

Bulletin  
of the European Communities

Supplement 6/79

Employee participation in  
asset formation

(Memorandum adopted by the Commission  
on 27 August 1979)

com(79) 190, 28 August 1979

EUROPEAN COMMUNITIES

Commission

This publication is also available in the following languages:

DA	ISBN 92-825-1556-7
DE	ISBN 92-825-1557-5
FR	ISBN 92-825-1559-1
IT	ISBN 92-825-1560-5
NL	ISBN 92-825-1561-3

Cataloguing data can be found at the end of this volume.

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*Printed in the FR of Germany 1979*

ISBN 92-825-1558-3

Catalogue number: CB-NF-79-006-EN-C

## Summary

This Memorandum is the result of work undertaken in the past few years, in close collaboration with experts from governments and the two sides of industry on the basis of a Council (Social Affairs) mandate.

The 24 June 1976 Tripartite Conference has asked Governments and the two sides of industry to take appropriate measures to encourage asset formation by workers and the fourth medium-term economic policy programme has expressed the wish that discussions on this theme take place in 1977 so that specific reforms may be implemented in Member States by 1980.

### Situation and developments in Member States<sup>1</sup>

A number of asset-formation measures are already in effect in all Member States and in some cases have been so for a long time, particularly in the *field of incentives to individual savings and access to home-ownership*: tax benefits, savings premiums, home-building loans, interest-rate subsidies, and so on. These measures have been gradually extended and perfected in almost all the member countries in various forms adapted to national structures, particular conditions and resources: youth savings, home-building saving schemes, indexed saving schemes, and so on.

Further, in certain member countries, *new forms have appeared which are specific to wage-earners* but based on different principles. The most important employ either the formula, negotiated jointly, of a contribution to personal assets granted at a standard rate in absolute terms by the employers and essentially at their cost (German DM 624 Law), or the compulsory formula of *participation in blocked form by wage-earners in company profits* partly financed by governments (French ordinance on employee participation in the growth of undertakings). Various systems of participation on a voluntary basis (but in fact with limited scope) are possible in the Netherlands, in the Federal Republic of Germany and in the United Kingdom. Note should also be taken of the development in France of employee shareholding schemes which are compulsory in certain public undertakings and optional in the private sector. Similar systems, optional only, of shareholding are also in operation in Denmark, in the United Kingdom and in the Federal Republic of Germany.

More recently, the interest shown in these problems by certain governments, political, trade union and professional circles, is evidenced by a number of studies, projects, different opinions and draft laws. Several *proposals*, using more novel formulas for the formation and distribution of assets, have been worked out:

- the Danish Government's 1973 draft bill aims at setting up a central fund for employee participation in investments and profits. This draft bill is in line with a certain form of 'economic democracy' but no final decision has yet been taken;
- the German Federal Government's proposed 1974 legislation concerning asset formation for all employees through participation in company profits by means of a clearing system. Study of this scheme has been temporarily postponed on account of the economic situation and legal and practical difficulties;

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<sup>1</sup> Annex to this Memorandum, 'Incentive schemes to encourage asset formation by employees'.

- the Dutch Government's 1976 programme concerns employee participation in the capital growth of undertakings. Two draft laws embodying radically amended versions of this programme were submitted to Parliament by the present Government in 1978;
- the French Government's 1978 draft law provides for a compulsory distribution free of charge of shares of industrial and commercial companies quoted on the Stock Exchange.

### The mechanics and the conclusions

The section of this Memorandum entitled 'The mechanics of asset-formation policy'<sup>1</sup> is a summary setting out the aims, main problems and fundamental choices involved in the implementation of such a policy.

The mechanics form the basis of the 'conclusions'<sup>2</sup> which do not contain formal proposals from the Commission but set out desirable guidelines for the future, notably in favour of certain formulas or procedures; guidelines which might constitute the starting-point of a wide debate among all interested parties and which might give a new impetus to asset-formation policy at Community level.

The first series of guidelines set out by the Commission should tend to *reinforce the social aspect of incentives to individual savings*:

- fixing income ceilings for the beneficiaries so as to favour mainly the categories of the population whose income is relatively modest;
- substituting savings premiums for tax benefits;
- freezing the savings during five years;
- free choice of type of investments;
- protection of savings against inflation;
- elimination of terms and conditions which hinder the free movement of persons.

The second series of guidelines is oriented towards the *development of systems of financial participation by employees*.

The Commission has naturally advocated the payment by employers of standard contributions in blocked form to their employees on top of earnings — the details being specified in asset-formation agreements.

The most advanced approach, however, would be for employees to share in the profits, growth or capital of undertakings. Such participation could be rendered compulsory by law or be left to free negotiation by the two sides of industry, within a legal framework facilitating application of such a scheme.

This type of scheme could be operated in two ways: the capital amounts in question could be reserved for the employees of individual companies, or a 'clearing' system could be set up. The Commission suggests a mixed formula whereby part of the amounts earmarked for asset formation would be distributed amongst the staff of the undertaking concerned while the other part is paid into one or more collective funds. This formula would avoid overlarge discrepancies between employees of different firms while maintaining the incentive for employees to participate in the life and financial results of their own firm.

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<sup>1</sup> Points 8-46.

<sup>2</sup> Points 47-49.

The Commission is of the opinion that employee participation in productive capital formation constitutes an efficient approach towards the fundamental goal — from a social standpoint — of greater justice in the distribution of total wealth. This asset-formation policy is furthermore a modern means of regulating the economy and of controlling inflation.

The desirable economic strategy in the medium term is the non-inflationary financing of the productive investment necessary for a recovery of economic activity and a return to satisfactory investment levels. If, under those circumstances, employees were asked to accept relatively moderate wage increases to enable undertakings to reconstitute their investment capacity, in return such a policy should be accompanied by employee participation in the formation of productive capital thus brought about.

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## Introduction

1. In the framework of its own Social Action Programme<sup>1</sup> which the Council noted in its Resolution of 21 January 1974,<sup>2</sup> and in accordance with a mandate received earlier from the Council, the Commission has drawn up a report on 'Incentive schemes to encourage asset formation by employees'. This purely descriptive document, which is annexed, lists the various schemes in existence or proposed in Member States, offered either to the population at large or to modest income groups (access to home ownership, savings schemes, etc.) or more specifically to employees (standard contributions to personal assets, profit-sharing, shareholding, etc.). It became, in fact, apparent that the study could not be limited solely to schemes specific to employees since the latter category could benefit, just like any other person, from the more general schemes offered either to the population at large or to the modest income groups of the population.

The section of this memorandum entitled 'The mechanics of asset-formation policy' is designed as a summary and a guide, which sets out the aims, main problems and fundamental choices implied in the implementation of such a policy.

2. It is worth recalling that the importance of the objectives, both social and economic, of an asset-formation policy has already led the Council and the Governments of the Member States to consider, ever since the first medium-term economic policy programme adopted on 11 April 1967, that an effort in this direction, could make it possible to reconcile workers' aspiration to receive a greater share of production with the requirements of investment.<sup>3</sup>

In the second programme adopted on 12 May 1969<sup>4</sup> it is stated that 'all Member States of the Community should pursue active assets policies, account being taken of the particular circumstances of each country'. The third medium-term economic policy adopted on 9 February 1971,<sup>5</sup> underlines, among the general objectives of social development felt to have priority in all the member countries 'greater justice in the distribution of income and wealth'.

In the fourth programme<sup>6</sup> (1976-80), adopted on 14 March 1977, it is, on the other hand, stated that 'greater participation of wage and salary earners in asset formation should be encouraged, though this

should not have the effect of harming investment. Such a move could be based on profit-sharing schemes (by distribution of stock or other forms of assets) or 'investment wage' (in which part of the wage or salary is put into savings and reinvested). More generally an active policy to encourage household savings by means of various incentives (premiums, saving schemes, etc.) would improve the conditions for financing investment, at the same time contributing to the establishment of a better social consensus.

3. In this general context, it is necessary to underline the importance of the second tripartite conference on the subject of restoring full employment and stability in the Community, held on 24 June 1976 and attended by representatives of governments, the two sides of industry and the Community. The conference reached a consensus on several basic objectives, and the Joint Statement<sup>7</sup> adopted at its close stipulates, in particular, that 'governments, employers and labour will take appropriate measures to promote workers' interests and their participation in the life of undertakings'.

While recalling this undertaking by governments and the two sides of industry, the foreword to the fourth medium-term economic policy programme (already quoted) expresses the wish that discussions on the question of asset formation be held during 1977 and that specific reforms be implemented in Member States by 1980.

4. Moreover, very positive attitudes have been expressed on several occasions by the European Parliament, in particular:

— in its Resolution of 28 November 1968,<sup>8</sup> in which it expresses the wish that asset formation be promoted by getting large sections of the population to participate in the profits of undertakings and in the constitution of assets and suggests that a study-group be formed to assemble all the data and

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<sup>1</sup> Supplement 2/74 — Bull. EC.

<sup>2</sup> OJ C 13 of 12.2.1974.

<sup>3</sup> OJ 79 of 25.4.1967.

<sup>4</sup> OJ L 129 of 30.5.1969.

<sup>5</sup> OJ L 49 of 1.3.1971.

<sup>6</sup> OJ L 101 of 25.4.1977.

<sup>7</sup> OJ C 173 of 28.7.1976.

<sup>8</sup> OJ C 135 of 14.12.1968.

knowledge available in this field with a view to making specific proposals;

— in its Resolution of 13 June 1972,<sup>1</sup> where it 'insists on the fact that an incomes policy cannot be effective unless it is accompanied by a policy whereby large sections of the population are favoured in asset formation and whereby would be avoided an excessive concentration of assets in the hands of a few'. In this same Resolution, Parliament, 'invites the Commission to encourage Member States to take measures which show progress and coordination at Community level in the field of asset formation';

— and in its Resolution of 24 April,<sup>2</sup> where it 'considers it necessary for housing policy to facilitate home ownership' and 'hopes that conditions will be created for a policy of individual asset formation for workers, including a share in production capital — not necessarily in the same undertaking'.

5. The importance of the problems inherent in an asset-formation policy, which is a truly controversial and difficult field, justifies the analysis of these problems at Community level by the departments of the Commission at the Council's request. In fact, an over-diversified implementation of the various aspects of this policy could cause problems, for example, in respect of the free play of competition in the common market, of the free movement of persons, services and capital, etc. When considering certain of the more advanced recent proposals based on the principle of worker participation in profits, capital growth or the capital of undertakings, with or without the institution of an 'inter-trade fund', one can imagine the repercussions on investors' decisions that would follow if their realization were limited to certain countries, notably the transfer of profits and flight of capital to other countries which would ensue. Again, on the social front, although it is possible (it has actually been introduced already) that certain countries may move in that direction, transition to subsequent more effective stages is inconceivable unless all Member States of the Community move in the same direction.

Now that all these problems, at least in certain countries, are the subject of proposals, projects and discussions, it is particularly appropriate that ideas and objectives should be considered at Community

level. The value of formulating a Community concept of a genuine asset-formation policy needs to be highlighted. At this level the main approaches and guidelines for a general framework could be drawn up. This framework must be consistent but at the same time provide for a measure of flexibility to enable Member States to take their national situation and traditions into account.

6. It must be remembered that, in a previous memorandum entitled 'Employee participation and company structure' devoted essentially to the participation of employees in decision-making bodies of undertakings, the Commission has already taken a first step in analysing the problems concerned with share-holding and participation in company profits.<sup>3</sup>

Furthermore, the Second Council Directive (77/91/EEC) of 13 December 1976 on coordination of safeguards which, for the protection of the interests of members and others, are required by Member States of companies within the meaning of the second paragraph of Article 58 of the Treaty, in respect of the formation of public limited liability companies and the maintenance and alteration of their capital, with a view to making such safeguards equivalent,<sup>4</sup> already includes a provision specifically intended to facilitate worker participation in the capital of undertakings. Member States may in fact waive certain provisions in the Directive — regarding payment for shares issued for a consideration at the time the company is incorporated or following an increase in capital, acquisition by a company of its own shares, increases in capital and exercise of the pre-emptive right of existing shareholders — provided such action is necessary for the adoption or application of arrangements designed to encourage the participation of employees in the capital of undertakings.

7. Finally, within the general framework of the gradual realization of economic and monetary union, the development of employee participation in asset formation is justified, not only by an economic approach in view of the wished-for investment growth but also by a social approach where

<sup>1</sup> OJ C 70 of 1.7.1972.

<sup>2</sup> OJ C 127 of 21.5.1979.

<sup>3</sup> Supplement 8/75 — Bull. EC.

<sup>4</sup> OJ L 26 of 31.1.1977.

the main objective is a fairer distribution of the wealth generated by undertakings.

In fact, after the serious economic crisis which has affected all EEC countries in 1974-75 and which has not yet been brought under control, the basic strategy which should be considered in the medium term is the non-inflationary financing of the productive investment necessary for a recovery of economic activity and a return to satisfactory employment levels. To this end, acceptance of relatively moderate salary increases to enable undertakings to reconstitute their investment capacity should in return be accompanied by employee participation in the formation of productive assets thus brought about. It is vital that the two problems be dealt with simultaneously; otherwise high wage claims might be made and the prospects of a balanced and non-inflationary economic expansion could well be jeopardized.

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**The mechanics of asset-formation policy**

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## Chapter I

### Asset-formation policy: Definition and objectives

#### Definition

8. In view of the great diversity of the systems existing in the Member States, the first question to arise at Community level was that of determining the precise scope of the study on the soundest possible basis. This was a difficult task and the Commission's main concern was to avoid a dogmatic approach and allow for a degree of pragmatism. Sometimes, however, it was hard to reconcile apparently conflicting concerns or aims.

9. Starting with the expression 'incentive schemes to encourage asset formation by employees',<sup>1</sup> the initial tendency was to broaden the scope of the study and the following points were chosen:

- not only the schemes specific to wage-earners but also the more general ones offered either to the population at large or to certain low income groups and from which the wage-earner, like anybody else, is entitled to benefit;
- not only the forms of encouragement in the strict sense, i.e., those aimed at promoting saving by individuals or households, but also the forms in which no previous saving is demanded of the beneficiaries and where payments are made only by the employer or the Government;
- exceptionally, and although they do not constitute an 'asset' in the strict sense, or blocked savings, the different sight deposits with savings banks whenever these are subject to a measure of encouragement — the reason being that these deposits often constitute a first essential stage leading to genuine formation of more stable assets.

10. There was, however, an opposing point of view, e.g. to keep the scope of the study relatively narrow, excluding, in particular, the following:

- general measures relating to the capital market, bank deposits, the protection of shareholders, pre-

ferential tax arrangements for investments at risk, etc.;

- measures relating, not to the formation but to the transfer of assets, for example, death duties;
- forms which tend to favour the occupation as such, for example, aids to set up small agricultural holdings or subsidies for artisans for the purchase of machine-tools, etc.;
- forms of participation or profit-sharing where wage-earners receive *immediate cash payments*;
- the whole area of statutory and contractual social security systems which is very specialized and is covered by other studies.

11. The upshot at Community level of all these considerations, which are described in greater detail in the Annex, was an 'asset-formation policy' concept fairly close to that current in the various member countries. It comprises all the specific measures whose objective is essentially social, but also economic, oriented to encouraging the formation of a body of rights which are relatively stable and which do not constitute an instrument for the occupational activity of the persons concerned. This concept includes incentives to constitute assets in the form of deposits and securities as well as real property.

12. It must be noted, however, that a delicate problem was raised concerning the link between asset-formation policy and worker participation in the management of undertakings or more generally in economic power.

There was a tendency, particularly among trade unions, to consider that *different aspects of co-management* should be included in the present report, while others, all the employers' organizations and most Governments were against such inclusion.

It cannot be denied that there is a link between certain forms of 'financial participation' by workers in the undertaking's profits and their participation in the management of their own undertaking. This is particularly true in the case of free distributions of shares or their purchase at preferential prices ('share participation' policy). It is also true when sums

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<sup>1</sup> See Annex to this Memorandum.

allocated to the staff in a profit-sharing framework (or contributions to personal assets paid by the employer) are invested as shares in the undertaking concerned. A wider view of the question would also show that when a worker invests his savings in shares of various companies he acquires the same rights as any other shareholder. Some people believe that even if these various routes towards participation in management are not really important and effective, especially in view of the relatively small sums of money involved, they should not, however, be considered negligible.

Regarding more recent plans — among other things, the proposal for the creation of 'inter-trade funds' financed by a share of company profits and administered or co-administered by trade unions, stress has been laid on the importance this form of asset-formation policy could have as an effective strategy to bring about co-participation in management and economic power.

Whilst appreciating the force of the arguments put forward in favour of including the question of 'participation in management' in this report, however, the Commission deemed it preferable to exclude it. As a matter of fact, the Commission has always considered that, independently of whether shares were held by the staff or profits were shared out, the right of workers to participate in decision-making at undertaking level (co-decision or co-management) was justified by the mere fact that wage-earners, constituting the factor 'labour' participated at least as much in the function of 'production' of the undertaking as the shareholders who constitute the factor 'capital' (the role of 'management' not being yet at issue).

All the same the Commission departments had to avoid duplication especially as the question of worker participation in the management of undertakings has been and still is being considered in Community initiatives and studies in another framework.<sup>1</sup>

Furthermore, both the section describing the schemes and the section covering the mechanics of the policy deal with the same subject, namely *asset formation*, and some of the types involved (for example, access to home-ownership) have nothing to do with participation in management.

## Principal objectives

13. Among the numerous objectives which could be pursued by an 'asset-formation policy', the Governments and the two sides of industry at national and Community level acknowledged that priority ought to be given to the social objectives, more particularly to the most important among these, namely a more equitable distribution of wealth, which, at present, is much too unevenly divided.

The intention is not, however, to seek to achieve greater equity by a redistribution of existing assets, but rather by allocating the fruits of the year's productive activity in a different way, to benefit those who have been less favoured up to now.

Following this general line, the aim is to be able to ensure for everybody a certain degree of financial independence and greater security in the face of the multiple hazards and burdens of life, which are still far from being entirely covered — quite apart, of course, from an adequate level of income itself — by statutory or contractual social security systems, budget transfers, collective consumption and investment, etc. Moreover in our society, a sense of individual responsibility, supported by a certain amount of assets offering genuine possibilities of personal accomplishment should be preserved and as far as possible reinforced.

One social objective whose very great importance must also be stressed, and which in a way is integrated with the first, is to enable an increasing number of households to become owners of their dwellings.

In this context, the principle of participation, in the form of frozen assets, of wage-earners in the profits,

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<sup>1</sup> See in particular:

— proposal for a Council Regulation on the Statute for European companies, presented by the Commission to the Council on 30 June 1970 (together with the amended proposal transmitted to the Council on 13 May 1975; OJ C 124 of 10.10.1970; Supplement 8/70 — Bull. EC and Supplement 4/75 — Bull. EC);

— proposal for a fifth Directive to coordinate the safeguards which are required by Member States of companies and concerning the harmonization of the structure of limited liability companies, presented by the Commission to the Council on 9 October 1972; OJ C 131 of 13.12.1972 and Supplement 10/72 — Bull. EC;

— the already quoted Memorandum of the Commission concerning 'Employee participation and company structure'; Supplement 8/75 — Bull. EC.

growth and capital of undertakings is in question and will be of even more relevance in the future.

14. Implementation of such an assets policy is also calculated to respond to essential economic objectives designed chiefly to:

- ensure the overall level of saving necessary for the financing of investments;
- obtain greater participation of households in overall saving;
- steer household savings more in the direction of medium and long-term investment;
- re-establish and maintain relatively stable prices by reconciling income trends with the sought after balance between consumption, savings and investment.

Asset-formation policy, therefore, constitutes a modern method for regulating the economy.

15. Social and economic objectives have again come together in the struggle for the redistribution of the fruits of production. Implementation of an assets policy could considerably change the instruments used hitherto for income redistribution. Instead of trying to attain the objectives solely by measures affecting incomes in money terms, in particular wages and salaries, the two sides of industry and the public authorities could affect income redistribution by having more recourse to the instruments available under an asset-formation policy. Thus the possibilities of achieving greater equity in income redistribution will be increased without jeopardizing general economic equilibrium, more specifically the level of prices and the value of money.

## Chapter II

### Trends and problems relative to existing systems

16. It is normal and even desirable that there should be a variety of incentive schemes for voluntary savings by individuals and households in the Community and in each country. Such schemes may aim at the whole population, modest income groups, wage-earners alone or, sometimes, certain special categories, such as civil servants, or, when the main concern is educational, young people. The types of saving which benefit from aid measures are themselves very varied: sight deposits, blocked accounts, insurance, fixed-income securities, investments at risk, purchase or building of a dwelling, etc.

When the ultimate aim is essentially social, the various asset formation schemes may be reserved for the relatively less well-off groups in the population, whether wage-earners or not.

In certain countries, apart from these *systems with a social purpose, which in essence correspond to the concept defined in the previous chapter*, it proved useful, with a view to more specifically economic objectives, concerned for example, with the financing of investments, to adopt still more varied incentives to save aimed at higher income groups with a strong propensity to save. It should, however, be kept in mind that too many and varied incentives could prove excessively costly as a whole, and at the same time fail to provide adequate and effective individual advantages.

