sufficient attention to the constraints that flow from the objectives of funded pension systems. As such it is rewarding to investigate the cautionary tale provided by the Swedish wage earner funds anew.<sup>1</sup>

### *Democratising the Economy*

The premise that political democratisation in the form of universal suffrage and social democratisation in the form of universal social rights ought to be complemented with economic democratisation in the form of collective capital formation has been one of the ideological mainstays of the Swedish social-democratic movement. The reason why the latter took the form of wage earner funds has to do with the way in which the Swedish system of industrial relations coped — or better: was unable to cope — with the growing tensions between a policy of coordinated wage restraint on the one hand and increasing growth differentials between industries and firms on the other.

Under conditions of full employment and universal wage solidarity, the inevitable growth differentials between industries and firms either result in windfall profits or in ‘grey’ wage hikes and hence in ‘hidden’ inflation. The obvious solution to such a predicament is to

---

<sup>1</sup> Very helpful for making this reconstruction have been, in alphabetical order, the following sources: Meidner, R. (1978) *Employee investment fund. An approach to collective capital formation*, London: Allen & Unwin; *ibid.* (1993) ‘Why did the Swedish model fail?’ *Socialist Register*, 211-228; Pontussen, J. (1992) *The limits of social democracy. Investment politics in Sweden*, Ithaca/London: Cornell University Press; *ibid.* (1994) ‘Sweden: After the Golden Age’, Anderson, P. & P. Camiller (eds.) *Mapping the West European Left*, London: Verso, 23-54; *ibid.* (1997) ‘Between neo-liberalism and the German model. Swedish capitalism in transition’ Crouch, C. & W. Streeck (eds.) *Political Economy of Modern Capitalism. Mapping Convergence and Diversity*, London: Sage, 55-70; Sassoon, D. (1996) *One hundred years of socialism. The West European left in the twentieth century*, London/New York: I.B.Taurus Publishers; Tilton, T. (1991) *The political theory of Swedish social democracy. Through the welfare state to socialism*, Oxford: Oxford University Press.

abolish the policy of wage solidarity across industries and link wage growth to intra-industry productivity growth or even productivity growth at the level of the firm instead. However, that would imply increasing wage inequalities. Moreover, it would mean the dissolution of an instrument of macro-economic management that could be regained in exceptional circumstances only.

Given these considerations, the Swedish social-democrats instead opted for a strategy, developed by the labour economists Gösta Rehn and Rudolf Meidner, that retained the moral principle of 'equal pay for equal work' and the institutions of central wage bargaining, and sought to base wage negotiations on median productivity growth-figures. In this manner two birds could be killed with one stone, for it ensured both a prudent and solidaristic wage development, and enforced an incremental 'rationalisation' of the industrial base of the Swedish economy. For firms that were less productive than the median corporation would suffer higher wage costs than they were able to bear in the long run, forcing them to speed-up 'rationalisation' or go bust, while firms with above average productivity performances would be rewarded with lower wage costs and higher profit margins, enabling them to invest still more in productivity enhancing machinery and higher skills.

It was clear from the outset that such a strategy had to be complemented with an active labour market policy. Hence to facilitate a smooth reallocation of capital between industries, the Swedish government attempted to cushion its effects on workers by supporting them with placement services, schooling and training programs, migration subsidies and public housing facilities. However, this left the problem of above average profits unsolved. Initially this was primarily perceived as a moral issue. Why should

productivity gains benefit capital rather than labour? But gradually it was also seen as an economic issue. For what would detain employers from disbursing these gains — partly at least — as ‘grey’ wages? Doing so would not only endanger the goal of wage solidarity, but also that of economic ‘rationalization’, for in that case above average productivity gains would benefit the demand side instead of the supply side. Hence to avert that possibility, the Swedish government needed an instrument that would preclude consumptive expenditures and would guarantee productive investments. In the original plan of Rehn and Meidner this instrument consisted of a high real profit tax, combined with a number of specialized investment funds that would allocate these taxes according to parametrical and institutional criteria among targeted firms against below-market interest rates. However, in the mid-1960s such proposals proved to be ‘a bridge too far’.