*With respect to the incentive schemes dealt with in this Memorandum*, a review will be made of the main problems that have arisen in the course of implementation or which remain to be solved before attaining the stated aims.

### Information

17. First, it must be admitted that in most Member States, the public lacks information concerning the many terms and conditions of these systems. There are often considerable differences between them in one and the same country as regards conditions of

access, time-limits, tax or other facilities, etc. This is why it has been suggested that a publicity campaign be mounted or intensified in the Member States to give prospective beneficiaries better and more complete information.

## Ceilings

18. It has been noted, regrettably, that certain forms of encouragement to savings of liquid assets and accession to ownership sometimes largely benefited persons in a relatively high income bracket. In such cases, the proposed schemes achieved only a slight shift — towards formulas which are often very costly for the public authorities — of savings which to a large extent would doubtless have been made in any case. This is why from the standpoint of the essentially social objectives of an assets policy, the idea arose of fixing a ceiling on the saver's income, or on the amount saved under the scheme, or on the advantages granted.

19. To restrict the effects of the financial incentives to the social categories for which saving is the most difficult, the most effective method would probably be to set a ceiling on the eligible income level.

For this purpose, the figure for taxable income is usually adopted. Different ceilings are often fixed for single and married persons. Ceilings can also be raised to take dependent children into consideration. Further, the level of ceilings is often periodically revised to take account of changes in the cost of living or a general rise in income.

In considering the taxable income it must be remembered that in certain member countries, and in varying degrees, the incomes declared by certain categories of tax-payers may be appreciably lower than those actually received.

20. From the same angle, it would seem necessary to recall another limiting condition already applied in certain Member States with respect to a few forms of aid, for example for access to home-ownership, the amount of liquid assets and real property already held by the saver is considered in relation to his income level.

## Incentives

21. The main measures taken by governments in favour of the beneficiaries of incentive schemes are capital premiums and tax exemptions or relief. Here again, however, tax relief on income in practice generally favours the relatively high income groups. Consideration must be given to the fact that in certain countries a sometimes, considerable proportion of individuals do not pay any tax on their incomes, as these are exempted or not declared because they are too low. Further, since tax schedules are progressive, tax allowances are more significant on income at the upper levels, where tax rates are highest.

In addition, it is clear that, although the desire to save really exists among those with small, or even very small incomes, the financial possibilities of many of them are still too limited to allow of such saving in practice, particularly if this difficult effort does not benefit from any incentive, or if the incentive offered is too low in relation to tax exemptions.

This is why premiums have been substituted for tax allowances in some significant cases in the last few years (for example, the DM 624 Law in the Federal Republic of Germany).

The method of granting premiums also allows for greater flexibility to take account, if it is considered useful and desirable, of the amounts saved, the first instalments benefiting from higher premiums, which then gradually taper off to become zero at the ceiling for aided savings mentioned in point 18 above. The same flexibility is also possible if it is desired to modulate the rate of the premium, as is already done in certain countries (for example, in Belgium for building grants) depending on the saver's family responsibilities or differences in income, a higher premium being reserved for incomes below a certain ceiling. The premium system also has the advantage of providing a clearer picture of government financial efforts in this regard than figures based on the loss of revenue resulting from tax exemptions.

## Blocked savings

22. Since asset-formation policy has to aim at the constitution of a relatively stable system, savings

must be frozen for a given period to qualify for aid from the public authorities. This requirement can be met either by the nature of the investment, for example, the acquisition of a dwelling, or in the case of liquid assets by imposing a freeze. A period of five years is at present generally applied in the Member States, which seems reasonable in view of the wish to promote medium or long-term investment. It is clear, however, that the extent of the concessions granted must be linked to the period for which the assets are frozen; specific provision in this respect is made under several existing schemes. For example, where aid is relatively small a five-year period may be excessive. Moreover, it would be more difficult for individuals and households to accept a long freeze when inflationary pressures are growing and are not compensated for.

23. Various grounds for releasing funds at present exist in the Member States, varying with the individual scheme. The main grounds are marriage of the person involved, cessation of occupational activity, particularly in the event of invalidity or retirement, decease of the saver, etc.

Extension of the grounds for the release of funds is a means of interesting wider sectors of the population in constituting assets. Utilization of the sums invested without loss of the advantages acquired, particularly the premiums, should be possible when a genuine need arises; for example, serious illness, decease of the spouse or a child, expenditure on vocational training and retraining, emigration, etc. Further, greater flexibility could also be envisaged in justifiable cases, less serious than those mentioned above, but subject to a partial loss of the advantages acquired. It would seem advisable to reconcile the principle of relative stability of savings under an asset-formation policy with the wish of persons in modest income groups to be able to have access, in case of need, to the money they have saved and invested.

24. As already indicated in point 9, the only exception to the principle of the constitution of stable property rights concerns sight deposits with savings banks which are a different form of investment.

These non-blocked forms of saving can and do play a very important role among categories of the population with relatively modest incomes by developing

their propensity to save. In addition to their obvious social role for the acquisition by households of semi-durable goods, these types of liquid saving often constitute a first stage in longer-term investment in assets in the form of deposits and securities or real property.

## **Types of investment encouraged**

25. Under the heading of asset formation, it should be possible to authorize all types of investments provided they are relatively stable, taking account, of course, of the special case of savings deposits just mentioned. It follows from this that beneficiaries of the aid measures should have the greatest freedom of choice of investment.

Certain departures from this principle of neutrality, however, may appear desirable, justifying selective encouragement, with respect either to investment in deposits and securities or real property.

26. Thus, for example incentives could be introduced to stimulate investment in deposits and securities if the country concerned is encountering difficulties in financing productive investments.

Similarly, privileged treatment could be given to the purchase and construction of a dwelling if there were any difficulties in this field. In this respect, particular stress should be laid on the special appeal, among other types of investment, of access to home ownership which, apart from the security it gives savers as regards the real value of the investment, answers a deeply felt social need, even — and sometimes particularly — among the relatively modest income groups of the population as is shown by the success of recent and more advantageous savings for home-ownership schemes.

Apart from the legitimate and to some extent traditional aspiration (of a psycho-sociological order) of households to have a 'roof of their own' this success may be attributed to the realization that since in some cases rents have reached a relatively high level compared with available resources they are sometimes on a par with the monthly payments on housing loans.

It should be stressed that at the present time saving in the form of real property has many advantages. It

stimulates the building industry which is a particularly important sector on account of its multiplier effect on the economy and the fact that it is labour intensive; secondly, an increase in the number of house-owners who have a vested interest in their upkeep would contribute to the improvement and maintenance of the quality of the housing stock.

Care should, however, be taken to ensure that a policy for access to home ownership (the prime driving force of savings) is not deflected from its social purpose, and that the financial efforts of the government do not benefit those with relatively high incomes by enabling them to acquire luxury homes, blocks for letting, second homes, etc.

Moreover it is also clear that the schemes in question should be integrated in a general but 'modulated' housing policy where particular account would be taken of the requirements of the population for low-cost rented accommodation. Further several accompanying measures would need to be taken (for example, 'clearing offices' for the exchange of housing) to facilitate labour mobility.

### Conditions for effective Incentive schemes

27. The search for effective incentive schemes to promote voluntary saving, particularly in respect of the general objectives laid down at the beginning of this report, implies the need for a deliberate assets policy of sufficient scope and continuity in the medium and the long term. Only results built up over the years can make any impression on the present rigid ownership structures.

28. Other conditions, however, concerning the general economic and social policy, must also be fulfilled if the measures to encourage savings are to be truly effective.

Although outside the scope of this report, the most important conditions should, however, be mentioned:

— implementation, whilst, of course, respecting the autonomy of management and labour, of an incomes policy to ensure all workers a decent income;

— consumer protection and information particularly to enable them to make the best possible use of their resources;<sup>1</sup>

— last, but not least, implementation of a coherent policy to combat inflation.

29. The last condition is particularly important for, without a policy of relative price stability, and therefore monetary stability, any policy to encourage individual saving is doomed to failure. In periods of accelerated inflation, savers' efforts are largely wiped out by currency depreciation. The real value of interest paid can actually become negative in that it will no longer even compensate for the capital loss due to currency devaluation despite a sometimes quite substantial increase in interest rates in real terms.

The saver's first concern is to protect his assets. It should be possible to give a reliable guarantee *at least to the modest income groups*, so that *medium and long-term savings* may keep their real value. Protection could be achieved by *for example*, indexing the value of the capital in money terms or by aligning savings premiums with inflation. Such formulas should not, however, deflect public authorities from their fundamental objective: the implementation of a truly anti-inflationary policy.<sup>2</sup>

### Employers' contributions and wage earners' savings

30. Generally speaking, under present conditions, the various problems and guidelines referred to up to now relating to certain basic choices as regards incentive schemes, for individual savings and access to home-ownership can be applied, *mutatis mutandis*, to specific schemes for wage-earners.

31. Given the generally recognized fundamental objective of asset-formation policy — a more equitable distribution of wealth — and keeping in mind

<sup>1</sup> Council Resolution of 14 April 1975 on a preliminary programme of the European Economic Community for a consumer protection and information policy (OJ C 92 of 25.4.1975).

<sup>2</sup> Communication from the Commission to the European Parliament entitled 'The protection of savings in times of inflation and the question of indexation' — COM(77)549 final of 10 November 1977 (in particular pp. 59-63).

that even with government incentives saving is difficult if not impossible without a decent income, there is a tendency for schemes specifically aimed at workers to move away from the principle of stimulating individual savings, the basis of the schemes discussed earlier, and instead to introduce 'asset formation allowances' paid by the employer.

In the Federal Republic of Germany, where a deliberate assets policy was set up early on and made effective, many of the collective agreements concluded in the framework of the 'DM 624 Law' no longer treat employers' contributions as complementary to or conditional on personal savings by the worker. These standard capital grants paid regardless of the level of earnings equally to the entire work force covered by each collective, agreement, will increasingly constitute a substantial contribution to the formation of workers' assets. A similar but a much more limited system has been implemented in the Netherlands. Nor did the French Ordinance of 1967, instituting a compulsory scheme for wage-earners' participation in the growth of undertakings, make the grant of such amounts conditional upon prior saving by the workers.

32. There is no reason, however, why workers who so desire, should not add their own payments, saved from wages, to employer's contributions to capital. In this case, as already exists in certain countries, a link could be established with the general savings incentive scheme or schemes to enable such workers to benefit also from the financial advantages offered by governments, provided, of course, that they comply with the conditions of the general schemes.

### **Asset formation and improvement of statistics**

33. With respect to statistics, more effort must be made to collect data about the results of the various asset-formation schemes. At present there are still large gaps in this field, as was noted during preparation of the Annex. These data should cover the amounts committed each year to asset formation, including voluntary and 'aided' savings by households, employers' and government contributions, taking account of the socio-economic categories and the income groups of the beneficiaries, the various

forms of investments chosen: sight deposits, frozen accounts, construction and purchase of dwellings, shares, bonds, etc. It would also be desirable to have these basic data, particularly those covering gross capital formation, transfers and other financial operations grouped and presented together at national and at Community level, in the 'European system of integrated economic accounts' (ESA) and the 'social accounts'.

Such statistical information would make possible a more precise evaluation of the effectiveness of the asset formation schemes in relation to the various economic and social objectives pursued: effects on the total level of savings and household savings, orientation of savings towards medium and long-term investment, structural changes in the ownership of capital and property by socio-economic categories and income groups, etc.

34. With regard to the last point, note must be particularly taken of the need to work out a Community outline for personal asset accounts. In line with this objective, the Commission has asked independent experts to make a preparatory study setting out all the statistical data at present available nationally regarding the level and structure of assets held, specially those in the hands of households (holdings of real assets and financial assets). With a view to seeking a solution to the numerous difficulties, whether conceptual or practical, which still beset the preparation of statistics and personal assets accounts, the experts have been asked to suggest ways and means of improving the present situation. It must, however, be noted that progress cannot but be relatively slow as there are considerable technical and political difficulties in this area.

### **Asset formation and free movement of workers**

35. Article 7 of the Regulation of 15 October 1968<sup>1</sup> lays down that 'a worker who is a national of a Member State may not, in the territory of another Member State, be treated differently from national workers by reason of his nationality in respect of any conditions of employment and work, in par-

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<sup>1</sup> OJ L 257 of 19.10.1968.

ticular as regards remuneration'. He shall enjoy the same social and tax advantages as national workers. Article 9 lays down that 'such worker shall enjoy all the rights and benefits accorded to national workers in matters of housing, including ownership of the housing he needs'.

The expression 'social and tax advantages' must be interpreted in such a way as to include not only the advantages connected with the exercise of paid employment, but all the advantages offered to wage-earners, even if they are not exclusively reserved to the latter. Consequently, asset-formation schemes cannot lay down limiting nationality conditions where nationals of EEC countries are concerned.

36. Other requirements, however, whilst not constituting actual legal 'discrimination' can turn out to be stumbling blocks in the way of free movement.

Refusal to grant financial advantages for access to home ownership when the dwelling is not on national territory can be cited as an example. As certain national housing policies aim to increase the number of available dwellings in the face of scarcity, this restriction seems justified, at least where building or purchase premiums, loans and interest subsidies are concerned. *An exception to this restrictive principle* should, however, be possible in the framework of a *housing savings contract* when the amounts saved are used to acquire a dwelling in another Member State. The loss of every advantage would appear in this case to be an excessive penalization which does not take account, in particular, of the possibly considerable period during which saving was effected. *These schemes also provide for very long freezes* which are sometimes additional to payments which have had to be made over several years. The worker who wishes to leave for another Member State can encounter two sorts of difficulties. He may find himself obliged, by reason of the freeze, to leave in the first country amounts which could be very useful to him, or, if he wishes to continue the payments plan he may be prevented from doing so by a residence or other condition and lose the advantages for which he made sacrifices for many years. Two solutions could be envisaged: firstly, accept emigration, as this has already sometimes been provided for, as one of the grounds for early release without loss of the advantages acquired and, secondly, authorize the continuation of the

payments without loss of the advantages, even if certain conditions of participation in a scheme in particular residence, are no longer fulfilled.

37. Similarly, persons who, under the right of establishment, move within the Common Market for the purposes of exercising a self-employed occupation may be confronted with the same problems. In exactly the same way as wage-earners, they will be able to participate in the schemes offered to residents and will meet the same difficulties on return to their country of origin or emigration to another Member State.



### Chapter III

## Development and prospects of asset-formation policy

38. A number of asset-formation measures are already in effect in all Member States and in some cases have been so for a long time, particularly in the field of incentives to saving by households and access to home-ownership: tax benefits, savings premiums, home building loans, interest rate subsidies, etc. These measures have been gradually extended and perfected in almost all the member countries in various forms adapted to national structures, particular conditions and resources: youth savings, home-building saving schemes, indexed saving schemes, etc.

Further, in certain member countries, new forms have appeared which are specific to wage-earners but based on different principles. The most important employ either the formula, negotiated jointly, of a contribution to personal assets at a standard rate in absolute terms by the employers and essentially at their cost (German DM 624 Law), or the compulsory formula of participation in blocked form by wage-earners in company profits, partly financed by the government (French Ordinance on employee participation in the growth of undertakings). Note should also be taken of the development in France of employees shareholding schemes which are compulsory in certain public undertakings and optional in the private sector.

39. These efforts have produced far from negligible results with respect to household saving, access to home ownership and asset formation by wage-earners at undertaking level.

It must, however be noted, at Community level, that there are certain member countries where little has yet been achieved in the field of asset formation specific to wage-earners. Moreover, even in countries most advanced along the road towards an assets policy, there is still a long way to go before the ultimate goal of a more equitable distribution of wealth is achieved.

For this reason asset-formation policy still is, at least in some Member States, the subject of consid-

erable study, research or discussion. Several projects using formulas permitting a wider scope for the formation and distribution of assets have been worked out, in particular:

— the Danish Government's draft bill of 1973 aims at setting up a central fund for employee participation in investments and profits. This draft is in line with a certain form of 'economic democracy' but no decision has yet been taken;

— the legislation proposed by the German Federal Government in 1974 concerns asset formation for all employees through participation in company profits by means of a clearing system. Study of this scheme has been temporarily postponed on account of the economic situation and legal and practical difficulties;

— the Dutch Government's programme of 1976 concerns employee participation in the capital growth of undertakings. In 1978 two draft laws containing radically amended versions of this programme were submitted to Parliament by the present Government;

— the French Government's draft law of October 1978 provides for a compulsory distribution free of charge of shares of industrial and commercial companies quoted on the Stock Exchange.

With this general background, the main types of scheme that could be supported by the Community to promote worker participation in asset formation will be examined on the basis of a review of the most significant achievements and the best prospects for success.

### Standard contributions to personal assets

40. The scheme whereby standard contributions to personal assets are paid by employers to their workers has several advantages which are worth stressing. Firstly, in its recent form, no prior saving is required of workers, which makes the scheme particularly attractive to low-income groups. Secondly, the amounts attributed are equal for all the beneficiaries in the same undertaking, or even the same branch, and this too is an advantage to the

low-wage groups. This formula also helps to inculcate a taste for saving in strata of the population where this habit is generally not very widespread.

Such schemes could be established by an outline law whereby the two sides of industry would have the possibility of concluding agreements on asset formation. The legal instrument should in particular lay down the maximum annual amount of contributions to personal assets which could be matched by government contributions; the amount, which would have to be sufficiently attractive, of the matching contributions for workers; the tax advantages offered to employers; various forms of investment authorized; for which assets are frozen; beneficiaries' income ceilings, etc. Into this general framework would be fitted collective agreements on asset formation, freely negotiated by the two sides of industry and setting out, in particular: the amount of employers' contributions, payment arrangements, information and supervision, etc. Since these schemes are intended to bring about changes in the asset-formation structure – which calls for a certain continuity in the medium and long term – as far as possible the agreements should be concluded for several years with provision for amendment only to improve the terms, established rights not being subject to revision.

41. Institution of the abovementioned schemes for the payment of standard contributions by employers and governments should enable considerable progress to be made towards the goal of a fairer distribution of assets by extending and reinforcing the results achieved by the general incentive schemes to savings in the form of deposits and securities and home ownership.

Since standard contributions to personal assets constitute *de facto*, additional labour costs for undertakings, it is likely that increases in these contributions will turn out to be relatively limited. Moreover, these new wage costs could well be reflected in prices, and could penalize and consequently discourage labour-intensive sectors.

For this reason in recent years more interest has been shown in other forms, especially in the participation by wage-earners in the profits and capital growth of undertakings. These systems are considered more advanced and having a greater future potential.

## The 'Investment wage'

42. The 'investment wage' is another variation on the abovementioned asset-formation scheme but an important difference: employers' contributions constitute part of the wage increases.

Under the 'investment wage' scheme part of any wage increases payable to the worker must be reserved for saving and investment. Thus the wage-earner receives an extra pay which is compulsorily saved and frozen for a given time, over and above his normal pay which is paid in cash and which he can use at will but is increased at a more moderate rate. There are various ways and means of implementing such a system and the formulas can be negotiated and applied at branch or undertaking level.

## Asset increases 'at risk'

43. Another system has also emerged and been much discussed, particularly in the Federal Republic of Germany – that of asset increases 'at risk'. The greater flexibility of this system would enable undertakings in difficulties to avoid extra expenses. The system is about mid-way between the 'investment wage' system and straight participation in profits.

According to this formula, wage-earners would accept wage increases broken down in two parts: one part jointly agreed upon would be fixed at a given level, as is current practice, while the other part, also negotiated jointly, would be fixed at a level corresponding to the 'normal' turnover of the undertaking. This second portion of the wage increase could vary with the undertaking's business and would thus, to some extent, be 'at risk' where the wage-earners are concerned. It would also be subject to a freeze for a certain period and would thus constitute income-bearing capital.

When such a system is instituted, wage-earners would receive:

- the wage increases fixed by collective agreement;
- when business is 'normal', and particularly if it is better, they would gain an increase in assets 'at risk';

— further, the capital thus constituted would bear income.

Such a system would have considerable advantages: first of all, for growth policy, as it does not seem to endanger the propensity to invest since employees participate in the undertaking's risks; secondly, for the stable prices policy as it would make it more difficult to transfer extra costs onto prices.

The implementation of such a system would imply that solutions must also be found to certain problems, such as the constitution of a legal framework to facilitate application of the system, the definition of 'profits' to reflect the state of business more accurately, the establishment of a 'clearing' system to offset contributions paid by undertakings in varying circumstances without, however, affecting workers' interests in their own undertaking to any great extent.

### Participation In company profits

44. A new objective which is gaining favour in the Member States would be to modify the present conditions of distribution and utilization of company profits or profit margins. Profits are already being increasingly devoted, particularly in joint-stock companies, but also in a large number of individual firms of a certain size, to the development of the firm itself in the form of faster depreciation and self-financing. This trend has made it possible to cope with technological progress, and the obsolescence of equipment which impose on firms rapid and constant renewal of their plant and which has largely contributed to economic development, particularly on the industrial side.