From the mid 1970s onward, the existing labour market institutions started to display increasing shortcomings. First, the creation of new jobs in growth industries was insufficient to compensate the loss of employment in brownstone industries. As a result of worldwide market liberalisation and deregulation, competitive pressures on exporting industries increased rapidly. Both greenfield and brownstone industries reacted by increasing their capital intensity, an accelerated closure of inefficient factories and firms, defensive mergers and acquisitions, and increased foreign direct investment. As a result the policy promise of full employment became ever harder to fulfil, which forced the Swedish government to expand employment in the public sector substantially instead, which, in turn, resulted in higher non-wage labour costs and eroded the competitiveness of the Swedish export industries still further.

Moreover, the Swedish economy was hit hard in the late 1960s by a wave of wildcat strikes

and other forms of labour unrests. These disturbances had to do with three challenges: increasing dissatisfaction with the policy of involuntary wage solidarity; a growing discontent with the skill-eroding effects of Taylorisation; and a gradual displacement of employment from industry to services and within industry from execution tasks to planning tasks. These changes in the job structure of the Swedish economy implied a change in the balance of power between blue-collar unions and white-collar unions.

To face these challenges the social-democratic unions pursued a broad democratisation program that was meant to deflect spontaneous labour protests, to empower labour unions at the level of the work floor, to guarantee union involvement in central wage bargaining, as well as to serve the post-materialist interests of white collar workers in order to co-opt white collar unions. The legislative success of this program was huge. In the span of a mere four years, i.e. from 1972 to 1976, the social-democratic party succeeded in passing a large number of parliamentary acts establishing minority representation of workers on the board of directors, extensive prerogatives for health and safety officers, more protective dismissal procedures and extensive codetermination rights for workers.

### *Socializing Capital?*

In the wake of these successes, the congress of social-democratic unions decided in 1976 to push for the missing link. The so-called 'Meidner'-plan, named after the chairman of the working committee installed at the congress, would finally oblige firms to emit equity on parts of their yearly profits and hand these over to so-called 'wage earner funds' in order to ensure increasing collective control over the investment function and let workers share in the capital gains.

As such, the plan was nothing out of the ordinary. Not only were there historical precursors, ranging from Naphtali's "Wirtschaftsdemokratie" to Gleitze's "Sozialfonds", in other European countries social-democratic parties played around with more or less similar ideas. In the Netherlands and Denmark for example, social democratic parties experimented with capital gains distribution schemes. Moreover, the Meidner-plan clearly betrayed similarities with the better known employee shareowner plans or ESOP's, for both are institutional mechanisms for the redistribution of ownership titles. ESOP's were in fact discussed by the Swedish labour movement at that time, but were ultimately rejected for being too individualistic. For in the case of ESOP's, the entitlements fall to the individual employee and not to workers as a whole. Not only did this run counter to the philosophy of solidarity of the Swedish labour movement, ESOP's also provide only limited possibilities for gaining real influence over corporate decision-making due to obvious collective action problems.

The choice for collective capital formation through wage earner funds was based on four considerations. First, it was seen to strengthen wage solidarity by skimming off excessive profits. Second, it was hoped that it would correct increasing wealth inequality. Third, it was perceived to stimulate productive investments. And fourth, it was thought to give workers a greater say over corporate decision-making. In the original plan, all firms of more than 50 workers were obliged to emit new shares worth 20 per cent of gross annual profit. Local unions would observe the control and income rights of these shares until the workers' share had surpassed 20 per cent of the total capitalization of the firm. If that threshold was reached, the control rights would be shifted to large, dedicated investment fund that would be governed jointly by employers and workers. It was estimated that if firms booked an annual profit of ten per cent, half of the firm would be owned by workers

within 35 years.

It never got that far, however. In three rounds of negotiations the architecture of the original plan was substantially transformed. The emphasis was shifted from redistribution to stepped up investment; the goals of co-determination and control had to be combined with those of pension savings and profit maximisation; capital accumulation through profit sharing was supplemented with accumulation through pension contributions; the handing over of new property titles was replaced by an ordinary profit tax which was used to buy existing equity; these taxes would not be based on gross profits but on net profits, i.e. profits after interest on debts and inflation had been deducted; the ownership titles were to be handled by 24 local funds instead of by one central fund; the management of these funds would not be appointed by local unions but would be elected by the participating workers; and finally, only firms with more than 500 workers would fall under the Act.