However, increasing concern is being expressed about the fact that this self-financed development generally benefits only entrepreneurs and owners, in the form of capital appreciation, inevitably leading to the concentration of wealth in certain hands; at the same time the workers, who have contributed to this acquisition of wealth and enabled their company to build up assets, get no financial benefit from this growth other than their wages. The overall aim, then, is to share out the fruits of productive activity more equitably among those involved in it.

45. In line with this general viewpoint and keeping as close as possible to experiments already imple-

mented or at present envisaged in some Member States, the following elements could be included in a Community approach to the question of profit-sharing or participation in the growth of company assets.

A system might be envisaged which gives workers the right to share in a certain proportion of total profits, whether or not distributed, of industrial, commercial or agricultural undertakings of a certain size (depending on numbers employed, turnover, profits, etc.).

The first question is to determine whether the sums made available in this way should be distributed at company level or used to set up one or more collective funds.

If one or more collective funds were set up participation certificates or investment units could be offered free of charge or at a very low rate to all interested employees with incomes below a certain ceiling, or indeed to all population groups with incomes below the same ceiling. By introducing a 'clearing' system, such an offer would prevent the introduction, depending on the ways and means chosen, of new social disparities between employees in labour-intensive industries and those in capital-intensive industries, between employees of prosperous and unprofitable firms, between employees and low-income self-employed, etc. The amounts thus accumulated could also be used for other purposes: supplementary pensions, improvement of the lowest pensions, partial financing of early retirement schemes, etc.

If, on the other hand, participation funds were set up in each company concerned, the sums in question would be distributed, in the form of frozen capital, among its own employees. Bearing in mind the basic aim of a fairer distribution of wealth, the same amount should be distributed to all categories, whether manual workers, office of supervisory staff or, at least, the range of assets granted to employees should be distinctly narrower than the range of pay scales – this could be ensured by fixing lower and upper limits.

A compromise solution might lie in a mixed formula whereby part of the amounts earmarked for asset formation would be distributed amongst the staff of the undertaking concerned while the other part is paid into a collective fund.

Assuming the creation of such a fund, another thorny question would be the choice of people responsible for administering it. The trade union view is that they alone should be responsible for its administration, but the employers' organizations are opposed to this. A form of management might be envisaged in which the government is jointly represented with the two sides of industry of possibly with the trade unions only.

### **Preferential purchase of free distribution of shares**

46. Another type of scheme in existence – often for a long time in some countries – and on which new legislation has been passed in some Member States in recent years, encourages wage-earners to become shareholders in their own undertaking. This could take the form of sale at preferential prices, free distribution – perhaps in the framework of profit sharing – subsidies for purchasing at market value, grant of options valid for a certain period, at a price fixed in advance. Although some of these provisions have been in effect for a long time, practical application has been rather limited. These systems have been criticized, especially by trade unions: if an undertaking falls into difficulties, a worker could lose both his job and his capital investment. It will nevertheless be interesting to follow the progress of the recent schemes established in France, Denmark and the United Kingdom and to ponder on the results.

## **Conclusions**

47. It is quite evident not only from the purely factual report which constitutes the Annex to the present Memorandum but also from the foregoing study of the mechanics of the matter that asset-formation policy has, in the past years, played an important role in most Member States within the framework of a general objective aimed at gradually decreasing excessive and unjust inequalities in the distribution of assets. It must, however, be noted that, notwithstanding the measures taken and the intention thus expressed, the distribution of total wealth and particularly of the productive capital of undertakings, has not been significantly modified so as to benefit the relatively modest population groups – and this situation is recognized by most governments. The numerous studies, surveys, discussions, specific projects and draft laws on the subject show that nearly all Member States continue to attach great importance to asset-formation policy in various aspects, whether in the form of incentives to individual savings in large sectors of the population, especially in the relatively low income groups, or of employee participation in the formation of productive capital.

The policy to be followed should receive new impetus from these two approaches, particularly the second, in view of the advantage of this approach in the present economic and social context.

### **Incentives to individual savings**

48. Where incentive schemes to promote individual savings are concerned, Member States should develop them more extensively, probably in diverse ways, while seeking to ensure a degree of convergence along the following lines:

- these systems should be directed, more than they were in the past, to the relatively modest income groups. The best way to achieve this is to set a ceiling on the eligible income level to be periodically reviewed in the light of economic development – and eventually accompanied by other limiting conditions, such as the size of assets already held by the saver;

- as incentives, premiums should be preferred to tax advantages – at least to most of them, namely those which benefit only taxpayers in relatively high income brackets;
- sums invested for asset-formation should be frozen for a fairly long period (about five years), but provision should be made for early release in certain circumstances with no loss of the acquired benefits;
- it should be possible to choose between a number of types of investment, varied according to the needs and traditions of each Member State, with particular emphasis on access to first home ownership;
- the invested savings should be adequately and effectively protected against erosion of their real value by inflation, for example, savings' premiums could be aligned with the general level of prices or they could be indexed for certain categories of savers; this protection should, in any case, be ensured by a general anti-inflation policy;
- it might also be necessary to amend some of the terms and conditions of the various incentive schemes likely to hinder the free movement of persons and which subsist after the elimination of discrimination, in the strict sense of the word, on the ground of nationality – and which is prohibited between nationals of Member States;
- finally it would be necessary to ensure that, in all Member States, any potential beneficiaries of the various incentive schemes to promote savings and asset-formation are given the fullest information regarding the various schemes.

### **Employee participation in productive capital formation**

49. The Commission would like to underline the importance of an asset-formation policy along the lines of the second of the two approaches referred to above: employee participation in productive capital formation, because it constitutes a more positive and above all a more effective means of achieving the fundamental social goal of greater equity in the distribution of total wealth.

The furtherance of such a policy is also justified from the economic point of view: the Community is striving at present for an adequate level of non-inflationary selective growth – an essential prerequisite for a return to satisfactory employment levels and source of increase in the standard of living and welfare. In this context productive investment has a strategic role to play. Although many factors have an impact on the creation of adequate and socially desirable investment, an active asset-formation policy which moreover is a modern means of regulating the economy and specifically of controlling inflation could provide an important contribution.

This convergence of social and economic aims needs to be particularly emphasized. In our dynamic society, where participation and joint decision-making are becoming imperative, workers' demands to share in the profits or assets of undertakings reflect a just and logical progress. In the present circumstances if employees were, *a fortiori*, asked to accept relatively moderate wage increases to enable undertakings to reconstitute their investment capacity, in return such a policy should be accompanied by employee participation in the formation of productive capital thus brought about.

Present policy in this area in the various Member States should be developed along the following main lines:

#### **First method**

- According to the first method the employers in the private sector and the government would pay their employees standard contributions on top of earnings, which would be frozen for a given period.
- Such a system would be optional in the sense that it would be left to the two sides of industry to negotiate agreements on asset formation within a legal framework. This outline law would lay down the general conditions which such agreements would have to fulfil to receive the full benefit of the incentives offered by the State.
- There could be a degree of flexibility in this method which might conceivably take the form of an investment wage negotiated at the same time as a wage increase.

## Second more advanced method

- A more advanced method would be to give wage-earners a 'frozen' share in company profits, growth or capital.

- Depending on national options and traditions, such participation could be rendered compulsory by law or be left open for determination or negotiation by the two sides of industry within a legal framework facilitating application of such a scheme.

- The funds transferred to the employees, preferably in the form of share-certificates, could be limited to the employees of the company concerned or could benefit the employees of a particular sector or all employees in general by setting up a common fund. In the first instance, the emphasis is on employee participation in the profits of their own undertaking, likely to bring about an improvement in the work atmosphere, while in the second instance emphasis is laid more particularly on asset formation by all employees the main concern being to avoid introducing new social disparities between employees of prosperous firms and unprofitable firms, between employees in labour-intensive industries and those in capital-intensive industries and so on.

- A compromise solution might perhaps consist of a mixed formula whereby part of the amounts earmarked for asset formation would be distributed amongst the staff of the undertaking concerned, while the other part is paid into an inter-trade fund in which not only the employees in the private sector could participate but also government employees or even all persons with an income or assets below a certain ceiling. This method would avoid over-large discrepancies between different firms. While maintaining the incentive for employees to participate in the life and financial results of their own firm. As long as important restructuring and investments are needed to absorb unemployment, it would be desirable – all things being equal – to give preference to the scheme most likely to stimulate worker mobility and directly increase undertakings to investment capacity.

- The creation of a 'clearing' system does not automatically entail centralized assignment and management of the sums of money frozen. Should this clearing system be entrusted to a fund, se-

curities or share-certificates could be issued to employees or other beneficiaries. As to the allocation of the frozen sums of money, and without prejudice to the problem of co-management, these sums should be made available to undertakings for the purpose of job creation in conditions conforming to normal profitability criteria. The money could, however, be used differently, for example it could go towards improving the lowest pensions or those of all wage-earners, or it could be used to partially finance early retirement schemes.

- The administration of funds so constituted could take various forms, for example tripartite bodies (public authorities, trade unions and groups of undertakings) or perhaps bipartite bodies (public authorities and trade unions).

- On the other hand, creation of such funds should in no way prejudge the results of the general debate, initiated by the Commission on the general problem of employee participation in the management of undertakings, without, however, denying the connections between the two. As a matter of fact, the Commission has always considered that employees' right to participation in decision-making at undertaking level was justified regardless of whether shares were held by the staff or profits were shared out.

## Statistical Information

50. With a view to developing asset-formation policy in the best conditions and assessing the effectiveness of current measures, the Commission wishes to stress the need for further efforts in the field of statistical information regarding the level, structure and distribution of wealth (physical and financial capital) held by households and undertakings.

It would also be useful to collect data more systematically on the results of the various schemes to promote individual savings and employee participation in productive capital, in particular on the annual amounts paid out and invested, types of investment, groups of beneficiaries, etc.

51. The above approaches and suggestions contain elements which call for a wide-ranging debate with all interested parties and do not in any way consti-

tute formal proposals by the Commission. The Commission hopes that this debate will improve reciprocal knowledge of asset-formation policies, in operation or under consideration in Member States and that converging viewpoints will emerge. From the point of view of social progress, macro-economic results and competition, a convergence of approaches could make it possible to give a well-balanced impetus within the Community to worker participation in asset formation.

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*Annex*

**Incentive schemes to encourage  
asset formation by employees**

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## Introduction

### General asset-formation policy

#### Definition

(a) The concept of asset-formation policy used in this report to determine which measures are included and which excluded is more or less the concept currently employed in the nine countries. It must be a *policy*, namely a continuous action with a well-defined purpose – in this case, incentive to asset formation – not an isolated measure, which although identical in content, has been created for other purposes: accordingly this excluded interest rates paid by banks on deposit accounts, which can give benefits equivalent to those available under incentive schemes, and may indeed have features in common with them, for example, the conditions for deposit accounts being comparable to holding periods.

The reports relates to *specific measures*, that is, they must be applicable and be applied in practice, not to vague declarations of principle; even more important, they must be measures with a *social purpose*. For example, the provisions for the protection of shareholders or the legislation on investment funds, although of the greatest importance (from another point of view), are not included here.

The aim of this policy must be *asset formation*. The word 'formation' is clear enough; above all it emphasizes the dynamic aspects, namely the process by which assets are acquired: thus their *transfer* (by inheritance, etc.) has not been taken account, and neither have certain measures more closely related to their *administration* (e.g. reduced tax paid on a building which is owner-occupied).

The definition of *assets* is more complicated; in the legal sense it includes all the assets (actual rights and obligations) held by an individual at a given moment. But obviously *asset-formation policy*, as defined and acted upon in the Community countries, is not so broad in scope. An examination of the related measures shows that *assets* in this case are considered in a more restricted sense of the word: firstly, they do not seem to have any direct connection with the holder's occupation. The social aims of the incentives are such that they should not be

considered in the same way as measures which further the pursuit of an occupation, even if the same legal means (incentives to acquire real property) are often employed in both cases, for example, grants for the purchase of small agricultural holdings, and subsidies to craft-workers for the purchase of machinery, both of which are excluded from this report.<sup>1</sup>

On the other hand, *assets* – in the broader sense not used here – are the totality of rights which increase and diminish continually (receipt of income, purchase of consumer goods, debts, etc.); *asset-formation policy*, however, relates to a relatively stable 'whole' made up of rights to assets which remain in the possession of one person for a relatively long period.

*Accordingly, profit-sharing schemes, which provide for the payment of money which is immediately available, are not included in the incentive schemes.*

Only certain types of durable property are included in incentive schemes: they vary from country to country, and also from time to time, the basic types being housing, savings subject to a holding period and securities.

This report also covers incentive systems for *savings which are not subject to a holding period*. Even if there is no absolute guarantee that such saving will be for a long term, it is nevertheless a sufficiently stable choice of investment by the investor to justify its inclusion as part of the assets as defined here. Moreover, *this kind of measure in certain countries provides the most important form of incentive for savings in the form of deposits and securities which, in their turn, are necessary to benefit from incentives for savings in the form of real property.*

A special kind of saving is that made by means of certain *insurance contracts* which provide for the payment of a capital sum on death, or upon the assuree's reaching a certain age. Since such contracts are concluded for a fairly long period, they involve prolonged saving. Moreover, the amount in itself of the insured capital guarantees the permanence of the asset for a certain period of time. The case of

<sup>1</sup> This also accounts for the exclusion from this Report of the French provision of 1977 creating a savings book for manual workers, intended to make available to those who are interested the resources needed to set up or acquire crafts undertakings.

*supplementary social security schemes* is quite different, because even in the form most similar to the insurance contracts considered in this report, i.e. old-age insurance, there is no provision for a capital payment, but for a pension instead. Such pensions, being small in amount and available immediately, cannot really be considered as part of assets. They have also been the object of *ad-hoc* studies.

The above applies equally to the *national statutory social security systems*.

Measures encouraging the creation of cooperatives – with the exception of building cooperatives – are not included in this report. These groups are often important, but they are concerned more with *income* and *standard of living* than with *asset formation*. In those *cooperatives which produce goods*, the common capital is a working tool for the members of the cooperative: as a result, the measures in this field, cannot be included in asset-formation policy.

(b) Even if all asset-formation measures have a social objective, they are not all of equal interest from the point of view of social policy: those which concern the whole population are in this respect less significant than those which concern low-income groups, and more important still are those relating to employees, and if we may say so, they are the only ones which are within the field of 'social' policy, in its traditional sense. Nevertheless, this report includes all the systems giving incentives to asset formation, both because of their intrinsic social aim – it should be remembered that the extension of social policy to cover the whole population is one of the more interesting developments of these last years – and because of the workers widespread participation in the incentives offered to low-income groups, and to the population at large, and finally because all these different systems are interconnected. In some cases, a law gives workers special benefits in addition to those given to the population at large: therefore, a knowledge of the system as a whole is necessary.

However, it seemed advisable to distinguish between the various forms in drawing up this report: there is a short account of the provisions applicable to the population at large (Part I); the part relating to incentives for asset formation in low-income groups is somewhat longer (Part II); and the most coverage is given to incentive systems for workers (Part III).

In relation to the formation of assets in the form of real property, the subdivision of the material between Part I and Part II presented some problems. The systems which do not fix any ceiling on income or on value, obviously should be included in Part I, whilst those which provide for an income ceiling should be included in Part II.

But doubts arise when fairly strict limits are imposed on the value and/or dimensions of the purchased property, since this indirectly amounts to a limit as to value. It is clear that such property may legally be bought equally well by low-income groups, as by other people, but in fact it should rather be the former who benefit from these provisions – hence they have been included in Part II.

On the other hand, there has been no attempt to formulate a Community concept of what constitutes a low-income group; instead the criteria fixed by national legislation have been relied upon. Thus the ceilings relating to income, value and dimensions vary considerably from one country to another, and therefore certain reservations must be made regarding comparability.

## Short account of policy by country

Due to the subdivision of the systems by recipient, and within each group the breakdown by form of savings and techniques applied, the descriptions of national legislation have had to be given piecemeal. Therefore a very brief recapitulation *by country* of the most important aspects of their asset-formation policy is included in the introduction. This should make it easier to compare the differences between the nine bodies of national legislation.

### (a) Belgium

The primary objective of incentive measures is to create real property assets above all by premiums and tax exemption, but also by loans and non-institutionalized housing savings schemes. Most of these measures are aimed at persons purchasing or building subsidized housing, or the like. Certain kinds of loans are reserved for certain social groups; in particular miners, and heads of large families.

Fiscal benefits are provided for those deriving income from savings accounts and insurance contracts. Fiscal benefits are also used to encourage companies to make housing grants to their employees. A collective agreement contained provisions relating to facilities for house purchasing, but the fund has since gone into liquidation.

### (b) Denmark

Since 1958, workers' shares and workers' bonds can be issued by companies to their own employees. Other means to encourage savings are applied at undertaking level, mostly in the form of building loans. A *draft Bill* was introduced by the previous Government on 31 January 1973, aimed at worker participation in the capital growth of companies by means of a 'Central Investment Fund'. The Government has not yet decided on how to proceed with this question.<sup>1</sup>

### (c) Federal Republic of Germany

Savings premiums and home-building premiums are provided for by legislation; tax exemption on money set aside for home building premiums and for the payment of certain insurance premiums is also possible. The construction and purchase of new dwellings is encouraged by means of tax measures and reduced interest loans. In the field of subsidized housing construction the purchase of house property (houses for one or two families, flats, etc.) will be especially stimulated by making available public funds as loans, subsidies, etc. Additionally the same objective is sought through a number of benefits for the purchase of building land for the construction of housing and its occupation. Denationalization of part of the Federal industrial property has occasioned distribution of shares to workers. Furthermore, the tax benefits granted on 'supplementary income' should be mentioned.

There is a considerable number of provisions relating to workers. If they invest in certain ways, the State will grant premiums; in some cases these are added to those paid to any investor. The same rule applies to contributions made by companies to their employees, in order to provide incentives for asset formation (DM 624 Law). Moreover, various

measures have been taken by employers, over and above their legal obligations. An important draft of new asset-formation scheme was prepared on 22 February 1974 by the Federal Government but owing to the economic situation and legal and practical difficulties, the Government does not intend to implement this scheme in the near future.<sup>2</sup>

### (d) France

Benefits are provided for, both for sight savings (savings accounts, bonds, shares) and those subject to a holding period (long-term saving schemes). Some insurance premiums can be deducted from taxable income. As far as housing is concerned, tax exemptions are made for both types of savings (sight and subject to a holding period) and building premiums are granted, as are reduced interest loans, housing allowances and personal housing grants. The State also takes action in its role of employer to help its civil servants acquire housing.

An *optional profit-sharing scheme* (Ordinance of 7 January 1959) and a *compulsory scheme for worker participation* have been set up (Ordinances of 17 August 1967); employees may also take part in their employers' savings schemes. Also to be noted here is the law authorizing *free issues of shares* to workers by the State-owned Renault factories. This system has been widened to include the nationalized bank and insurance companies and, on a voluntary basis, to the private sector. In October 1978, the Council of Ministers adopted a *draft law* providing for the compulsory distribution of shares to workers in industrial and commercial undertakings quoted on the stock exchange.<sup>3</sup> Moreover, in November 1976, the Head of State requested the Government to establish, for small investors, an index-linked savings scheme which, through carrying a low interest rate and requiring stable deposits, would protect savings against inflation.

### (e) Ireland

The main incentives for asset-formation take the form of two index-linked saving schemes, tax

<sup>1</sup> Page 46.

<sup>2</sup> Page 41.

<sup>3</sup> Page 44.

exemptions for savings and life-assurance contracts as well as a variety of measures (e.g. State subsidies and tax exemptions) to encourage the construction and purchase of private housing.

#### (f) Italy

Tax concessions are granted on the income from savings accounts and shares giving a fixed return. Life insurance premiums may be deducted from taxable income. There is a wide variety of measures relating to housing for low-income groups, for all workers (GESCAL plan) and for civil servants. The law on seniority allowances, and the fiscal provisions therein, provide certain concessions to workers to promote asset formation. Recently, the Council of Ministers adopted a home-ownership savings scheme.

#### (g) Luxembourg

Tax exemptions are granted on income from savings accounts and some insurance premiums. Special types of index-linked savings have been created for the whole population and certain special savings schemes for young people. Interest subsidies and premiums for building and purchase encourage home ownership. Some measures have been taken by employers with regard to assets in the form of deposits and securities and housing.

#### (h) Netherlands

Savings premiums are paid to young people up to the age of 21 (as they were until 1973 to adults up to the age of 60 who could participate in other saving schemes and whose income did not exceed a certain ceiling). Tax exemptions aid small investors to purchase stocks and shares. Subsidies and guarantees encourage the purchase or construction of new dwellings, or the purchase of low-cost housing by sitting tenants in low income groups.

Voluntary participation by workers in premium savings schemes and profit-sharing schemes is encouraged by full exemption from taxes on amounts paid by employers in respect of savings and social security contributions. In addition, group participa-

tion in earnings-savings schemes is encouraged by fully exempting employees from liability for taxes and social contributions on these payments, while the employer is taxed at a flat rate. However, these systems are not widespread. Civil servants benefit from a special savings premium scheme. Some measures have also been adopted by undertakings outside the statutory framework.

*In May 1975, the Government submitted to Parliament a document on incomes policy containing a major programme for worker participation in company growth, which was the subject of two draft laws in 1978.<sup>1</sup>*

#### (i) United Kingdom

A considerable proportion of personal savings is channelled on a contractual basis into pension funds and the various facilities offered by life-assurance offices. Most of these are eligible for some degree of tax relief. Government policies in the field of small savings are concentrated on the promotion and sale of National Savings Certificates available to all, which include several facilities (National Savings Certificates, Saving Bonds, Premium Saving Bonds, Save-As-You-Earn, and so on). In addition, two index-linked savings schemes came into effect in 1975.

House purchase is encouraged by tax relief on mortgage interest payments, an option mortgage scheme and house improvement grants. In 1978, Parliament voted on a bill concerning access to home ownership introduced by the Minister for the Environment.

The 1978 budget also provided that from April 1979 undertakings could *issue* to their staff *shares* benefiting from preferential tax treatment.

### Objectives<sup>2</sup>

(a) It is appropriate to recall here, after this short account of the different national systems and before describing them in greater detail, the *objectives*

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<sup>1</sup> Page 43.

<sup>2</sup> The information contained in this chapter derives essentially from contributions by Government experts.

which the different countries seek to achieve through their asset-formation policy. Considerable areas of common interest will be noted, and even if some differences may be observed, they are, in general, minor.

(b) The measures taken in *Belgium* to encourage personal saving have social or socio-political aims; some of these measures, however, have economic goals: to encourage building, and to fuel the capital market by encouraging personal saving. In relation to housing, there also exists an aim to improve family life, and in this field all the measures taken aim at dealing more and more completely with the specific needs of different types of low income groups.

(c) In *Denmark*, the Government seeks to facilitate asset formation as a means to improve the distribution of wealth and make undertakings and their employees realize the value of common economic interests and cooperation.<sup>1</sup>

(d) In the *Federal Republic of Germany*, asset formation by workers is encouraged basically for social policy reasons, because it has been realized that ownership of property ensures greater spiritual and material freedom for the individual. A general conclusion has been reached that an economic system founded on private property will not in the long term be viable, and free from social unrest, unless it shares out economic wealth as evenly as possible. The increase in assets, which is linked to economic growth, cannot therefore continue to add to wealth, where great riches are already amassed. In addition, in connection with permanent structural changes, the worker is required to be able and willing to adapt to a large extent. This presupposes that the wealth-sharing system ensures the worker a reasonable share in increased assets, as well as a fair income.

A just sharing out of the increased national wealth must be related to the volume, as well as the methods of sharing. In the long term it is not sufficient to encourage asset formation in liquid savings only. Statistics show that an increase in nominal wages has only a minor effect on income distribution. On the contrary, it is more than ever necessary to develop systems to give workers an incentive to save through participation.

When the law on savings premiums was promul-

gated, the basic aim was a capital market policy to mobilize long-term savings and free them for investment; similarly, in the case of the law on home building premiums, the most important aim was to boost home-building. These objectives still exist, especially since there is a possibility that the traditional capital market has too narrow a base in view of future investments which will be necessary in the public and private sectors; however, with time, they have become social policy aims. A major step to promote asset formation was the introduction of the DM 624 Law.

The measures encouraging home building must be treated separately; while they are meant to provide an incentive for asset formation, they come essentially under the head of social policy on housing.

(e) In *France*, a distinction can be made between specific social measures aimed at encouraging asset formation and other measures which may have the same result, although their motivation may have been different. Some measures, in fact, were basically intended to create non-inflationary financing for investment by giving families incentives for saving, preferably long term. In the first category are: measures to facilitate home-ownership (savings accounts for dwellings and special loans for building), workers' profit-sharing schemes and exemption from taxation of category 'A' books issued by saving banks. In the second category, there are the following measures, whose social importance was also taken into account: tax relief on interest from bonds, long-term savings schemes, and exemption on life insurance premiums.

The specific purpose of the Orders relating to profit sharing and to participation is social as well as economic.

In relation to *social policy*:

The two Orders contribute to improving employer/worker relations by developing a sense of contractual obligation in undertakings through agreements which, by giving workers a share in the life and profits of their firm, increase individual awareness of the community of interests within the undertaking.

With the same end in view, such agreements should make provision for employees to have access to

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<sup>1</sup> This policy also led to the institution of the 'social funds'.

information and means of control necessary to have a better understanding of the undertaking's operations and follow the application of the system.

In the case of either the Order of 7 January 1959, or that of 17 August 1967, or the harmonization law of 27 December 1973, their enforcement should ensure employees extra income, which does not fall under the heading of company wages policy, since the procedure for wage-negotiations and fixing must remain quite separate and not be allowed to influence the setting up of participation or profit-sharing schemes.

In relation to *economic policy*:

Worker participation schemes are based on company growth, and the legislation contains tax provisions encouraging this, so that they can increase their investment capacity. The 1967 Order provides for the possibility for companies to set up, tax free,<sup>1</sup> an investment fund for an amount equal to that distributed to the workers, on condition that it must be used within one year for the purchase or creation of fixed assets.

Finally, it should be noted that aims have changed during these last years, and the Order of 1967, in comparison with that of 1959, has stressed the following objectives:

- employees' savings — since it sets up a holding period for the sums granted,
- investment: by giving the right to employers — in addition to the possibility given to employees to invest in the company the amounts granted to them — to set up an investment fund free of tax.

Moreover it should be noted that the 1959 Order set up an optional system, whereas the 1967 Order creates a system which is compulsory for companies with more than 100 workers.

(f) The incentives in operation in *Ireland* derive from both social and socio-economic objectives. The measures to encourage savings, especially by the poorer sector of the population, were introduced basically for social reasons but over time they have assumed considerable economic importance.

The basic objective of the Government's housing policy is social — to ensure that, as far as resources permit, every family can obtain a dwelling of good standard at a price or rent which it can afford.

(g) The measures taken by the *Italian* Government basically relate to social policy, by trying to improve the living standards of those benefiting from them and by trying to share out the national wealth more fairly. This Government undertaking has taken the form of subsidized housing which has the particular aim of holding back rent increases, and of encouraging savings in the form of deposits and securities.

(h) In *Luxembourg*, incentives are given to workers for asset formation above all for social and family policy reasons.

Thus, public authorities encourage home-ownership because owning a home makes for better conditions of family life, and a more stable basis of existence.

(i) In the *Netherlands*, the aim of asset-formation policy is expressed clearly in the preamble to the General Law on savings premiums in the following way (still valid, although the law was repealed at end-1973):

The fact of owning personal assets over a long period is considered by the Government as giving an individual one of the most important opportunities for achieving greater independence and broader development, as well as being one of the ways in which a man can show a sense of responsibility towards himself, his family and his neighbour.

Moreover, the Government is of the opinion that a society in which great importance is attached to free enterprise, private property, and also to means of production, cannot achieve equilibrium or retain it in the long term, unless the system is supported by the majority of its citizens.

To achieve this aim, it is of fundamental importance to ensure that broad sections of the population can build up permanent personal assets, and can take part directly or indirectly in productive investment, and should become accustomed, through personal experience, to the various aspects of ownership.

Asset-formation policy enables those who have not yet — or barely — managed to acquire any permanent assets, to gradually achieve this aim; it is also intended to contribute to a fairer sharing out of assets within society.

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<sup>1</sup> Only partly, since the 1974 budget.



The aims of asset-formation policy must therefore be regarded as social aims, as is shown in the introduction.

In the draft law of 1978 on worker participation in the capital growth of *their own undertaking*, the Government stresses cooperation between staff and investors in the undertaking and the fact that both categories are entitled to a fair share in growth after reasonable remuneration. Further, the economic approach is important: under the second draft law on worker participation at national level in the capital growth of undertakings — *through an inter-trade fund* — the Government aims to ensure that employees benefit from a uniform and modest increase in income. Lastly, stress is laid on the value of this policy instrument to encourage asset formation by workers as a component in an overall policy designed gradually to bring about a more acceptable distribution of income and assets.

(j) The encouragement of personal savings is a major objective of the *United Kingdom* Government. The aim is to achieve conditions in which a high proportion of personal disposable income is devoted to savings so as to help central Government in regulating demand and in administering public debt, and in order to release resources for investment.

### Position of the various social categories; proposals<sup>1</sup>

(a) In the different countries discussions have taken place concerning the appropriateness of asset-formation policy and the effectiveness of the means provided to achieve it. They related, mostly, to the measures concerning workers since some traditional forms of incentive given to the whole population (taxation benefits on income from savings accounts, housing policy, etc.) have now been completely adopted, at least in most countries. Therefore, we should bear in mind that the ideas expressed by different groups relate almost exclusively to incentives given to the acquisition by workers of assets in the form of deposits and securities.

### Federal Republic of Germany

(b) Consequently, a wider range of opinions can be encountered in countries where liquid asset for-

mation by workers has been pursued in a more complete and continuous fashion in recent years.

In the Federal Republic of Germany, all social groups have given their approval in principle — but with certain reservations — to a policy to distribute the increase in wealth more evenly.

On 22 February 1974, the Federal Government adopted an *asset-formation programme*. Under this programme, undertakings with an annual profit before tax of DM 400 000 (limited liability companies) and DM 500 000 (private companies) would have to transfer some equity capital or cash (in some cases) to a clearing institute which distributes the resources to specially created funds from which all employees and self-employed persons whose income does not exceed a certain limit will receive participation certificates which may not be sold for seven years. If the beneficiary sells his certificates after this period, however, he loses his entitlement to further allocations until the 12th year, after which the participation certificates can be used freely without financial disadvantages. The annual income limits are DM 36 000 for the beneficiary and DM 54 000 for households where the wife is not gainfully employed. For every dependent child these amounts are increased by DM 9 000. The owners of these certificates will have the right to participate in the management of the funds through elected delegates. The funds will be operated on a competitive basis and will be integrated into the existing financial system. The allocations provided for under the DM 624 Law or under any company agreements are not affected by the new provisions under this scheme. An interministerial working party was set up at the Ministry of Finance to examine thoroughly the provisions of this draft law. However, because of the unfavourable economic situation, and also because of legal and practical difficulties, the Government does not intend to implement this scheme in the near future. The Government is in favour of extending participation in profits and capital at undertaking and branch level in the framework of the DM 624 Law and to this end intends to abolish certain fiscal impediments.

The CDU/CSU has accepted the principle of employee participation in company profits. The prin-

<sup>1</sup> The text relating to the opinions of employers' professional groups and workers' unions has been drawn up essentially according to information given by these organizations themselves.

ciple should be realized either by paying investment wages so that all employees, including those working in the public sector, will get a share in capital growth or by arranging company-based profit schemes. For these formulas a legal framework has to be provided guaranteeing that the minimum amount paid for asset formation is not lower than the said investment wage. With this supplementary income the employee will be entitled to share in the capital according to his free choice and can freely dispose of the rights acquired from this participation after a six-year holding period.

The CDU/CSU is of the opinion that further agreements on profit-sharing including risk elements should be possible and that the participation schemes should eventually be extended to housewives and pensioners.

In 1978, the CDU/CSU submitted to the Bundestag a *proposal for a law* to extend voluntary participation in the profits and capital of an undertaking to wage earners in a greater number of companies. This proposal also recommends a new insurance system, to be financed by undertakings, which in the case of bankruptcy would ensure payment of 50% of the sums invested by the worker in the undertaking.

The SPD and FDP parties, which form the present Government are in favour of nation-wide asset-formation schemes for large sectors of the population, following the widely publicized Government proposals. The main difference in the schemes is that the SPD proposals tend more towards asset formation by workers which would strengthen the trade union position in regard to the administration of the funds, whereas the FDP scheme favours other sectors of the population and would fix the income limits at a higher level and so reduce trade union influence on the administration of the funds.

The Confederation of German Trade Unions (DGB) demands energetic steps against wealth concentration and a small majority within this organization is in favour of a profit-sharing scheme for all workers. By this, the DGB means a scheme which goes much further than the promotion of savings and the collective agreements based on the asset-formation law (DM 624). The DGB views its proposal not as a means to improve the income situation of the employees but as an instrument to counter the concentration of wealth. In this context

the DGB demands that regional investment funds should be created which would be managed by the workers themselves. The resources for these funds would derive from capital transfers (cash transfers are excluded) against which the employees (up to a certain income level) obtain an equal share which they can freely dispose of after a certain holding period. Interest and dividends from participation in companies will not be distributed by the funds but would be invested in projects in the public sector.

There are different views among the various trade unions which are members of the DGB: while wealth concentration is criticized by all, some disapprove of the scheme put forward by the DGB and advocate a redistribution programme based on fiscal measures and public expenditure. The biggest trade union (the IG-Metall) gives absolute priority to mobilizing financial resources for social reforms from higher taxes on company profits instead of asset formation, which would reduce the tax-paying capacity of the undertaking and could therefore only play a subsidiary role.

At their annual Congress in May, the DGB trade unions reiterated their opposition to any system of profit-sharing at company level. They preferred schemes involving profit-sharing at inter-trade level under agreement between the sides of industry. Furthermore, the trade unions advocate a greater financial encouragement to save than is presently the case for persons on low incomes and, in this context, the Congress expressed a wish that the legislators should re-examine the present savings promotion scheme.

The Confederation of German Employers' Unions (BDA) is in favour of extending the facilities of the existing DM 624 Law giving workers incentives for asset formation. According to the BDA, this law has proven its usefulness and there is therefore no need to develop new models of asset formation enforced by law. Instead the BDA asks the trade unions and political parties to opt for types of participation in the capital and profits of undertakings, to which both employers and employees adhere voluntarily and which result in individual asset formation by employees. This is why the BDA is opposed to any form of legal compulsion which would oblige undertakings to pay part of their profit or capital into intertrade or collective funds controlled by trade union organizations, which would allow these

organizations to gain control of a high proportion of productive capital.

In 1976, the BDA gave details regarding this concept and presented the main lines of an asset-formation policy that could be negotiated in the framework of collective agreements. This proposal advocates that wage-earners invest a part of their earnings in their own undertaking, preferably in the form of shares, but also bonds or other securities. Wage-earners would be covered by an insurance scheme to provide against both loss of capital and job if the undertaking went into bankruptcy.

## Netherlands

(c) In the Netherlands, it is generally accepted that the social objectives pursued in the asset-formation policy are useful and appropriate. Opinions begin to diverge on the subject of how effective is the current sharing-out of assets, on what is an appropriate policy to modify it, and the method to follow with this aim in view, particularly as to whether the public authorities should intervene in this field.

The workers' organizations consider that under the present social conditions the sharing-out of the benefits of company growth can be the object of legitimate criticism. Workers receive their wages, which are the result of the interplay of supply and demand on the labour market. However, company owners receive not only a return on the capital invested in the company, but also the profit added to it and, as a result, benefit from the capital growth of the undertaking.

In most cases this takes the form of company auto-financing. The return paid to owners should be limited to a reasonable return on the capital invested in the company. This return should also be established by the market, at a rate comparable to the income from bonds. Here it should be taken into consideration that income from bonds relates to a nominal amount which does not change with time, whereas the nominal value of capital invested in the undertaking follows changes in the value of the currency.

If the profits of the company exceed salaries and a reasonable return on capital, the excess should be divided between the two factors of production.

Given that these sums are usually necessary for new investment, they should be frozen, so that they will remain unavailable for consumers.

In the Economic and Social Council, agreement was reached regarding the simplification and improvement of systems for savings premiums, which could be harmonized better. A majority was also in favour of eliminating obstacles in present legislation so that workers could participate in profit-sharing schemes to a greater extent. Legislation has since been adopted by amending the Civil Code.

In May 1975, the Government submitted to Parliament a document on incomes policy which includes a *programme for worker participation in company growth*. This programme, the essence of which was embodied in a draft law in June 1976, was inspired by the aim to increase workers' share in capital growth, and as a by-product, the programme aims at more uniformity in the growth of salaries and wages among the various branches. This slow down in the rate of increase of wages and salaries in the more profitable undertakings (which by the way makes for higher profits) would not be acceptable to workers unless these undertakings were to distribute part of the profits to workers under asset-formation schemes.

In 1978, *the draft law of June 1976 on worker participation in the capital growth of undertakings was substantially amended by the new Government*. The original draft was split into two parts: the first, presented in April, relates to individual participation by workers in the capital growth of their undertaking, and the second, presented in October, concerns the introduction, for an experimental period of three years, of a national system of capital growth sharing for workers. Individual schemes would have retroactive effect from 1 January 1977 and the national scheme from 1 January 1978. The schemes apply to all undertakings on the register of companies with annual taxable profits of more than HFL 100 000 arising in the Netherlands. 'Capital growth of undertakings' is defined as net profits arising in the Netherlands, less a sum representing the yield on capital employed, calculated according to a formula based on the interest rate for Government loans. The schemes would be financed by a contribution (deductible from taxable profits) from the company of 12 % of its capital growth, so defined. Under the individual schemes, each worker

would receive the same amount, subject to a ceiling, paid to an account with a bank or savings bank and frozen for a period of seven years. The undertaking can pay this amount in cash, shares or other certificates. After the seven-year period, the worker may freely dispose of these assets. The sums transferred (exclusively in cash) under the national plan would be paid into a central fund administered by a council composed of Government and workers' representatives (the latter in the majority). Receipts are estimated at between HFL 150 and 200 million per year and would be used to supplement workers' pensions and finance early retirement schemes.

While the employers' organizations prefer existing savings premium schemes and voluntary participation in company profits, and deplore the negative effects likely to ensue from the Government's plans, the Socialist and Catholic trade union organizations are demanding an intertrade fund for participation, in the form of blocked holdings, for workers in the capital growth of undertakings and emphasize the importance of such a fund for worker solidarity. The capital paid into the fund should be used to improve the lowest pensions rather than for individual asset formation. The Protestant trade union organization, on the other hand, is in favour of asset formation both through the undertaking concerned and the issue of certificates by intertrade funds.

With respect to encouraging home ownership, the Dutch Government has announced that it wishes to alter existing house-purchase schemes under which premiums vary depending on construction cost, and replace them by a system of degressive premiums based on the beneficiary's income.

## France

(d) In France, the Government has, by its orders on participation, shown that it is in favour of encouraging asset formation by workers and of linking such asset formation to the development of private savings and investments.

A 'Study Group for the reform of undertakings', set up by the Government in July 1974 and whose final report was published in February 1975, has recommended that compulsory financial participation (1967 Order) be progressively extended to all

undertakings and that the provisions of the Order should be further harmonized with those of the Order (1959) covering optional participation. A number of texts are at present under study in the Government to follow up the latter recommendation.

Further, in October 1978, the Government gave practical form to a plan announced by the President of the Republic at a press conference on 14 June 1978 by adopting a *draft law* providing for compulsory distribution of shares to employees of industrial and commercial undertakings quoted on the stock exchange. The scheme entails an 'exceptional once-for-all distribution' free of charge, of 3% of the companies' registered capital up to a limit corresponding to FF 5 000 per employee, provided that the companies have paid at least two dividends in each of the past three financial years. Individual amounts distributed can be varied in the proportion of 1:3 according to employees' earnings and length of service. The shares may not be sold for a period, determined by each company, of not less than three or more than five years.

The General Confederation of Labour (CGT) believes that systems of incentives for asset formation by workers should not be considered as a form of pressure to restrain consumption and is not in favour of any system of wage investment or profit sharing which results from compulsory savings.

The CGT maintains that any incentive scheme for workers' asset formation must be subject to certain prior conditions — increase of wages, guaranteed by sliding scale indexing, extension of supplementary retirement schemes based on sharing out, improvement in the overall social security system.

Similarly, the incentive schemes must have social objectives: they must principally relate to saving for home-ownership, and also encourage workers to acquire durable consumer goods.

As for the 1967 ordinance on participation, the CGT considers that it is an attempt by the Government to find a foothold for its wage pause policy. Under this legislation workers will only receive a small premium which, moreover, will only be paid after five years.

However, not wishing its workers to suffer even more hardship, the CGT recommended its local organizations to sign participation agreements,

choosing an investment in blocked current accounts providing for automatic payment at the end of the five-year period, and annual interest payments.

For the Democratic French Confederation of Labour (CFDT), the real problem is that the increased profits should belong to the community as a whole as such profits, created by auto-financing, are created by the company, the worker and the State, all playing their part.

Moreover, the investor remains free to invest or not, whilst the worker is required to make savings, from his wages, over which neither the workers nor their representatives have any control.

Force Ouvrière (FO) is opposed to any measure which might oblige workers to set up a savings fund: no system of incentives for asset formation can be accepted whilst the income of the majority of workers is insufficient. For these reasons, this trade union has shown its disapproval of the objectives and methods chosen in the 1967 Order on profit-sharing; it considers further, that the incentives for saving in the form of tax exemption or supplementary employers' contributions accentuate the disparities in income, to the detriment of the poorest. For this reason, FO cannot approve the systems for savings schemes which give supplements in proportion to the amounts deposited.

FO is opposed to any attempts to make workers shareholders in the company which employs them. Such schemes involve a double risk for workers: if the company fails, they could lose, at a stroke, their job and their savings. Moreover, owning shares in the company in which one works is a grave obstacle to occupational and geographical mobility, which is encouraged by the public authorities.