In 1983, five regional funds were set up for an experimental period of seven years. These funds were modelled after the so-called 'fourth' pension fund that was set up in 1973 on behalf of the blue-collar union federation and was the sole public pension fund that was allowed to buy stocks. This meant in practice that although the five wage earner fund did have the license to buy, own and sell stocks, these investments were subject to the same restrictions that were applicable to the 'fourth' pension fund, i.e. they were forbidden to practice their control rights actively; they were not allowed to gain a minority share of more than eight per cent; they had to conform to the prudent man-rule; and they were obliged to contribute three per cent of the value of their assets annually to the national system of supplementary pensions.

In 1990, at the end of term, the total value of the public shares in possession of the wage earner funds amounted to seven per cent of the total capitalization of the Stockholm stock exchange. In March 1991, the social-democratic government made a final attempt to save the underlying idea and proposed to realign the architecture of the Swedish pension system and to do away with the organisational and functional distinctions between the wage earner funds and the different public pension funds. The underlying assets would be distributed among five brand new public pension funds that were supposed to contribute equally to the coverage of national pension liabilities.

To deflect an imminent electoral defeat, the social-democratic party opted for a confrontational strategy and added that only 40 per cent of these assets had to be invested in government bonds, implying that the rest — 260 billion Swedish Kroner or the equivalent of almost half the total capitalisation of the Stockholm stock exchange — could in principle be invested as the fund's managers saw fit. However, the strategy backfired and the social democrats had to endure their worst electoral results in 44 years. The following year, the centre-right Boldt-coalition broadly copied the pension proposals of the social democrats, but sharpened the investment restriction: the new funds were obliged to invest 60 per cent of their assets safely, that is in domestic government bonds. In 1992, the ultimate winding down took place of what had been applauded in 1976 as a radical step towards a socialised economy. Thus the idea to use pension savings as a lever to gain workers' control over firms was finally buried.

### *A Cautionary Tale?*

Like any institutional failure, the floundering of the Swedish wage earner funds was caused by a combination of a number of (contingent) factors, such as the lack of public support,

the lack of social-democratic control over the press, the 'baroque' nature of the architecture of the wage earner funds, the disagreement between the blue collar union federation and the social-democratic party over form, strategy and goal of the funds, and finally the inability to forge broad interest-coalitions behind the wage earner funds.

However, there is more to this saga than is generally recognised in the literature. In my view, the failure of the Swedish wage earner funds is as much due to the fact that they were ultimately designed to function as regular pension providers. To appreciate this claim, the following considerations have to be recognised. The first has to do with the extent of internal democracy. If you want progressive output, you will first have to ensure progressive input. Hence questions arise regarding the organisation of collective decision making within the fund. What is the composition of the board of trustees? What are its rights and prerogatives? To whom are board members accountable?

Ideally, boards consist of an equal number of representatives of workers and employers who have ultimate determination rights over investment decisions. In the Netherlands that is legally prescribed, both in public and private funds and in corporate as well as multi-employer funds. In the US however, equal representation is prescribed in the case of multi-employer and public funds only. Corporate pension funds are taken to fall under the *dominium* of the employer. Hence, the employer has fiduciary duties only and is not obliged to share prerogatives with worker representatives. The implication is that American workers have voice over less than 8 per cent of their 'deferred wages'.

In Sweden too pension funds were legally required to grant workers equal or near equal representation on the board of trustees. Even though workers did thus possess substantial

formal control rights, this does not seem to have had much impact on the investment strategies of the wage earner funds. Nor did it result in more ‘politicised’ investment practices than those of conventional investors, neither in terms of professed investment goals nor in terms of actual investment behaviour. The Swedish wage earner funds have comported themselves primarily as investment managers and only rarely as advocates. While eschewing corporate involvement, the funds’ managers appeared to have followed three dominant rules of thumb: risk diversification, long-term commitment, and ‘blue chip’ investments. Within these constraints, the funds aimed to maximise return on investments. As such, the actual investment behaviour of the wage earner funds was indistinguishable from that of conventional investors. Why?

Even if internal democracy is formally guaranteed, effective advocacy is not. Whether assets can be transformed in voice depends on the institutions of corporate governance, the ownership structure of the firm in question, as well as the legal investment restrictions. The first condition is fairly obvious. Whether getting access to the annual shareholders’ meeting is in fact a first step towards gaining control over corporate decision-making depends on the legal rights and responsibilities accruing to ‘owners’. Corporate governance regimes differ widely, both with regard to *complexity* as well as the *locus* of control. Complexity has to do with the number of forums within the corporate political structure, while the locus of control refers to the structuring of the functional relations between the different forums. Some regimes put the board of directors at the corporate political pinnacle, while others reserve that position for the general shareholders meeting or even the board of supervisors. As a result of the inroads shareholder ideology has made during the 1990s, many continental corporate governance regimes demonstrate a tendency to shift the locus of control from the supervisory board to the shareholders meeting, opening up opportunities

to politicise them.