Incentives should be given only to those investments concerned with home-ownership – such incentives would be particularly important as they would benefit the underprivileged social groups.

In conclusion, from the economic viewpoint, before trying to increase savings to encourage growth, all resources which are badly employed should be mobilized.

The Confédération Générale des Cadres (CGC) is in favour of any measure which gives workers incentives towards asset formation. It recognizes the soundness of legislation designed to decrease ten-

sion between capital and labour, create an interest in saving, and increase investment. It is, on the other hand, opposed to any measure which fixes ceilings which can discriminate against its members.

It considers that there are numerous possible solutions, and that the methods employed should be very varied so that they can be adapted to the particular case of each company.

The National Council of French Employers (CNPF) is in favour of promoting workers' savings in the form of deposits and securities. Thus it has strongly encouraged companies to propose participation schemes setting up savings funds of diversified securities (investment funds). This scheme avoids excessive risks to both jobs and savings.

## Denmark

(e) In Denmark, both the Employers' Confederation (DA) and that of the Trade Unions (LO) are in favour of a fairer redistribution of wealth.

The Trade Union Confederation proposed to set up a 'profit and investment fund' to be the common property of all wage-earners and be built up by progressive payments by all employers (including the public authorities). The fund would be managed by a Council whose members are representatives of the different trade unions and an executive board of five persons, four elected by the Council and one appointed by the Government. In limited companies and cooperatives, the total amount paid would be retained in the undertaking as wage-earners' capital. In companies under different legal status part of the compulsory payments to the fund would, by arrangement with the fund, remain deposited in the undertaking as wage-earners' capital. The right to vote acquired by the payment of shares to the fund would be exercised by delegates elected by the wage-earners of each undertaking and not by the fund. After seven years, every worker would be able to request liquidation of his certificates relating to the first year and so on. All wage-earners would receive an equal number of certificates. At present, trade union organizations tend to favour using funds to improve retirement pensions or to finance certain social expenditure.

In the Danish Employers' Confederation (DA) scheme, employees would have the alternative

either to invest part of their savings in their own company with the normal chances and risks involved, or to become a member of a 'wage-earners investment club' which makes use of the administrative machinery of the commercial and savings banks and which spreads the investment over sectors and/or regions. There would be a five-year freeze which could be extended voluntarily and tax benefits on the wage-earners savings would be introduced.

The DA thinks its proposal will stimulate savings and investment while leaving maximum freedom to the participants and will increase co-ownership and co-responsibility of individual employees. Referring to the proposal put forward by the Confederation of Trade Unions (see above) and to the 1973 draft law (see below), the Confederation of Employers has declared that in its opinion asset formation by employees and their economic participation in the development of undertakings would not be encouraged if public authorities impose a system of such an amplitude on enterprises and their staff. The Confederation of Employers considers that this goal can be more easily reached by allowing the system to develop itself progressively and regularly, thanks to agreements freely entered upon at the level of enterprises so as to strengthen the ties that exist between workers and their enterprise. The proliferation of 'workers' shares' is evidently a symptom of this trend.

With the aim of creating a modern and efficient framework in which the Danish economy can develop, the Government, on 31 January 1973, submitted to Parliament a *draft bill* which aimed at setting up a 'Central Investment Fund' to be the common property of all wage-earners and built up by progressive payments by employers starting at 0.50% of total wages paid and rising after ten years to 5% of this sum. The Fund would be managed by a Board of Directors, three-fifths of whom would be appointed by the workers and two-fifths by the Government. Limited companies employing more than fifty persons would pay two-thirds of their contribution in the form of shares, while small undertakings would settle the amount in cash. The right to vote acquired by the payment of shares to the Fund would be exercised by the wage-earners of each undertaking and not by the Fund. After seven years, every worker would be able to request liquidation of his shares relating to the first year and so

on. All wage-earners would receive an equal number of shares. The present Government has not yet taken a decision on this question but has submitted the problem to a Committee on Incomes and Asset Formation which has just presented its first report.

## Belgium

(f) In Belgium, Governments have always been very much in favour of giving incentives to individual asset formation by workers, by using the taxation system. Budgetary reasons have sometimes led to the rejection of new proposals for legislation.

The representatives of the Federation of Belgian Employers (FEB) believe that they should not put obstacles in the way of incentives for asset formation provided for in sectoral or company collective agreements, if they are accepted by both parties and correspond to the systems' aims and fulfil a need. As far as the measure taken by public authorities to encourage saving generally are concerned, the FEB considers that any Government proposal must take into account the probable repercussions on the cost of labour; moreover, any Government action must fit within the framework of the economic policy approved by the two sides of industry and must not have any negative effect on joint negotiations at any level.

The FGTB is opposed to any form of incomes policy, and is therefore opposed to any system of asset-formation policy which is in fact an incomes policy or is intended to oblige workers to save. It is also against any form of worker shareholding and any incentive scheme which tends to integrate workers into the capitalist system. It considers that an inquiry must be made into the factors determining attitudes to voluntary saving and to consumption: rather than encouraging workers to save, they should be discouraged from consuming useless products, especially those advertised through mass media channels.

The CSC considers that encouraging asset formation by workers should be a matter of constant concern. The Christian trade union however insists on a more detailed analysis of the propensities to save and to consume and with these as a base it is

hoped to devise ways and means of satisfying the needs and wishes of workers.

The following conditions must, however, be fulfilled:

- no scheme must be imposed against the workers' wishes;
- the machinery for asset formation must remain complementary to normal remuneration and to the generation of income;
- such machinery must not be considered as a means of obtaining a right to participation in the management of undertakings, as workers claim by virtue of their work alone;
- the introduction of such machinery must contain enough elements of solidarity to avoid compounding differences in remuneration which exist between strong and weak undertakings;
- preference must be given to schemes under which the amounts available for asset formation can find a place within the general national plan as far as industrial policy is concerned.

## Italy

(g) In Italy, all social groups are in favour of incentives to voluntary savings by families. The economic programme for 1966–70 made provision for a salary-investment scheme. The preliminary report for the economic programme for 1971–75 (project 1980) provides for a re-examination of the legislation in force, with the intention not only of promoting rented dwellings, but also encouraging acquisition of real property and savings made to this end. In this context, the introduction of a home-ownership saving scheme was the subject of a *draft law* in 1974, resubmitted in October 1978. The present draft law is designed to give every Italian the possibility of opening a home-ownership savings account, the amount of which will be revalued by 75% of any change in the consumer price index at each year-end. The interest (capitalized at the year-end) will be free of tax at source. When the beneficiary has accumulated between LIT 6 million and LIT 8 million, he will be entitled to a building loan, also revalued at each year-end, up to a ceiling of LIT 36 million, repayable over twenty years.

The Italian Confederation of workers' trade unions (CISL) proposed a draft law (which became invalid because the legislative session ended) intended to promote 'savings by agreement' at national level, under which workers would have made voluntary savings. This proposal has not been resubmitted and no longer appears in any official CISL document.

The CGIL is opposed to any form of incomes policy, and is therefore opposed in principle to an asset-formation policy, which forms part of it. Similarly, this union is against schemes in which workers participate in machinery for accumulating capital which is controlled by major combines. It is of the opinion that asset formation by workers is not the most important problem, and that instead attention should be given to the problem of how to share out the increase in national wealth (examining how far workers are benefiting from this) and the problem of the increase in consumption, notably the balance between public and private consumption. Tax reform – called for by Italian unions – should facilitate a public expenditure policy having the aims of encouraging social investment and overcoming the difficulties of the Italian economy.

In relation to housing, the trade unions, in their discussions with the Government on the most urgent reforms, expressed a preference for the construction of rented dwellings.

The Liberal Party introduced a Bill designed to promote worker participation. It concerns limited companies which have a registered capital of more than LIT 10 000 million, have been quoted on the stock exchange for five years and, during that period, have distributed an annual dividend of at least 6%. If one of those companies decided to pay its workers and employees, whose total annual earnings are below LIT 2 400 000, additional sums to help them purchase its own shares, such amounts would be deductible from the company's taxable profits. Shares purchased by workers and employees could not be sold for three years and dividends earned on them would be exempt from tax up to a ceiling of LIT 480 000.

## United Kingdom

(h) In the United Kingdom, successive Governments have repeatedly emphasized the importance

they attached to a broad range of instruments to channel savings. The various parties (or working groups within the parties) have expressed varying degrees of interest in alternative forms of participation by wage and salary earners in undertakings' profits and capital growth. In 1973, a Labour Party Study Group published a *paper* on Capital and Equality. The basic idea is a 'National Workers' Fund' to which undertakings would transfer 1% of their share capital annually, by issuing new capital so that the liquidity remains guaranteed. For example, private companies would pay 5% of their wage bill. All employees would receive an equal amount in certificates issued by the Fund. It would not be possible to cash these certificates in the first seven (or five) years, but after that time those relating to the first year could be sold, and so on.

The Fund would be managed by a board composed of employees' representatives (majority), special advisers appointed by the Government and representatives of the Government itself. In companies, voting rights would be exercised by the Fund, and not by individual employees participating in the Fund.

The Liberal Party has long advocated an active asset-formation policy and is in favour of a flexible and decentralized system of participation by workers in the profits of their own undertaking, in a general framework in which employees also participate in decisions at management level.

In its paper 'The right approach', published in 1977, the Conservative Party came out in favour of tax exemptions (for up to five years) for the purchase of shares by workers in the undertaking concerned. Undertakings could distribute to their workers up to 10% of their profits before tax, the sums thus used being deductible from corporation tax.

The CBI has emphasized that all forms of financial participation should be optional.

The TUC rejects plans for worker participation in profits at undertaking level, but encourages participation in savings schemes open to the population at large.

## Ireland

(i) In Ireland, schemes for worker participation in profits are still at the preliminary discussion stage.

In this context, other forms of asset formation, such as 'wages investment', are also under study.

The trade union organizations, the Irish Transport and General Workers Union for example, are showing increasing interest in participation in company profits. This union is considering making a claim to this effect during the negotiations on collective agreements.

## Luxembourg

(j) In Luxembourg, a draft law reforming individual State aids for the construction or purchase of housing, new or old, is under discussion in the Chamber of Deputies. The draft provides for a State guarantee when the loan is taken out for the first dwelling. The amount of the loan could be as much as 90% of the total price, instead of the present 80%. Further, construction premiums would depend on the beneficiary's income and number of dependent children.



## Part 1

# Incentives offered to the population as a whole

## Incentives for savings in the form of deposits and securities

### 1. Fiscal benefits

1.1. Giving tax exemption on *income from savings accounts* is a traditional way of encouraging savings. As opposed to more recent schemes, tax benefits are not made subject to a time-limit on deposits, even if such a limit may be agreed upon between the investor and the financial institution. This kind of exemption exists in *Belgium, Luxembourg, Netherlands, France, Italy, the United Kingdom and Ireland* and since the beginning of 1975 in the *Federal Republic of Germany*. In Belgium (11 July 1972 Law as amended), the first BFR 15 000 of annual interest from savings accounts with the Caisse Générale d'Épargne et de Retraite, other public savings banks and private savings banks or other financial institutions, is exempt from personal income tax. This applies to sight deposits, proven by possession of a savings book or certificate.

In *Luxembourg*, the Law of 20 July 1973, which came into force retroactively on 1 July 1973, has the same scope. The ceiling fixed for the exemption is LFR 15 000 and the savings account may be opened with any banking institution – including the State Savings Bank – under the authority of the Commissioner for Banking Control. The deposit, whether on call or at notice, must be inscribed in a savings book, and its aim must be to invest or accumulate capital.

In the *Netherlands*, income of up to HFL 200 from savings deposits and bonds is exempt from income tax.

1.2. In the *United Kingdom*, to encourage investment in National Savings Bank Ordinary Accounts and Trustee Savings Bank Ordinary Accounts, income tax exemption is granted on the first UKL 70 of interest on sums so invested.

The maximum holding in the savings banks' ordinary accounts is UKL 10 000. Savers may operate these accounts on a short-term basis, i.e. with with-

drawal on demand, and interest is payable on outstanding balances. Building societies also offer savings facilities.

In *Ireland*, exemption from income tax is granted at present in respect of the first IRL 70 of interest on ordinary deposits received by an individual from the Post Office Savings Bank, the Trustee Savings Banks or from the 'Commercial banks' listed in the governing legislation (Section 344 of the Income Tax Act, 1967 as amended). For a married couple, exemption up to IRL 70 applies separately to the deposit interest of each spouse.

1.3. In *France*, the interest on amounts entered in class 'A' savings books issued by savings banks are free of income tax. No ceiling is set on this exemption, but deposits are at present limited to FF 41 000. Above this ceiling, an additional book (book 'B') must be issued: the interest produced by the amounts deposited are taxed normally, or at a standard rate in discharge of liability, at the taxpayer's choice. To encourage long-term saving, a savings book 'C' has been introduced. Sums invested in this way are subject to a three-year holding period; however they carry a higher rate of interest, paid free of tax.

Interest and premiums on home-ownership saving schemes are also free of income tax. The amount which may be deposited in these savings books or saved in the framework of these schemes is limited to FF 100 000.

Persons who receive interest on short- or medium-term investments can opt to be taxed at a standard rate of 40% (33 $\frac{1}{3}$ % for Treasury bonds and certain cash certificates) on this income, in discharge of liability.

1.4. A special tax system applies to the *interest from bonds*. There are several options:

— the normal rate of taxation is applied, with a flat-rate deduction of FF 3 000 (Art. 158-3 Annex IV 6 (b) General Tax Code), on annual income up to FF 180 000. In assessing the basis for personal income tax, a deduction of FF 3 000 is applied per annum on the total taxable income deriving from fixed-interest securities issued in France and quoted on a French stock exchange. These provisions do not apply to securities which have an indexation clause;

— the standard rate of 25% is applied to the interest in discharge of income tax liability. For this rate to be applied to income from bonds the loan must be issued under conditions approved by the Ministry of Economy and Finance. These provisions do not apply to bonds with an indexation clause.

— FF 1 000 may be deducted from the basis of assessment for interest on a loan taken out in 1977, or a standard rate of 25% may be applied in discharge of tax liability;

— the deduction of FF 3 000 can also be applied to dividends *from shares*.

Up to a ceiling of FF 5 000 (plus FF 500 for each of the first two dependants and FF 1 000 for each subsequent dependant), the amount invested in *shares* may be deducted from taxable income until the end of 1981. This provision cannot be combined with those given above.

Provision is also made for tax exemption on interest from loans in *Italy*. A system of withholding tax (in discharge of liability) is applied to interest on bonds and similar certificates which are not exempt from income tax.

1.5. In *Ireland*, interest on five-year savings certificates at a rate of 8.5% p. a. is paid free of tax. This rate corresponds to a return of 13% for holders who pay income tax at the standard rate. The maximum holding per person is IRL 7 500 and repayments can be made at short notice.

An individual who is resident in Ireland and holds shares or securities in an Irish resident manufacturing or non-manufacturing company which complies with certain conditions, may claim a rebate of one-fifth of the tax on the related income.

In the *United Kingdom*, no tax is charged on the interest on National Savings Certificates. The maximum holding at the present time is UKL 2 000. Interest on the certificates is capitalized and repaid with the capital on redemption.

1.6. In the *Federal Republic of Germany*, a new income-tax exemption to encourage savings was introduced on 1 January 1975. Annually this amounts to DM 300 for unmarried persons and DM 600 for married persons. Furthermore the standard amount for business expenses has been fixed at DM

100 (DM 200 for married people). This means that DM 800 annually of interest on savings and other investment income is exempt from tax. Interest on certain certificates and bonds issued by the State and local authorities are also exempt from income tax.

1.7. Besides the 'unfrozen' forms of savings mentioned above, there is another saving incentive in *French* legislation. This concerns *long-term savings plans* (Law 65.997 of 29 November 1965). These plans, which involve regular deposits, are intended to create capital; this – and the income on it – must be invested in securities (shares or bonds), of which 50 % must be French securities.

In this case tax already paid to the Treasury (tax credit) stemming from income on long-term saving accounts will be refunded to the taxpayer and credited to his long-term saving account under the following conditions:

— regular annual deposits (one or several),

— minimum duration, five years (Decree of 28 December 1967),

— annual deposits must not exceed one-quarter of average taxable personal income for the three years preceding the savings agreement.

From 1 June 1978 such savings agreements cannot be contracted or extended for more than five years. After 31 December 1981, no other agreements may be contracted or extended.

Long-term savings agreements are made by written contract between the institution holding the savings account and the investor.<sup>1</sup>

These savings agreements may be extended for one or several years more, on condition that the extension was made in the year before expiration of the time-limit.

If the 'freezing' period is not respected, the exempt income becomes subject to tax. Exceptions are made in case of *force majeure*, death, or total incapacity for work of the investor.

1.8. Another form of saving is found in those *insurance contracts* which provide for a capital sum to be paid upon death or upon the assured reaching

<sup>1</sup> Decree 66-348, of 3 June 1966, contains a list of authorized institutions.

a certain age. The conclusion of such contracts is encouraged by six *Community countries* through concessions: the premiums may be deducted in full, or partially, from taxable income. The conditions for deduction differ from country to country. The contract must specify a minimum length of time in Belgium, Luxembourg, Ireland, United Kingdom (ten years) and in the Federal Republic of Germany (twelve years). In all six countries, premiums are deductible up to a maximum annual amount, fixed either in absolute terms, or as a percentage of taxable income, or using both these criteria together.

1.9. In *Denmark*, employees can deduct up to DKR 3 000 from their income tax base in order to finance a capital insurance not related to a professional activity. The insured amount is paid net of taxes. The same deduction can be applied to form a deposit with banks and savings banks, to be used by the same person after being pensioned or to establish a child's account. During the 'freeze' the amounts deposited are not counted as assets for tax purposes and the interest on the sums credited in the same period are not liable to income tax.

1.10. In the *Federal Republic of Germany*, asset-formation incentives are also provided in the form of tax relief on *supplementary income* (Neueinnahmen). Tax exemption up to DM 800 per annum is applied to supplementary income if it arises from certain investments defined by law. For employees, supplementary income is usually produced by savings accounts, securities, rent or agriculture.

1.11. In *Ireland*, exemption from income tax is granted in respect of premiums payable on non-interest bearing Government securities issued under the Central Fund Act, 1965 (National Bonds 1966-67) except where the premium is already deducted from taxable profits.

1.12. In the *United Kingdom* unit and investment trusts pay tax on capital gains at half the standard rate of income tax, and unit holders or shareholders receive a credit equal to half the standard rate; those who pay tax at the standard rate will normally have nothing more to pay on any capital gain they may realize on the sale of their holdings.

Retirement annuity contracts: annual premiums of approved deferred annuity contracts taken out by self-employed or non-pensionable persons are free of tax.

## 2. Savings premiums, index-linked savings

2.1. In the *Federal Republic of Germany*, under the *law on savings premiums* (version of 20 December 1977), the State pays premiums free of tax for deposits made by any person fully subject to income tax who, within the same fiscal year, has not applied for a home-building premium or for tax exemption on deposits made under a home-ownership savings contract.

Five kinds of savings are provided for:

- savings contracts which are intended to create assets: the investor undertakes, with a credit institution, to deposit the sums he is saving under the 'DM 624 Law';<sup>1</sup>

- a single deposit under an ordinary savings contract; the investor undertakes, with a credit institution, not to withdraw the amount deposited until the end of a six-year holding period;

- savings contract with deposits by instalments; the investor undertakes, with a credit institution, to make regular deposits over six years of a fixed sum, and not to withdraw them until the end of the holding period (six years of deposits and one extra year for the holding period);

- purchase of securities: the investor undertakes not to resell until expiration of the holding period. The securities must be issued by companies having their registered office and management on Federal territory or in West Berlin;

- loans to the employer: the employee agrees to lend the employer the amounts received under asset-formation schemes (not forming part of wages) and to freeze these amounts for six or seven years.

Savings must amount to at least DM 60 a year. The maximum is DM 800 for unmarried persons and DM 1 600 for all other investors. Income ceilings have been set: annual taxable income of DM 24 000 for unmarried persons and DM 48 000 for married

<sup>1</sup> Point 15.1.

persons, plus DM 1 800 for each child under 18. Money on deposit under the 'DM 624 Law' is not taken into account in calculating this ceiling.

For entitlement to the premium, the amounts saved must not be directly or indirectly linked to a loan, and must not be withdrawn before the end of the holding period. If they are withdrawn earlier, the premiums will be annulled. The repayment, transfer or premature commitment of the savings will not lead to loss of premiums if the investor or his spouse (not being legally separated) die or become incapable of working. The same applies if the investor gets married, after two years' deposits have accrued. In the case of a savings contract with deposits by instalments, if the payments are interrupted (e.g., return of a migrant worker to his home country), the premium will be payable in respect of the payments made prior to the interruption but will be paid only after the holding period.

Since 1969, it has been possible to switch cash savings into securities or home-ownership schemes; the amounts saved may also be converted to funds for home building or to investment in his own undertaking by a self-employed worker with no loss of premium.

The premium amounts to 14% for single persons and childless married persons, and is increased by 2% for each child.

2.2. In *Ireland*, investment bonds are offered at an interest rate of 7.5% plus a 5% premium after five years. Interest is paid – net of tax – but is liable to income tax in the hands of recipients; premiums are tax free.

Under the National Instalment Saving Scheme, which covers a six-year period, investors agree to save a fixed monthly instalment (IRL 1 – IRL 50) for twelve consecutive months. The total so saved is left on deposit for a further two years, at the end of which a tax-free premium is payable on the total saved. If the savings are deposited for five years, an additional premium of 5% of the amount saved is paid. Minimum yields (premium plus interest) are guaranteed (30% after two years and up to 70% after five years) in cases where they are higher than they would be if they were index-linked.

In the case of persons aged 65 or over, a scheme for the purchase of savings bonds (up to a maximum of

IRL 750) has been introduced. *The capital value of the bonds is linked to the consumer price index.* After one year, the premium – also index-linked – is payable, and if the bond is held for three years an additional premium of 5% of the purchase price is paid. All premiums are free of tax.

2.3. In the *United Kingdom*, British Savings Bonds were introduced in 1968, as the successor to the Defence Bonds (introduced in 1939), and the National Development Bonds (introduced in 1964). They are sold in multiples of UKL 5, with a maximum holding of UKL 10 000 and a life of five years. At the end of this period, a 3% tax-free premium is payable, but the half-yearly interest is subject to tax. The Ulster Development Bond (sold only in Northern Ireland) is similar in terms and conditions to the British Savings Bond.

Another premium scheme to encourage savings is the Save-As-You-Earn system (SAYE). It offers a type of savings contract whereby, in return for regular monthly payments of a fixed amount over five years, a bonus equal to fourteen monthly payments is granted when the total sum is withdrawn at the end of that period. Alternatively, and without making any further payments, if the savings are left invested for a further two years (making seven years in all), a premium equal to twenty-eight monthly payments is payable. The premiums or interest payable under the savings contract are free of tax.

Two new *index-linked* schemes introduced by the Government constituted a significant innovation. The first, which came into effect on 2 June 1975, provides for a new type of national savings certificate available only to those of statutory retirement age. The minimum unit is UKL 10 (maximum holding UKL 500). Provided the certificates are held for at least one year they will be revalued in line with the movement of the retail price index. If held for five years, an additional premium of 4% of the purchase price will also be payable. Under the second scheme, which came into effect on 1 July 1975, savings certificates are issued in exchange for earnings withheld at source (replacing the abovementioned SAYE scheme); all savers aged 16 or over are eligible. The minimum monthly contribution is UKL 4 (maximum UKL 20). When the saver has made payments under the scheme, he may withdraw his savings, which will be revalued in line

with the movement of the retail price index. Alternatively, and without making any further payment, the investor may leave his savings for a further two years at the end of which he is entitled to a premium equal to two monthly payments in addition to any further index-linked bonus.

The proceeds from both schemes are free of income tax and capital gains tax. In no circumstances will an investor receive less in money terms than his original investment. These schemes are only available through the Department of National Savings.

2.4. In Luxembourg, in December 1976 the Government, in collaboration with the Caisse d'Epargne de l'Etat (State Savings Bank), launched an index-linked savings scheme. Interest on savings deposits, with monthly payments frozen for some years, will correspond to the average rate of inflation in the current fiscal year plus 0.5%, with upper and lower limits of 7% and 9% respectively. In the following year, the private banks decided to offer their clients a similar savings scheme on slightly more favourable terms.

2.5. The basic characteristics of these savings premiums schemes are also to be found in the *Dutch law on youth savings*. Young people aged 15 to 20 may make a 'youth savings contract' with a bank. After saving for a minimum of six and a maximum of nine years, they are entitled to a tax-free premium, equal to 10 % of the sum saved together with the accrued interest. Up to HFL 480 per year can be saved. The premium may be obtained earlier if the saver gets married, or immediately if he dies.

### 3. Various types

3.1. In *Luxembourg*, there is a whole series of *special schemes* (school savings, youth savings, occupational savings) open to young people at the State Savings Bank, differing as regards the age-limits and holding periods applied. They offer advantageous interest rates, and in the case of occupational schemes (open to young people between 21 and 30), carry a priority entitlement to loans to cover the cost of vocational training, house purchase, etc. This right may be exercised up to the age of 36.

On 31 December 1977, 64 986 people were taking part in youth savings schemes (LFR 1 057 million) and 11 283 in occupational savings schemes (LFR 1 767 million).

## Incentives for savings in the form of real property

### 4. Fiscal advantages

4.1. All EEC countries provide tax benefits as an incentive to savings destined to acquire real property.

In the *Netherlands, Denmark, Italy and Luxembourg*, mortgage interest payments can be deducted in full from taxable income. In *Belgium*, these payments can be deducted from the taxable base up to an amount not exceeding declared income from real property and securities.

4.2. In *France*, interest on loans contracted for the purchase, construction or major repair of the principal dwelling (when the taxpayer is the owner of the said dwelling) can be deducted from taxable income up to a limit of FF 7 000 (plus FF 1 000 per dependant). The purchase of building land is liable to VAT at an effective rate of 5.28% instead of the registration duty of 16.6%, whilst the sale of dwellings is liable to registration duty at the reduced rate of 4.8%.

4.3. In the *Federal Republic of Germany*, a certain percentage of the cost of dwellings for one or two families and flats (5% per year in the first eight years, 2.5% thereafter) may be deducted from taxable income by the person who ordered its building or was the first purchaser, so as to accelerate its amortization. The building or purchase price cannot be taken into account, unless it is below DM 150 000 (DM 200 000 for houses to be inhabited by two families) less the price of the land.<sup>1</sup> Also, if land earmarked for the construction of subsidized housing or qualifying for tax concessions is purchased (in principle, not more than 156 square miles), it will be exempt from the *tax on transfers of real property*. This applies also to the purchase of new houses or dwellings. The purchase price of a one-

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<sup>1</sup> Article 7 (b) of the Income Tax Law.

family house or apartment is exempt from this tax up to DM 250 000 (DM 300 000 in the case of a two-family house).

4.4. In *Ireland*, income-tax relief is granted on interest on home-ownership loans. All new subsidized houses are exempt from stamp duty. If the purchaser does not meet the conditions to qualify for a subsidy, he is nevertheless exempt provided the builder has received a certificate from the Ministry of the Environment to the effect that construction costs are reasonable.

4.5. In the *United Kingdom*, the 1977 Finance Act provides for tax relief on interest paid on loans taken out for the purchase or improvement of property. One of the main conditions is that the property must be the only or main residence of the borrower (or that of a dependent relative or former or separated spouse). Where the loan is for the purchase of property it generally takes the form of a mortgage and there is no limit on the period during which tax relief is granted on loans not exceeding UKL 25 000. House purchasers may link their mortgage to a life insurance contract – thereby getting some tax relief both in respect of the capital borrowed and on the interest paid.

## 5. Saving for home-ownership and premiums<sup>1</sup>

5.1. Another kind of incentive to savings in the form of real property is *saving for home-ownership*. In the *Federal Republic of Germany*, this form of saving is the only one of the four types benefiting from premiums<sup>2</sup> intended to encourage house building to have become at all widespread.

Any person who pays income tax and is earning under DM 24 000 in the case of single persons and DM 48 000 plus DM 1 800 for each dependent child in the case of married persons, may participate in this kind of savings scheme, provided that he has not already applied for premiums under the law on savings premiums<sup>3</sup> and that he does not claim relief from special charges under the home-ownership savings scheme.

The maximum annual amount of savings needed to obtain the highest premium is DM 800 for single

persons and DM 1 600 for the others. Contributions made under the 'DM 624' Law are not taken into account in computing this maximum. A minimum seven-year holding period is fixed by law but the amount saved can be drawn, before the end of the holding period, without loss of premium entitlement in the case of death or disability for work of the investor or for immediate use for housing construction on German territory. If the holding period is not respected, the right to the premium is lost and premiums already received must be refunded.

The premium amounts to 18% for single persons and childless married persons, increased by 2% for each child. Half the cost of the premium is borne by the Federal Government and the other half by the *Länder*.

Subject to a ceiling and under certain conditions — ten-year holding period, 50% increase in deposits from the fifth year, non-utilization, in the same tax year, of some other types of privileged savings — contributions to savings for home-ownership may be deducted as special expenses from taxable income. In this case, entitlement to the premium is lost.

5.2. In *Belgium*, a *home-ownership saving* scheme has been set up by the Caisse Générale d'Epargne et de Retraite (CGER) and other organizations. The length of the savings contract is five years; at the end of this time, the investor may obtain credit up to a maximum of five times the amount invested (up to a certain ceiling); he also qualifies for priority in obtaining a normal mortgage loan. The right to credit is not lost if the amounts deposited are withdrawn before the specified time-limit to build or purchase a dwelling.

<sup>1</sup> In this report, the word premium ('prime'), in relation to savings in the form of real property, refers both to lump sums paid at the time of purchase or construction and to sums paid out over several years.

<sup>2</sup> Law of 28 August 1974 (version of 20 December 1977). The other three forms are:

(a) acquisition of shares in house-building cooperatives;  
(b) contributions paid under savings contracts for house building made with banks, savings banks, or certain agencies authorized for house building;  
(c) contributions paid under capitalization contracts taken out with bodies responsible for housing construction.

<sup>3</sup> Point 12.1.

5.3. By the law of 27 July 1971, Luxembourg set up a home-ownership savings scheme, which provides the following advantages after a holding period of three years:

- a savings premium equal to the interest credited on the home-ownership saving account is granted up to a maximum of LFR 40 000. This premium is tax-free;
- a loan equal to 150% of the amount saved may be granted;
- a State guarantee for up to 25% of the loan;
- an interest-rate subsidy calculated on the basis of a loan of LFR 1 200 000, reducing the rate from the current 6.5% to 5% for a household without children, 4.5% for a household with one child, 4% for a household with two children, 3.5% for a household with three children, and 3% for a household with four children.

5.4. A home-ownership savings scheme exists in France (Law 65-554 of 10 July 1965, and Decree 1044 of 2 December 1965, amended by Decrees 1230 and 1231 of 24 December 1969). This combines the advantages of the premium (paid by the State and equal to the interest received on the account), tax exemption (the interest received on the savings account is not subject to income tax) and the grant of a loan at a reduced interest rate.

It is of note that the 1969 reform set up a system for savings with a holding period, known as the 'plan d'épargne-logement', which is more advantageous than the 'free' system known as the 'compte d'épargne-logement'.

The sums deposited under these 'schemes' amounted in 1975 to FF 44 920 million; in the same year FF 12 180 million were invested in the 'accounts'.

	Compte d'épargne-logement (Home-ownership savings account)	Plan d'épargne-logement (Home-ownership savings scheme)
<i>Length of savings period</i>		
A — Deposit		
— minimum period	18 months	4 years
— maximum amount	FF 100 000	FF 100 000
B — Payment		
— interest rate	3.25%	4%
— savings premium	3.25%	4%
— ceiling for this premium	FF 7 500	FF 10 000
C — Availability of amounts deposited	'free' (compulsory deposit of at least FF 750)	— blocked for the duration of the savings scheme — in case of early withdrawal, deposits may be transferred with retroactive effect to the home-ownership savings ac- count
<i>Length of the loan</i>		
A — Amount and length of the loan		
— multiplying coefficient	1.5	2.5%
— maximum amount	FF 150 000	FF 150 000
— maximum length	15 years	15 years
B — Interest rate for loan	3.25% (+ 1.5% for management costs)	4% (+ 1.5% for management costs)

5.5. In *Denmark*, home-ownership savings are encouraged by the Law of May 1970 (amended in June 1974) providing for a premium of 4% per annum. Savings can only be made by persons over 18 under a home-ownership savings contract with a bank or credit institution. The saving period must be between three and five years, whereafter the money can be used. The monthly payments may fluctuate between DKR 100 and 500. Premiums will only be received if the money saved is used for building or improving a home in Denmark where the saver spends most of the year.

5.6. In the *United Kingdom*, the Government presented a scheme, adopted by Parliament, to facilitate access to home-ownership for first-time buyers. This scheme combines the grant (under certain conditions) of an interest-free loan of UKL 600 to be repaid from the sixth year and the payment of a premium for person who have saved at least UKL 300 for two years before the year of purchase. The tax-free premium ranges from UKL 40 to UKL 110 for savings of UKL 1 000.

5.7. In the *Netherlands*, decreasing *subsidies* are paid by the State to any person who builds or buys a new dwelling in the Netherlands. These subsidies may be granted for a maximum of ten years. They vary according to the size of the dwelling, the township where it is located, and the building costs. The total cost of the dwelling, including land, must not exceed HFL 115 000. If the person receiving the subsidy was previously the owner-occupier of a slum-dwelling, the State subsidy is increased by 50%.

It is also possible to obtain a *guarantee* from the local authorities for a mortgage loan of up to HFL 200 000.

## 6. Home-building loans

6.1. In *France*, in certain cases, home-building loans are granted by the Crédit foncier de France and the Crédit agricole, and give rights to a rebate on interest at the expense of the State. The aid granted by the Crédit foncier de France is based on the 1950 law under which premiums are given for home-building loans for new homes subject to the

condition that the public authorities' regulations are observed.

There are two schemes:

— to receive a *special direct loan (prêt spécial immédiat) (PSI)*, the potential owner must prove that his income does not exceed a given ceiling. A lump sum loan covering approximately 60% of the cost price of a home will be granted directly by the Crédit foncier de France. These loans benefit from rebates paid to the Crédit foncier de France by the State to reduce the interest rate charged to the borrower. The interest rates on these loans are 7.4% during the first ten years and 10% for the ten following years. In the framework of the 1977 housing aid reform (see 13.2), the special direct loan will be gradually replaced by *aided home-ownership loans (prêts aidés à l'accession à la propriété) (PAP)*. Housing financed by a PAP must be occupied as the principal residence. PAP loans are granted only to households with an income below a certain ceiling, which is reviewed each year and varies according to the composition of the household, the spouse's activity and the location of the dwelling. The amount of a PAP loan varies according to whether it falls under the 'individual' sector — the beneficiary himself is responsible for the construction — or the 'grouped' sector, where the unit purchased is one of a complex. PAP loans can be amortized at the borrower's choice in fifteen, eighteen or twenty years. At present, interest rates are 8.10% for nine years and 10.75% in subsequent years.

— in the case of *special home-ownership loans (prêt immobilier conventionné) (PIC)*, there is no ceiling on income but only on the maximum purchase price. These loans cover 80% of the price and are granted directly by banks, which can refinance part of the sums involved at a favourable rate with the Crédit foncier de France, which in turn receives a subsidy from the State. The loans are at present granted under the following conditions: interest of 9.25% from the first to the fifth year, 10.50% from the sixth to the tenth year, and 12.50% for the eleventh to the twentieth year. By Decree of 22 November 1977 a new special loan ('prêts conventionnés') scheme was instituted to replace the PIC scheme. These loans are mainly intended for the building or improvement of dwellings and are granted under conditions similar to those applying to the PIC scheme. Dwellings financed through the



loans must conform to minimum conditions as regards price and area. As in the case of PIC loans, this scheme allows for 80% financing of the operation.

6.2. In *Ireland*, the Government helps persons to own their own home by a direct assistance scheme. Since 26 May 1977, any purchaser of a first home may receive a non-refundable subsidy of IRL 1 000. This subsidy is also granted to persons building their first house, provided work on laying the foundations of the dwelling did not begin until after this date.

In the case of private individuals receiving a loan from a local authority to acquire their first home, in November 1976 the Government introduced a new incentive. In the first nine years, the Treasury will pay the borrower a subsidy (for example, IRL 4.50 per week on a loan of IRL 5 600 or more) decreasing by one-ninth per year. Thus the borrower does not pay the full amount of the refund until the tenth year. It should be noted that depending on the family circumstances of the purchaser, the loan may equal up to 100% of the value of the dwelling, but in general the maximum is IRL 9 000 or 98% of the value of the house.

## Part 2

### Types of incentive offered to low-income groups

#### Incentives for savings in the form of deposits and securities

### 7. Fiscal advantages

7.1. In the *Netherlands*, the Law of 27 June 1963 is intended to remove tax obstacles likely to deter small investors from *acquiring assets*.

These legislative measures are directed towards the issue of 'savings certificates' by investment funds. These certificates can only be acquired and held by small investors. The present regulations lay down:

- the investment income on these certificates is not subject to a withholding dividend tax. Tax on the investment income of the investment fund will be refunded;
- no income tax is liable on the difference in the amount that is received when selling the saving certificate to the investment fund which has issued it and the amount paid for the savings certificate;
- no 'capital tax' is charged on the issue of savings certificates;
- no stamp duty will be charged on sales of savings certificates to the investment fund which issued them.

Special 'savings certificates' are currently issued by only two institutions, 'The Investment Fund for small investors' of the Federation of Dutch savings banks, and the 'WEBEFO' (Investment fund of the workers belonging to the 'Dutch Catholic Union' NKV).

Under the law on the 'Fund for asset formation' which came into force on 1 July 1971, purchasers of 'savings certificates' (with an income below the tax threshold) can receive a premium of 35% (up to HFL 500) of the total amount purchased, provided they have remained unencumbered in the holder's possession for six calendar years.

## 8. Savings premiums

8.1. Also in the *Netherlands*, until 1 January 1974, the general law on savings premiums (Law of 1 October 1965) applied to residents aged between 21 and 60 whose income did not exceed HFL 18 000 a year. The maximum amount for savings was HFL 250 per year, and the amount of the premium was 20% of the savings made. This premium, exempt from tax and social contributions, was given on cash payments made to certain savings institutions, or on the purchase of securities, the payment of life insurance premiums, and deposits in savings banks. The right to the premium became effective after possession of the sums unencumbered for four calendar years. At end 1972, a law was passed repealing the general law on savings premiums from 1 January 1974. This reform is part of a Government agreement under which it was decided to introduce a 'savings-earnings' scheme.<sup>1</sup>

## 9. Popularizing investment in securities

9.1. In the *Federal Republic of Germany*, to encourage low income groups to invest in securities, the Government denationalized part of the Federal industrial assets, by making an issue of 'people's shares', sold in small units, to low-income groups.

In the first denationalization operation relating to Preussische Bergwerks und Hütten AG (Preussag), only German citizens with annual incomes below DM 16 000 could purchase the stock. No income ceiling was fixed for company employees. Each purchaser could receive a maximum of four shares, five for employees. The issue price — DM 145 for a share of nominal value DM 100, was at the time (1959) at the bottom end of the market price range and could be considered a 'social' price.

DM 81½ million worth of shares were sold in this operation.

In 1961, the Volkswagen company was denationalized. Of the initial capital of DM 600 million, 360 million were sold as 'people's shares'. The price of the issue was DM 350 for a DM 100 share. A 'social' discount, varying from 10 to 25% according to income and number of children, was made on this price.

Purchase was limited to residents of the Federal Republic with annual incomes of DM 16 000 or under (for a household) or DM 8 000 (single people). All purchasers received two shares, a third being distributed after being chosen by lot. Employees could acquire ten shares.

In 1965, the last denationalization operation concerning Vereinigte Elektrizitäts und Bergwerks AG (VEBA), took place. Over DM 524 million of shares were sold. The issue price — DM 210 for a DM 100 share — was fixed at the lower end of the market price range.

The income ceilings — which were the same as those in the Volkswagen denationalization — did not apply to employees. Purchasers had to be German nationals or have their domicile or habitual residence on the territory of the Federal Republic. Each purchaser received two shares, employees having the right to five.

## Incentives for savings in the form of real property

### 10. Fiscal advantages

10.1. A considerable body of legislation provides for exemption or reduction in rates laid down for *indirect taxation* relating to deeds of purchase of dwellings or building land: this is so in *Belgium* where the registration duty is reduced from 12.5% to 1.5% in the case of sale to persons receiving a State subsidy,<sup>1</sup> of property belonging to the public authority companies concerned with real property as well as to administrative and public institutions. This duty is reduced to 6% for purchase of any low-cost dwelling and the land earmarked for building the said dwellings.

10.2. In *Luxembourg*, registration duty can be reduced to 1.7% (normal rate 7%) (Law of 29 May 1906) for workers, craft workers, persons having small holdings, or employees who live essentially on their earnings, whose income is not over LFR 200 000 per year (index-100; present index: 296) (this figure may be increased to take family circum-

<sup>1</sup> Points 14.6 and 15.7.

<sup>2</sup> Point 2.1.

stances into account) and whose taxable assets do not exceed LFR 750 000 (index: 100) on acquisition of a low-cost dwelling, or building land intended for the construction of such a dwelling. The same advantages are available for purchasers of 'allotments' who can meet the above conditions. Allotments must not be larger than 10 ares (12 for large families).

10.3. In the *Federal Republic of Germany*, subsidized dwellings are exempt for ten years from *land tax* (levied on the value of the land without buildings). In *Belgium*, the *withholding tax* is refunded for ten years for new dwellings, flats included, provided no premium is received for purchase or construction, and the cadastral income does not exceed a certain ceiling.<sup>1</sup>

In *Italy*, the law provides for considerable reductions in the registration duty on deeds of sale relating to land and dwellings, and on mortgage taxes. There are also facilities with respect to local income taxes.