As such, it is unsurprising that pension fund activists have pushed for a more shareholder friendly corporate governance regime. Public pension funds have been instrumental in bringing about ‘the shareholder revolution’ of the 1990s by speaking up for corporate bylaw amendments, more transparent CEO-compensation and written consent in the case of proxy voting. Moreover, pension fund activism has been key in the battle against anti-takeover measures and for a well-functioning ‘market for corporate control’; a matter of fact was has given rise to the ironic observation that the successful politicisation of the shareholders’ meeting has simultaneously erased many of the legal obstacles to downsizing, plant closures and lay offs on which the long term economic security of workers depended.

The second condition is fairly obvious too. When ownership is widely dispersed it is much easier to build up decisive minority stakes than when property titles are closely held. If there is a sufficient spread of titles, as is generally the case in deep and liquid equity markets, a minority stake of 2 to 4 per cent could suffice to gain leverage over the shareholders’ meeting and hence to get preferential treatment over other shareholders in the form of so-called ‘investor’s meetings’ with the board of directors.

The total value of the capital accumulated by the Swedish wage earner funds has never crossed the threshold of 10 per cent of the total capitalization of the Stockholm stock exchange. Even though the legislator had stressed that the funds should fully bear the rights and responsibilities of co-ownership, it had simultaneously issued strict limitations on the share of total outstanding stocks these funds could acquire of any one firm, namely a maximum of 8 per cent. In theory the five wage earner funds combined, together with the

'fourth' pension fund, which was the only one that was allowed to take a maximum share of 10 per cent, could collect up to half of all outstanding shares of any one firm. In practice this required an ability to coordinate and fine-tune, which the funds either did not possess or did not want to exercise. In 1990 their combined portfolios contained only seven publicly quoted corporations in which they had a total stake of over eight per cent. If ownership is sufficiently dispersed, a small stake like that could of course suffice to gain ownership control. However, in Sweden share ownership is generally highly concentrated; most publicly quoted Swedish firms were 'owned' by at least one big 'owner' whose stake surpassed that of the combined workers' funds by at least a third. As a result, the threshold of ownership control proved to be too high for the wage earner funds, limiting the practical value of co-ownership to information gathering and gaining experience with the nuts and bolts of investment decision-making, as well as getting acquainted with the national financial and economic elite. Compared to the real gains in terms of controlling rights of the co-determination act of 1976, this was a truly disappointing result.

Like Sweden, most states have issued legal investment restrictions to protect pension savings and to provide a cheap source of domestic capital for state investments. These restrictions range from a five per cent limit on self-investment and prudent man principles in the Netherlands, the UK and the US — prohibiting pension funds both to put more than 10 per cent of their assets into any one firm and to possess more than five per cent of the total value of the corporation — to fairly elaborate restrictions on domestic and foreign equity and obligations to absorb governments bonds in Austria, Denmark, Germany and Spain. So, even if the requirements of democratisation and access to corporate decision-making are met, legal restrictions on block holding may still limit the ability of pension funds to flex sufficient proprietary muscle to influence corporate behaviour.

However, it is not clear that in the Swedish case these restrictions mattered much. The lack of mutual coordination as well as the gap between the actual and legally permitted minority stakes, indicate that the wage earner funds did not even try to reach the limits of ownership control. The explanation for that, in my view, has to be sought, at least partly, in the objectives of the wage earner funds. Apart from contributing to the restructuring and modernisation of the Swedish economy, the funds were expected to yield ‘sufficient’ returns. However, the legislator had only specified the return requirements, while the restructuring part of the funds’ objectives was referred to only under the abstract heading of ‘long term consequences’. By refraining from quantifying, operationalising and measuring the funds’ contribution to the modernisation of the Swedish economy, the Swedish government provided worker representatives with insufficient juridical power to counter the dominance of the professional investment industry.