10.4. *Belgian* legislation provides for tax exemption for tax-payers who have taken out a mortgage for the purchase, construction or transformation of low-cost or similar housing, or for a medium-cost dwelling. On condition that a life-insurance contract has been signed, guaranteeing payment of the capital borrowed, the amounts used to amortize or to reconstitute these loans may be deducted from *taxable income* (Income Tax Code, Article 56).

10.5. In *Belgium*, provision is made for reductions in notaries' fees, in particular for the sale of building by private contract by the 'National Housing Society', the 'National Landowning Society' or their accredited companies, as well as by credit institutions approved by the 'General Savings and Retirement Fund'. In the case of sales agreed to by the said agencies the notaries' fees are reduced by half. The same is true for loans agreed to by the same agencies or by the 'Housing Fund of the Association of large Belgian Families'.

## 11. Loans at reduced rates, interest-rate subsidies, State guarantees, rental-sale

11.1. In *France*, a considerable proportion — fixed by the Finance Law each year — of the expenses

incurred by the *HLM* (moderate rent housing) organizations is intended to facilitate home-ownership for low income groups. Two of the four HLM organizations act exclusively in this field: they are the mortgage lending institutions and the HLM cooperatives, formed by groups of people who wish to build dwellings for their own use. These programmes are financed, basically, by long-term loans from the loans office (*caisse des prêts*) to the HLM organizations at very low interest and loans from savings banks, in particular, which receive an interest-rate subsidy from the State.

To benefit from the HLM loans, completed homes have to meet specific area standards and cost price ceilings. Persons eligible for the scheme must have an income below a given statutory ceiling.

The State pays an annual subsidy to the HLM loan office so that it can maintain a balance between reimbursement by the various HLM organizations and its own repayments to the 'Caisse des Dépôts', which provides it with the necessary finance from its own resources.

At present the interest rates for HLM loans are as follows: 4.10% from the first to the fifth year, 6.50% from the sixth to the tenth year, and 10.10% from the eleventh to the twenty-fifth year. The subsidized loan amounts to approximately 70% of the total cost price of the home.

Persons whose income is below a certain ceiling may obtain loans from mortgage-lending institutions. The loans may be for a maximum of twenty-five years.

Subject to the same conditions as regards income, the HLM cooperatives offer a 'location-attribution' (rental-sale) scheme, under which the future owner becomes a member of the cooperative by purchasing shares for a sum equal to the building costs. A part of this sum — maximum 80% — is covered by a State loan and, in some cases, a supplementary 'family loan', whose total varies according to the kind of dwelling and the region; the balance is paid in the form of rent, so fixed as to allow repayment of the debt within twenty-five years maximum.

Persons who meet the conditions required to qualify for the grant of a building premium, and whose

<sup>1</sup> Varying from BFR 6 000 in towns with less than 5 000 inhabitants to BFR 12 000 in towns with 30 000 inhabitants or more.

income is under a certain ceiling, may obtain twenty-year loans for the construction of a dwelling, for which in principle the grant of a premium has been agreed. In this case the premium is converted into interest-rate subsidy.

Supplementary 'family loans' (corresponding to about 30% of the principal loan) are also provided. They are given on condition that the housing chosen must correspond to the family situation of the borrower.

These HLM loans, like the special direct loan (PSI), will be replaced by the new subsidized home-ownership loans (PAP).<sup>1</sup>

11.2. In *Italy*, the basic provisions on 'low-cost people's housing' are set out in Royal Decree No 1165 of 28 April 1938, which has been amended several times. It provides for the payment, over thirty-five years, of State subsidies — corresponding to 4% of the building costs — to housing cooperatives, companies and public bodies whose activities relate to building; these, in their turn, let, or transfer ownership in, the dwellings built (in the proportion of two-thirds to one-third). The dwellings financed must have certain technical characteristics and dimensions. The Presidential Decree of 17 January 1959 (No 2) and the Law of 27 April 1962 (No 23) contain provisions on the transfer of ownership in these dwellings to persons who are already tenants. Substantial facilities are given to them in respect of price and methods of payment.

11.3. Law No 715 of 10 August 1950 set up a system of financing for building dwellings not in the 'de luxe' category, notably in towns where housing is poor or in short supply. Persons or cooperatives wishing to build a dwelling must ask for the approval of the Ministry of Public Works; when a project has been approved, the corresponding amount is put at the disposal of real-estate loan institutions which have made an *ad hoc* agreement with the State. The funds are used to grant loans for up to 75% of the total cost.

The loans are for a maximum of thirty-five years and interest is at 4%.

11.4. A similar system, although of wider scope, has been set up by Decree Law No 1022 of 6 September 1965, and Law No 1179 of 1 November

1965. They provide for *reduced interest loans*, guaranteed by the State, for persons who, individually or grouped in cooperatives, wish to build a dwelling, so long as they are not already owners of another dwelling in the town where they wish to build and that their taxable income — not including earnings from work — is not more than LIT 1 200 000 a year. The same facilities can be granted to institutions and companies which are concerned with building low-cost housing, and also to private undertakings which build dwellings for people who fulfil the above conditions.

These loans are granted for up to twenty-five years and the amount is equivalent to a maximum of 75% of the value of the building (including the land); the maximum rate of interest is 5.50%, the difference between this and the real cost of the operation being borne by the State.

Special provisions — which for the most part do not come within the scope of this report — exist in certain regions with a special status.

11.5. In the *Federal Republic of Germany*, public funds — in the form of *loans at reduced interest*, repayable over long periods, or subsidies to lessen the cost of loans from the capital market — are used to enable persons with an annual income below DM 18 000 to build dwellings. This ceiling may be raised by DM 9 000 for the spouse and DM 4 200 for every other family member (second law on home building of 1 September 1965, last amended by the Law of 1 September 1976).

11.6. Under the subsidized home-ownership policy, the Law of 23 March 1976 is designed to encourage long-term tenancies by a *rental-purchase* type of contract which enables lower income groups to acquire dwellings by paying an amount of DM 40 to 70 (depending on the tax concessions they are allowed) in addition to their usual monthly rent. The scheme is thus an intermediate stage between rental proper and home ownership, because the purchaser is not himself the owner but obtains occupier's rights by his participation in the real-estate company which is the legal owner of the building. This does not preclude the tenant from acquiring his home outright at a later stage, however.

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<sup>1</sup> Point 6.1.

11.7. In *Belgium*, loans at a special interest rate (9%) may be obtained from the Société nationale terrienne (National Land-owning Company) (formerly the Société nationale de la petite propriété terrienne) for the construction or purchase of a small dwelling from the company itself. The State contributes a major share of the interest on the loans which the company contracts to obtain its capital.

The Fonds du logement de la Ligue des familles de Belgique (Housing fund of the Belgian league of large families) gives building loans at a very favourable rate of interest to the heads of large families, whose taxable income does not exceed a certain ceiling. The interest rate on these loans varies from 6.25% to 1.75%, depending on the number of children dependent on the borrower and the size of his income.

11.8. In *Luxembourg*, the normal rate for building loans by the State Savings Bank is 7.75%. This rate is reduced to 6.25% for those receiving a premium for homebuilding or purchase. Families with three dependent children receive an *interest-rate subsidy* from the State, reducing the rate from 6.25% to 3.25%. The subsidy relates to a maximum capital sum of LFR 600 000.

11.9. In *Belgium*, persons buying or building low-cost or 'similar' housing and possessing no other dwelling, may obtain a State *guarantee* for a mortgage loan from certain credit institutions. Maximum amounts are fixed for the rate of interest and for the capital borrowed.

If the amount needed is particularly high, a *supplementary guaranteed loan* may be granted provided the borrower is in receipt of a State premium (which is then paid over ten years and is known as a 'prime fractionnée' (premium paid in instalments)) has already obtained a guaranteed loan with a first priority and that the interest rate for the supplementary loan does not exceed 8.75%.

11.10. In *Ireland*, local authorities advance house purchase loans of up to IRL 9 000 for the purchase of new houses. Purchaser's total incomes must not exceed IRL 3 500 and, in the case of farmers, the rateable value must not exceed IRL 60. These loans are at the prevailing interest rate and are repayable over a maximum of thirty-five years.

11.11. In the *United Kingdom*, the Department of the Environment operates an *option mortgage subsidy* scheme under the Housing Subsidies Act 1967.

The borrower may elect to have the interest on a house loan subsidized under the Act, instead of claiming tax relief on interest payable on the mortgage. Notionally, the lender receives from the borrower the full amount of interest due; in fact, however, a given proportion only is paid, the balance being financed by the Department of the Environment.

This scheme is designed especially for people with incomes below the minimum taxable level. Through it, they obtain a subsidy broadly equivalent to the tax relief on mortgage interest to which they would be entitled if they paid tax.

The scheme can only be operated when an option notice has been given to the lenders, who must be recognized bodies such as building societies. The period of the subsidy depends on the duration of the loan, but ceases, in default of other arrangements, thirty years from the date on which the option takes effect.

11.12. To promote home ownership it is the policy of the *Irish* Government that tenants or prospective tenants of local authority houses who aspire to home ownership should be given every facility. There are three types of schemes (operated by local authorities) to encourage home-ownership among tenants:

(a) a sales scheme which provides for the sale or lease of houses to tenants at the market or replacement value of the house, subject to a discount, based on the length of tenancy, of up to 30% for houses in built-up areas or 45% in rural areas;

(b) a scheme introduced in 1972, whereby tenants are given the option, when being notified of the allocation of their house, of either renting or buying the house on a tenant-purchase basis with all the aids available to private house purchasers;

(c) local authorities build houses for sale as distinct from letting. These houses are provided at reasonable cost and are intended, by means of housing grants and other State aids available, for private house purchasers.

11.13. A special system is used in *Luxembourg* by the National Society for low-cost dwellings. The future owner rents the dwelling he wishes to buy; his rent is fixed at a sum varying between 3 and 2.5% of the price of the dwelling, according to the number of dependent children. As well as paying the rent, the tenant must undertake to deposit each month a certain sum in a savings account, which has been calculated so that in ten years the minimum capital required for the purchase of the said dwelling will have been amassed, the difference being covered by a loan from the State Savings Bank. Interest of 5% is paid on this savings account.

## 12. Premiums

12.1. The grant of a *premium* for the construction or purchase of a dwelling is provided for in the legislation of several countries. In *Belgium* (Royal Decrees of 10 August 1967, 4 February 1968, 22 November 1968, 7 July 1969, 28 October 1971, 17 April 1972, 3 April 1973, 2 July 1973, 27 July 1973 and 28 December 1973), a *home-building premium* can be granted to persons who have no other dwelling when they build a house or become owners by contract with a private owner, this contract being the first entered into and the building never having been occupied. The habitable area of the dwelling may not be more than 85 square metres in a single family house or 65 square metres for an apartment. These figures may be increased by 10 square metres per child or parent living with the applicant. The premiums are granted only to persons whose taxable income does not exceed certain ceilings.

Four income ceilings are taken into account in determining four different amounts for the premiums (inversely proportional). The basic ceiling of BFR 180 000 can be increased by BFR 10 000, 20 000 or 30 000, and again by BFR 12 000 for each dependent child. The amounts of BFR 180 000 and BFR 12 000 are linked to the consumer price index of 108.87 (1971 = 100).

The amount of the home-building premium varies, according to income, from BFR 60 000 to 11 000, and is increased by 20% for each dependent child.

In the field of private housing construction, legislation is in force to protect future owners of dwellings

before or during construction in cases where payments are required before completion of the works. This is dealt with in the Law of 9 July 1971, which regulates the construction and sale of dwellings to be built or under construction and in the implementing decree of 21 October 1971. This law is applicable to all buildings for dwelling purposes with or without a premium and/or low-cost loan being granted.

Under the same conditions as to income, and subject to having no other dwelling, a *premium for home purchase* is given to the purchaser of housing from the public sector when this dwelling can be considered to be subsidized or similar housing, or a small holding. The amount of the home purchase premium varies according to income from BFR 60 000 to 11 000, increased by 20% for each dependent child.

12.2. In *Ireland*, a special State aid is paid for new housing to certain purchasers living in rural areas who:

(a) wish to obtain houses in rural areas, provided they derive their livelihood solely or mainly from agriculture and the rateable value of the property does not exceed a certain level;

(b) live in overcrowded houses or houses unfit for human habitation and whose circumstances are such that they cannot obtain a house for their own occupation without this special aid.

Supplementary State grants of up to 100% of the ordinary grants are paid to house purchaser where the house has already qualified for a State grant and where the applicant's income does not exceed a given ceiling (increased if the applicant has four dependants).

12.3. Two different premium schemes exist in *Luxembourg*, one for purchase and the other for construction (Ministerial Decree of 25 May 1973). A *home-building premium* is given to persons who are not the owners of another dwelling, whose taxable assets do not exceed LFR 600 000 and whose annual net income does not exceed LFR 140 000 (at index 100). This amount is increased by LFR 10 000 for one, LFR 25 000 for two, and LFR 45 000 for three dependent children. The amount of the premium is LFR 40 000 increased by LFR

15 000 for one child and LFR 30 000 for two children. From the third child onwards the family supplement is increased by LFR 30 000 for each further child.

The same conditions applying, a premium for the same amount is allocated to the purchaser of a dwelling who has at least three children (two in the case of a widow who has not remarried) or is 50% disabled.

It may be noted that the ceilings for income and assets are index-linked.

12.4. The amount of the home-building premium is also increased by LFR 30 000 if the annual income of the beneficiary is below LFR 90 000 (index = 100), or by LFR 20 000 if his income is between LFR 90 000 and 125 000.

Together with the building or purchasing premium, the State pays the beneficiaries of these premiums another premium as a partial refund on the value-added tax or other fiscal charges applying to the building or purchase of a home. This compensating premium, in effect from 1 December 1974, amounts to LFR 60 000 for new buildings and LFR 30 000 for existing dwellings.

12.5. In the *Netherlands*, the benefits described under point 5.7 are also given to purchasers of dwellings built within the framework of the 'Woningwet' (low-cost housing) scheme. The dwelling must not be new, and must already be occupied, as tenant, by the aspiring owner. The sale price is based on the total construction cost, adjusted on the basis of an official index. The purchaser's taxable income must not exceed a certain annual ceiling.

12.6. Based on the law on the 'Asset Formation Fund', persons whose income is below the tax threshold can obtain an interest-free loan of HFL 2 400 to purchase a new or already occupied dwelling. This loan must be repaid in eight equal annual instalments.

Purchasers of 'savings certificates' are also entitled to the savings premium<sup>1</sup> if they cash these certificates to buy a dwelling; the certificates must have been held for at least two years.

### 13. Various types

13.1. In *France*, *housing allowances* are given to families to enable them to live in conditions which are neither overcrowded nor insalubrious. Both tenants and owners may benefit. The amount depends on family income, number of dependants, rent paid and the monthly instalments paid on the loan contracted to purchase the home. Since 1972, the allowances are also given to old persons and young workers.

13.2. To contribute to the satisfaction of housing needs, facilitate home-ownership, provide better housing and improve existing dwellings, French housing aid policy was reformed by the Law of 3 January 1977. Under this Law, persons who for lack of means cannot today aspire to home-ownership, can be granted aid to enable them to take on the financial burden entailed. *Personal home-ownership*, not regarded as income for tax or social security purposes, constitutes the main feature of the reform. Aid is granted to persons who occupy, as their principal residence, the dwelling of which they are owners or tenants. The aid is 'personalized' in that it is adjusted to changes in household income, the relative cost of the dwelling and family circumstances. Payment of rent (or monthly repayments) exceeding the 'minimum' rent fixed by law gives entitlement to 'personalized' aid. The field of application is to all intents and purposes limited to rented low-cost dwellings and housing for which State aid has been granted (PAP, home-ownership loans<sup>1</sup> or special home-ownership loans<sup>2</sup> for housing construction or improvement). 'Personalized' aid cannot be combined with the housing allowance referred to at the beginning of this paragraph, but the latter continues to be paid under the relevant conditions if personalized aid is not granted.

13.3. In the *Federal Republic of Germany*, housing aid is granted under the 'Wohngeldgesetz', the amount of which depends mainly on beneficiaries' income and number of dependants, the size of the house, and the rent. Both tenants and owners of houses or apartments may benefit. On 31 December 1975, approximately 1.67 million households were receiving allowances under this law.

<sup>1</sup> Point 7.1.

<sup>2</sup> Point 6.1.

## Part 3

### Types of incentives offered only to wage and salary earners

Wage and salary earners benefit from statutory systems for incentives to asset formation which differ widely from those already examined, which are open to the population as a whole or to persons in low-income groups.

In the acquisition of assets in the form of securities, the incentive to saving plays a relatively second role; on the other hand, great importance is given to specific types which provide for tax advantages and/or exemptions from social security contributions for employers who set aside for their employees sums unconnected with earnings for the formation of durable assets. In one case, it is compulsory to set up a scheme of this type.

The two types (workers' savings, employers' contributions) can sometimes be found in a single system; this type will be termed a 'mixed' system.

The amounts set aside for workers under these systems are subject to a holding period of varying length unless they are intended for intrinsically long-term investments (insurance premiums, investments in real property); very often they are not considered as part of income for tax and social security purposes.

Besides the statutory measures, similar measures have been taken by several companies; they are intended to encourage individual savings by workers, or provide for employers' contributions which help towards asset formation. They will be examined at the same time as the statutory systems which resemble them most closely.

In view of the importance of employers' contributions and government measures in relation to savings by workers themselves, it seemed appropriate in this third part to speak of 'incentives to asset formation', rather than 'saving incentives': this should underline the fact that the specific methods intended to create worker asset formation basically do not consist in individual saving, particularly since measures aiding the acquisition of assets in the form of real property, and relating only to workers

— measures in which on the contrary individual saving retains all its usual importance — are relatively rare.

### Incentives to the formation of assets in the form of deposits and securities

In this part the following will be examined in turn:

- incentives to individual saving by workers;
- 'mixed' types, which involve individual saving by workers and supplementary contributions by employers: doubts concerning how certain types should be classified have been resolved on the basis of the relative proportion constituted by workers' savings and employers' contributions. The types in which the workers' savings element is regarded as the most important have been included in the first category, the other in the second;
- types including only employers' contributions;
- finally, various types which could not easily be classified in the above categories.

## 14. Savings incentives

14.1. The most important provisions in the field of incentives for workers to make savings in the form of deposits and securities are to be found in the *Federal Republic of Germany*. Mention should again be made of the *DM 624 Law*<sup>1</sup> granting premiums and savings bonuses on the sums saved by workers, and invested in certain ways, the employer acting as intermediary. This law will be discussed in detail under 15.1; only those provisions giving incentives for individual savings are described here.

Workers may request that part of their wages (or other component of earnings, Christmas bonus, yearly bonus, etc.) be invested by their employer. This request, which must be made in writing, need not be complied with by the employer, unless the worker intends to invest at least DM 10 a month, or make a single annual payment of DM 60.

<sup>1</sup> Third law giving workers incentives for asset formation (Law of 27 June 1970) replacing the Law of 1 July 1965 itself replacing a law of 1961.



Workers domiciled in the Federal Republic of Germany but employed abroad cannot in principle invest part of their earnings under this law, because the employment contract is not based on German law. Certain exceptions are, however, made by the tax authorities.

Workers employed by a national employer and domiciled abroad may benefit from the provisions of the third law on asset formation in the same way as workers employed and domiciled in the country.

14.2. Also in the *Federal Republic of Germany*, if a joint-stock company or limited partnership *sells its own shares to its workers* ('workers' shares') at a price lower than the market value, the gains realized by the worker (maximum DM 500 per year), which form part of his income from work, are not subject to income tax or tithes (Law of 10 October 1967). Nor does the worker pay the related social security contributions. These benefits are granted provided the difference in price is not more than half the value of the share, and provided a holding period of five years before resale of the shares purchased had been agreed upon.

Up to now, a few companies have made several issues of workers' shares of this kind. In general, the shares were offered to workers at a favourable price, but purchase is always optional: only in one case did the workers receive the gift of one share each. Generally, the shares acquired are made subject to a holding period before resale, of from two to five years. Given that it may be dangerous to combine the normal risk of losing one's job with the risk of losing one's savings, which could happen if a worker holds shares in the employer company, some companies recently decided to replace the issue of workers' shares by facilities for the purchase of investment certificates.

14.3. In *Italy*, there are legal provisions intended to facilitate the issue of *shares reserved for employees*. A decree (DICPS of 20 August 1947, No 920) provided for a derogation from the option rights reserved to shareholders within the terms of para. 1, Art. 2441 of the Civil Code, upon issue of new ordinary shares. The shareholders' assembly may decide, by a qualified majority, to exclude from the option rights up to one-quarter of a new share issue 'when the shares are issued for subscription by the

company's employees', or an even higher proportion if the majority present includes shareholders who represent more than half the company's capital. These provisions have been applied in one case only.