Even more important, in my view, for the lack of financial aggressiveness of the wage earner funds has been the obligation to contribute annually three per cent of their assets to the public pension system. Together with the conventional financing formula of bilateral contributions — instead of a unilateral capital gains sharing-scheme — it meant the transformation of worker controlled investment funds in ordinary pension funds, which had to conform largely to the conventions of the fund management industry. This was fortified by the attempt on the side of their designers to gain political and public acceptance for the funds, as well as by the growing visibility and importance of stock markets as a result of the deregulation of capital markets in Sweden in the late 1980s, and the competition between the wage earner funds induced by state-initiated bench marking.

### *The Logic of Funding*

In hindsight it is easy to conclude that conservative investment behaviour is to be expected of worker funds that have been turned into ordinary pension funds. For the 'logic of funding' is such that managing boards — however willing they may be to push for ownership control in principle — have every reason to follow conventional investment strategies and even hand over large chunks of investment prerogatives to the mainstream financial industry. This has everything to do with the conflicting objectives of pension funds more generally. As such, pension funds have four objectives: the minimisation of risks, the maximisation of returns, the minimisation of costs and the maximisation of liquidity. The underlying rationale for these objectives is that they serve the interests of contributors and beneficiaries in a stable, secure and high pension. At the same time, they boil down to investment strategies that do not lend themselves easily to ownership control.

This is obvious for the requirement to diversify risks. Since beneficiaries demand a stable and secure pension, fund managers do well to distribute assets over a large number of asset categories with complementary risk and return profiles, and hence to sacrifice 'social leverage' or 'democratic pressure' for guaranteed returns — with or without legal restrictions.

The same holds for the maximisation of returns. Since surpluses are translated in lower employer contributions in the case of public and multi-employer pension funds, and in substantial pay-backs and/or lower contributions in the case of corporate ones, principals (the sponsoring corporation(s)) have an evident interest in creating an incentive structure that incites agents (trustees) to maximise returns and hence to invest in those asset categories that deliver the highest rewards. From the mid-1990s onward stocks were

increasingly perceived as such, delivering an 'equity premium' over bonds of five per cent and more. Hence, pension funds worldwide invested increasing shares of their total assets in public equity, both domestic and, in ever-larger measures, foreign equity, as long as it was 'blue chip', pushing up equity prices still further.

The combined effects of the requirements to minimise costs and maximise liquidity further fortify the tendency toward conventional investment behaviour. Since pension funds are subject to a life cycle during which the ratio of contributors and beneficiaries gradually changes, they are subject to an incremental transformation of their risk profile and hence will be forced to change their investment strategies rather radically in mid-term, turning the committed, long-term owners of the 1950s and 1960s increasingly into the speculative investors of the 1990s. Driving this process is an increasing need for liquidity, forcing pension funds to invest in the most liquid markets and within these markets to buy the stocks of those corporations that have the largest daily 'free float'. The reason for that is that sell-decisions influence prices negatively, giving funds good reasons to avoid becoming prisoner of their own investments. Hence the preference for well developed asset markets and liquid investments. However, since 'blue chip' firms generally have a highly dispersed ownership structure, the minority stakes of institutional investors will be too small to be turned into voice while the exit-weapon is a priori unavailable.

Finally, there are strong economies of scale involved in the fund management industry. Fund management is extremely costly; costs that are made up of management fees, commissions, membership levies, exchange taxes, search and assessment costs, information costs, etc. The standardisation of services and investment products is one way to keep these costs in check. However, standardisation itself is only worthwhile if there is sufficient

effective demand. As a result, the cost advantage of conventional investment is such, that most pension funds will delegate their investment decisions to a small number of reputable fund managers who will choose for conventional asset categories, in particular 'blue chip' stocks and 'gilt edged' bonds. Turning these small stakes into effective voices requires a level of cooperation that was not forthcoming in the case of the Swedish wage earner funds and is currently, due to evident collective action problems, lacking in the case of large pension funds.

### *Contemporary Lessons*

What was true for the Swedish workers' funds is equally true for contemporary forms of pension fund engagement. These contemporary forms of engagement can be identified as 'advocacy', 'screening' and 'targeted investment'. Advocacy is based on the direct leverage pension funds can have over corporate strategy by becoming major stockholders. However, despite a growing awareness among trustees that their investment decisions have consequences, the investment strategies they pursue are still mostly conventional. In the US, which saw the birth of this type of engagement, pension funds, as noted above, have mainly used their voices to address issues of corporate governance. Since the mid-1990s this type of activism has increasingly crossed the ocean and has turned large continental pension funds like the Dutch ABP and PGGM into powerful carriers of the shareholder ideology that is currently eroding the continental stakeholder regime, which is ironically viewed by many American critics as a paragon of progressivism.

Screening involves the use of social, moral and environmental criteria as 'investment filters'. Despite its popularity, screening too has proven to be too blunt an instrument to have a substantial impact upon corporate behaviour. Having germinated from the counter-culture

of the 1960s with its taste for sustainable growth and civil rights and its distaste for nuclear energy and the military-industrial complex, screening gained public fame in the 1980s as a result of its role in bringing down the South-African apartheid-regime. Currently a little more than 5 per cent of all capital under professional management in the US is part of a socially responsible portfolio, while the screens themselves have become ever more fine-grained, ranging from tobacco, alcohol ('sin screens'), and weapons, to human rights, sweatshops, the environment as well as specific countries known for human rights abuses like Burma and Nigeria. Although no negative effects on investment returns have been observed, neither have there been noticeable positive effects on corporate behaviour. In that regard, screening appears to be subject to the same constraints as consumer boycotts; only in the case of glaring offences of moral norms, catching the eye of public media, will the use of exit rights by investors (or for that matter consumers) affect corporate behaviour. Minor offences — or hidden offences — will remain unpunished. Moreover, the potential effects on corporate strategy, in the form of self imposed 'corporate citizenship charters', should not be overestimated. Without state legislation, social and environmental audits will largely remain public relations instruments and will continue to be contingent upon economic performance, the public attention and the visibility of its wrongdoing.

Targeted investment, finally, requires a much more active stance from pension funds. For in the case of targeted investment, pension funds do not only initiate the activity in which they are investing but also commit themselves to become patient investors, more or less along the lines of the mythical venture capitalist. These activities can be manifold, ranging from community investments and investments in infrastructure to investments in small and medium sized enterprises (SME's) and sustainable development. What they have in

common, though, is their non-tradable nature. In other words, there are no well-developed secondary markets for them. As a result, they tend to be small. For instance, community investing, the big thing in the US where state retrenchment has left many local communities severely underfunded, receives only \$ 5.4 billion from a total of \$ 2,159 billion of socially invested pension savings. And even though many pension funds are increasingly directing capital to intermediate green and ethical funds, in part because of fiscal incentives, the amounts tend to be negligible, while the managers are grappling with a dearth of available investment opportunities, highlighting the difficulties of alternative investment strategies in general and of targeted investment in particular.

There are good cost-related reasons for that. First, the size of unconventional investment opportunities tends to be small, raising the costs of investment per unit. Second, determining the risk and profit-profiles of alternative asset categories requires a thorough, in-depth economic knowledge of the activities in question. Instead, the financial industry focuses only on financial indicators and does hardly at all invest in fundamental research. The assessment of alternative investments will thus have to take place outside the well-known research circuits and requires the establishment of alternative research facilities, which is both difficult and costly. Third, alternative investment opportunities do not fall from heaven but have to be recognised, nurtured, supported and constructed, more or less along the lines of what ‘classic’ venture capitalists do. This requires a local scouting and assessment network — consisting of accountants, lawyers, bank officials, chambers of commerce and industry, labour unions, employer organisations and universities — as well as personalised and informal contacts, and entrepreneurial skills rather than financial engineering ones. If such an infrastructure is not available, it has to be set up *de novo*. Which is, once again, a difficult, time-consuming and hence costly enterprise.

Apparently, pension savings do not lend themselves easily for engagement, in whatever form. Because they are in fact ‘deferred wages’, pension fund trustees see themselves obliged, for good reasons, to invest prudently, that is: minimise risks, maximise returns, minimise costs, and maximise liquidity. Given these objectives, it is only reasonable that trustees delegate their decision-making tasks increasingly to professional financial service providers. Setting up alternative research facilities, or even, in the case of targeted investment, scouting and support facilities, is too difficult, too time-consuming and hence too costly. At the same time, their fiscal and juridical status works against an organizational transformation from ‘guardians’ of pension savings to active allocators of credit, a traditional banking function. For these reasons, pension funds are unsuited to contribute to investment planning, industrial policies, regional development, economic restructuring and sustainable development.