14.4. In *France*, a Law of 31 December 1970 and a Decree of 7 June 1971 introduced an *optional system of share options* in favour of the personnel of companies in the private sector. According to this law, amending the Law of 24 July 1966 on commercial companies, these companies can offer all their employees an option on shares deriving from certain financial operations (increase in cash holdings, increase in capital by incorporation of reserves, etc.). These options can be exercised within five years from the day they are taken out at a price fixed on the opening day.

The law fixes the maximum amount of capital allocated to the option scheme and the maximum number of shares that can be offered to one employee. The first ceiling is determined as a percentage of the share capital (from 5% for the fraction of the share capital below FF 10 million to 1% for the fraction above FF 50 million). The total amount of the options available to one employee must not exceed twice his annual salary nor ten times the ceiling on social security contributions.

Tax exemption on gains realized by the employee (difference between the price of the shares when the option was opened and the price when the option is exercised) may be granted if the shares are registered and will be held for five years. The law provides, however, for four possible cases in which the shares may be liquidated in advance, i.e., the dismissal, death, retirement or total disability of the shareholder.

14.5. In the *Netherlands*, *premiums* are paid by the State, in its role as employer, to stimulate savings by its own employees — both civil and military — and also by local police and the staff of teaching institutions, so long as earnings do not exceed a certain ceiling.<sup>1</sup>

The annual maximum for savings is HFL 504 and the premium is 25%; it is exempt from taxation and

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<sup>1</sup> Corresponding to Grade 103 on the salary scale.

social security charges (Law of 1 July 1968, Stb. 1968-263 replacing a law of 1960).

Two forms of saving are provided for:<sup>1</sup>

- cash savings;
- payment of premiums under life insurance contracts, and on accounts with savings banks.<sup>2</sup>

The grant of the premium is subject, in the case of cash savings, to a holding period of four years; in other cases the right to the premium becomes operative in the year following the one in which the premiums were paid.

Local and provincial authorities have set up similar saving schemes.

14.6. Also in the *Netherlands*, the order on *savings schemes in undertakings* provided for the possibility of savings-earnings payments to be held for a certain time.<sup>3</sup> This scheme is collective in so far as all workers or all of those in the same category employed by the same employer participate. The annual maximum which can be saved under this scheme amounts to 2% of the wage ceiling used to calculate workers' social security and unemployment contributions. The savings-earnings payments will be withheld by the employer at source. The employer is exempt from social security contributions with respect to the amount saved but pays a flat rate tax of 15%; the worker is exempt of tax and social security charges on this income.

Payments under the savings-earnings scheme can be converted into shares or bonds of the employer company (up to 20% of the total savings) or into participation certificates of the funds administering savings raised under this scheme.

Savings under this scheme have to be held for seven years. In the case of death, emigration, disablement, etc., savings can be made available. The same holds true when the money saved under this scheme is spent for the purchase of a main dwelling.

14.7. Over and above their legal obligations, a small number of *German* companies give a *savings premium or supplementary interest* on the amounts saved by their workers. The same applies in *Luxembourg* where certain companies give their employees the opportunity to invest funds in sight savings accounts on which higher than current *interest rates*

are paid. The *tax exemption*<sup>4</sup> is applied to industrial, commercial or mining companies set up as joint-stock companies; they must accept savings funds exclusively from their employees, either currently employed or retired, or from the surviving spouse of an ex-employee. The Ministry of Finance must give its approval.

## 15. 'Mixed' types

This section covers asset-formation systems which comprise, as was the case for certain types discussed in the last section, individual savings by the worker and supplementary contributions by the employer. But, unlike the types already described, the laws examined here offer employers benefits in the form of exemption from tax and social security charges to encourage them to make contributions for their workers to stimulate asset formation. These contributions thus assume very great importance in the structure of the system and its application.

This section only concerns measures for which legal provision is made, even if they are covered by collective agreements.

15.1. The '*DM 624*' Law in effect in the *Federal Republic of Germany* is fundamental to, and in general very important for, asset-formation policy. The incentives it provides, as we have already seen, relate to individual savings, 'mixed' types, the subject of this section, and (as described below in points 16.12 and 16.13) cases where the employer's contribution is the only one made, the worker making no individual savings. Moreover, the amounts earmarked for asset formation, whatever their origin, may be invested as savings in the form of securities or real property.

The points common to these different aspects of the '*DM 624*' Law will be discussed here as the same time as those relating to 'mixed' types.

<sup>1</sup> A third form — paying on mortgages — is reserved for savers who were already using it on the basis of provisions replaced by the Law of 1968.

<sup>2</sup> In this case, it is a kind of insurance.

<sup>3</sup> Before this law, a similar savings scheme had been and still is applied in some sections of industry.

<sup>4</sup> Point 1.1.

15.2. The 'DM 624' Law applies to all workers in the public and private sectors, civil servants, judges, career servicemen and conscripts. Its basic principles are as follows:

— employers' contributions intended for asset formation may be provided for in collective agreements, company agreements or individual contracts concluded between the employer and the worker (the last two possibilities must be offered to all employees). The contributions may be combined with sums withheld from earnings (individual saving by the worker) or may be the sole contribution towards asset formation.<sup>1</sup>

— the worker must have a free choice between the following investment possibilities, so that the amounts in question may be:

- invested under the law on savings premiums;
- invested according to the provisions on homebuilding premiums;<sup>2</sup>
- set aside for the purchase or construction of a dwelling;<sup>2</sup>
- used to buy company shares at a special price;
- paid as premiums for life-insurance contracts of a minimum length of twelve years, not including any supplementary contributions for accident, disablement or sickness.

— regardless of source, the maximum amount qualifying for the advantages offered is DM 624;

— under these conditions, benefits are granted both to workers<sup>3</sup> and, in certain cases, to employers: the former receive a premium equal to 30% of the sum invested according to the law. For workers who have more than two children and are receiving family allowances for each of them, the premium is 40%. If both spouses work, each of them may invest DM 624. If they have more than two children, each of them has a right to a premium of 40%. The savings premium is not given to single workers whose taxable income is over DM 24 000 (DM 48 000 in the case of the joint taxable income of two spouses, plus DM 1 800 for each dependent child). The premium is paid in cash to the worker by the employer. The employer deducts the amount thus paid from his payroll tax. The premium for employees is granted in addition to the premiums paid under the law on savings premiums and the law on

home-ownership savings premiums, so that the maximum aid (excluding interest on premiums) amounts to 44%–58%, depending on the family situation, 2% being added for every child.

— an employer who has up to fifty employees may deduct 30% of the asset-formation contributions which are added to earnings, from the amount to be paid as income tax or tax on company profits. This deduction must not be more than DM 6 000 a year.

15.3. The total amount invested by all savers under the law rose from DM 1 600 million in 1969 to DM 9 600 million in 1976. At the end of 1976, the volume of savings, including interest and premiums, amounted to approximately DM 11 000 million. The average amount invested per head in 1976 was DM 615, of which about DM 410 was contributed by the employers. In 1975, almost half the contracts signed (49%) related to types of investment provided for under the general law on savings premiums; 28% were drawn up under the law on building premiums; life insurance contracts represented 21% of the total, while the remainder was invested in workers' shares and loans to the employer.

15.4. Over 1 000 collective agreements and company agreements were concluded under the terms of this law. The number of workers receiving employers' contributions has risen from one million in 1969 to over 16 million in 1978. Although personal savings may be added to employers' contributions established under collective agreement, the latter are not, apart from a few exceptions, conditional on prior savings by workers. In 1978, 92% of all workers covered by collective agreements received an asset-formation supplement. About 18% of beneficiaries received the maximum amount, DM 624, and this figure is expected to rise to 48% in 1980.

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<sup>1</sup> To take account as far as possible of the situation of unemployed workers, the legal provisions have been amended to allow personal payments into savings schemes to which the employer contributes to be continued.

<sup>2</sup> Point 19.1.

<sup>3</sup> Workers who have been unemployed for one year or more may draw on savings held in savings schemes before the end of the holding period without losing the financial advantages offered by the Government.

15.5. In France, a partly similar system has been introduced in addition to the individual long-term savings contracts: Order 67-694 of 17 August 1967<sup>1</sup> set up the framework for company saving schemes for wage and salary earners. Its aim is to promote, by means of tax benefits, the setting up of collective savings schemes giving workers the possibility of investing in securities with the company's help.<sup>2</sup>

This scheme may be funded from three sources:

- workers' deposits (a minimum of FF 250 a year may be fixed under the savings schemes);
- the employers' contributions, calculated as a percentage of the amount saved (rate of employers' supplementary contributions). The supplementary contributions are geared to different factors (family situation of the person concerned, saving capability, etc.). These contributions — which may not, in any year, be more than 10% of earnings, nor more than FF 3 000 per worker — must be provided for in the savings scheme;
- amounts assigned to the workers by virtue of participation in the growth of the undertaking.

These amounts must be used to acquire shares in investment companies with variable capital (SICAV) or in a joint investment fund. An *ad hoc* fund may also be set up within the company.

The undertakings — which manage these funds themselves — or the companies which have been entrusted with their management<sup>2</sup> — each year prepare a report on their operations which contains all information necessary for the workers participating in the scheme. The report is distributed to those concerned.

Provisions are laid down concerning the management of the shares bought as part of a savings scheme (the management must be entrusted to specially empowered bodies or to a body set up within the company in accordance with the terms of the scheme).

The joint investment funds set up within undertakings may hold only French securities or securities issued by investment companies (SICAV) which themselves must hold at least 50% of French securities or current liquid assets invested for a short term or at sight. For firms with not more than 100 employees, only shares in investment compa-

nies with variable capital may be held; for firms with more than 100 workers, a wider choice is possible.

The rules governing the funds must provide for a supervisory council. This consists of representatives of the workers taking part in the scheme, chosen either by election, the works council or the unions affiliated to the most representative organizations in the sector concerned. Employer's representatives may also be included.

The amounts invested under a savings scheme are subject to a five-year holding period. They may be withdrawn in advance in the case of marriage, dismissal, retirement, death or a given degree of disability of the beneficiary or his spouse.

15.6. Under these conditions, tax concessions are granted to both workers and employers: the former are exempt from income tax on the amounts paid by the employers on their behalf. Furthermore they are exempt from tax on the income from the amounts paid by themselves and supplemented by the employers.

The tax already paid to the Treasury (tax credit) relating to the income from company savings schemes is refunded by the Treasury.

Firms may deduct the amounts paid from their profits when calculating the tax base for the purposes of corporation or personal income tax.

These amounts are not taken into consideration in the application of labour law and social legislation.

15.7. A savings premiums scheme, combined with tax advantages for sums paid by employers, was set up in the Netherlands by a decree of 1962, amended in 1965 (Stb. 1965-261) and again by an order of 21 December 1972 (Stb. 1972-719). This order is known as the order on company savings schemes. To obtain exemption from taxation and social security charges on the amounts paid as premiums or 'frozen' shares in profits to the workers, employers must meet certain conditions. The rules governing savings schemes must be in writing. The amounts

<sup>1</sup> The conditions for its application, and various amendments, are set out in the Decrees 68-528 of 30 May 1968 and 69-507 of 31 May 1969.

<sup>2</sup> Report to the President of the Republic on the Order.

<sup>3</sup> The related provisions are contained in the Decree of 10 June 1968 of the Ministry of the Economy and Finance.

workers undertake to save under the savings premiums scheme are withheld from their wages and must be entered in a special savings account, managed either by the employer, or an institution chosen for this purpose (banks, savings banks, home-loan institutions, savings funds, etc.).

These amounts may be invested in securities. Purchase and sale of the securities must be carried out by an institution specified in the scheme. The securities must be kept in safe custody with this institution or with the employer. The sales proceeds have to be credited immediately to the savings account up to the amount of the original purchase price. Interest and dividend yields can be disposed of freely.

Maximum amounts are fixed for the savings premiums — HFL 750 per year — and the length of the agreed holding period. They range from a minimum of 50% of the amount invested for a holding period of at least four years, to 100% for those held for at least seven years, and a maximum of 200% for those held for at least ten years.

Entitlement to the premium is not lost when employment is terminated following the worker's death or emigration, or the closure or reorganization of the undertaking.

In other cases where employment is terminated, part of the premium may be granted, calculated *pro rata* on the basis of the number of years for which the amounts have been deposited in the savings account.

Workers are also entitled to a premium on sums deposited in savings accounts to cover life-insurance premiums, regular payments under a savings agreement combined with life insurance, or marriage expenses.<sup>1</sup>

If the savings account is managed by the employer, it must clearly show the sums saved by each worker, and the premiums paid.

The benefits provided under these decrees do not apply to schemes under which participation is restricted — exclusively or almost exclusively — to workers whose yearly income exceeds the taxable minimum (income tax), except in undertakings where these workers account for all or most of the employees (Art. 33 of the Decree).

At end December 1974, 2 429 undertakings offering saving schemes with premiums had been registered. About 205 000 employees were actually taking part. The average amount saved in 1974 was HFL 567.

## 16. Employers' contributions

This section contains an account of incentives for workers' asset formation *which involve only 'employers' contributions*.

16.1. Since 1958, fiscal provisions have been in force in *Denmark* relating to '*workers' shares*' and '*workers' bonds*'. '*Workers' shares*' mean shares issued by a limited company under a profit-sharing scheme or to constitute a bonus to supplement the remuneration of persons employed by the company. '*Workers' bonds*' are claims against the employer; such bonds are issued to his employees within the framework of a profit-sharing scheme, or to supplement earnings.

These shares and bonds are not included in the taxable income of the beneficiary, while the employer pays a tax of 50% on that part of the value of the security over DKR 200. The employer can deduct this tax from his own taxable income.

This scheme is subject to the authorization of the Minister of Finance.

Authorization may be granted provided one or several persons do not receive a sum out of proportion to their salary or length of service and, generally, on condition that the beneficiaries may neither sell nor transfer the securities in question in any other way for a period of five years.

Danish limited companies can also, by a majority of shareholders as laid down in the articles of association, decide to sell shares to their staff at a specially advantageous price. The difference between this special price and the market price is made up by the company but is not included in employees' income for tax purposes. Application of this system entails a five-year freeze on these shares. These systems must also be authorized by the Minister of Finance.

<sup>1</sup> Savings in the form of real property are also provided for: point 19.2.

16.2. In France, profit-sharing and worker participation in undertakings has been the subject of two Orders, one in 1959, the other in 1967, which have certain features in common (notably tax concessions to employers on amounts granted to workers), but there are considerable differences.

The first Order (59-126) of 7 January 1959 set up an *optional scheme* under which workers could share in company profits, capital growth, autofinancing operations or increased productivity. It applies to commercial and industrial companies, excluding all companies in the public sector. A company agreement must lay down the way in which the profit-sharing will be organized; it must be concluded between the employer and the representatives, company employees, of the unions affiliated to those organizations which are the most representative in the branch concerned. The employer may also propose that his employees should ratify a model contract drawn up in accordance with the procedure adopted for collective agreements.

The agreements must also make provision as to how the benefits shall be shared out individually.

Undertakings are entitled to deduct the amounts of shares attributed to workers in the preceding financial year from the taxable basis for corporation or personal income tax.

Similarly, the amounts granted to workers are subject to income tax but not considered as wages for the application of labour law and social legislation. No ceiling is fixed by this order.

At end 1977, about 344 contracts had been signed covering 349 undertakings and 125 392 wage and salary earners.

16.3. Order 67-693 of 17 August 1967, aiming to associate workers in the growing wealth of their companies, while encouraging the investment necessary for that growth, set up a *compulsory participation scheme* for companies in any branch, and of every type of legal status, employing more than 100 workers (also open to other companies).

Limitations on this principle have been introduced in regard to public sector undertakings: Decree 69-255 of 21 March 1969 set up a provisional list — to be revised and completed in the light of information gained from application of the system to the public sector — of companies to which the provi-

sions of the order apply. A certain number of companies which hold commercial or tax monopolies have been excluded from this list, as have been those suffering from such serious conversion problems that there is little hope of their becoming profitable for several years.

To sum up, an undertaking must meet the following criteria:

- it must be an economic entity distinct from the State;
- it must be of an industrial or commercial nature;
- it must earn substantial profits from its actual growth.

A special system has been developed by Decree No 69-107 of 1 February 1969 for workers' cooperative production societies, for whose benefit modifications have been made to the rules relating to the methods of calculating profits and capital for taxation purposes, and also to the method of profit-sharing, which can be calculated *pro rata* on the basis of hours worked by each beneficiary during the financial year (under common law, profit-sharing is calculated *pro rata* on the basis of earnings).

16.4. Under the 1967 order, the worker's share is assessed on the basis of taxable profits and a 'special participation fund' is set up, calculated in the following way:

- (a) at the end of each financial year, the undertaking calculates its taxable profits arising in France and the Overseas Departments;
- (b) the corresponding amount of tax is deducted from these profits;
- (c) to the net figure thus obtained is added the 'provision for investment' (to which further reference will be made) arising from the previous financial year;
- (d) from the amount thus obtained is subtracted the share regarded as return on the company's capital, fixed at a flat rate of 5% of this capital;
- (e) to the balance, a coefficient is applied, obtained by dividing the total wage bill for the financial year under consideration by the value-added during the

same financial year. This coefficient, which of necessity varies according to the undertaking involved, is intended to cushion the differences between those employing a large labour force and little capital, and those which on the contrary use a small workforce but large amounts of capital. Since this coefficient is greater the larger the workforce (numerator) and the smaller the value-added (denominator), to a certain extent it corrects these inequalities. Profits being equal, a special participation fund may be built up, which will be the larger in proportion to the number of contributing parties;

(f) the special workers' participation fund corresponds to half the total sum obtained from these calculations.

Under the law referred to, the formula for its calculation is as follows:

$$RSP = \left( B - \frac{5 \times C}{100} \right) \times \frac{S}{VA} \times \frac{1}{2}$$

in which:

RSP = Special participation fund  
 B = Profit after taxes (tax deducted)  
 C = Own capital  
 S = Wage bill  
 VA = Value-added.

The sharing out between workers of the amount of the special fund is calculated in proportion to the wages received by each beneficiary during the financial year under consideration, it being taken for granted that all the workers must benefit from the scheme, subject to the one condition that they have worked in the undertaking for at least three months during the financial year in question.

However, wishing to be fair, it seemed desirable to impose two ceilings on individual participation.

On the one hand the earnings used as the basis for calculating individual shares is only taken into consideration up to a sum equal to four times the annual ceiling used for deciding the maximum amount for social security contributions and family allowances.

On the other hand, the amount of the share which may be granted to any one worker in the course of

any one financial year may not be more than an amount equal to half of the same ceiling.

16.5. The Order of 17 August 1967 is based on the principle that participation schemes, far from harming investments, would on the contrary encourage them.

For this reason the text provides that, apart from certain exceptional cases (marriage, retirement, early retirement, dismissal, disablement or death of the beneficiary or his spouse), the amounts due to workers under the participation scheme shall be subject to a holding period of five years. Withdrawals before the end of the holding period can be made to form or supplement the assets needed to acquire a principal dwelling or subscribe to the shares of a workers' production cooperative.

The nature of the rights granted to the workers — and the related administrative details — must be fixed by agreement between the parties involved. They have a choice between the three following forms:

- companies or undertakings can distribute to their workers shares or fractions of shares in their own capital, either by incorporating reserve funds into their capital, or by the company buying its own shares on the stock exchange.<sup>1</sup> This form, however, does not always apply in the case of public sector undertakings;
- the amounts deposited in the special participation fund are set aside in an account which the employer must use only for investments. In this case, the workers have a claim against the company, which can take the form of bonds, participating bonds, or current accounts subject to a holding period;
- the amounts are deposited either with investment agencies outside the company, named in a decree,<sup>2</sup> or in accounts opened in the name of the beneficiaries as part of companies' savings schemes.

16.6. The public authorities were concerned with encouraging the creation of new relationships be-

<sup>1</sup> This last procedure created a need for enabling legislation (Order 67-695 of 17 August 1967) since companies are normally forbidden by law to purchase their own shares.

<sup>2</sup> Article 9 of Decree 67-1112 of 19 December 1967, amended by Decree 69-507 of 31 May 1969.

tween workers and employers, leaving it to the two parties to set up the participation schemes provided for by the order by joint agreement. Such agreements may be concluded:

- as part of a collective labour agreement;
- between management and employee representatives of the unions affiliated to the most representative organizations in the branch concerned;
- with the works council.

These agreements may either adhere strictly to the rules for calculation and administration of participation rights defined in the order ('common law' agreements), or may set up a participation scheme with different financial and administrative rules ('accords dérogoatoires') provided, however, that such schemes are in accordance with the principles of the order and give the workers benefits which are at least equivalent. However, to be valid, these special agreements must be ratified by a joint decree of the Ministry of Finance and the Ministry of Labour, issued in accordance with the opinion of the Centre for Studies on Income and Costs (CERC).

Since the participation scheme is compulsory, an alternative solution had to be found for undertakings which, although subject to the law, could reach no agreement.

The following system was chosen:

A time-limit of one year is allowed the parties concerned to sign a participation agreement, running from the end of the financial year which gives rise to the workers' rights.

If, at the end of this time-limit, no agreement has been sent to the Departmental Director of Labour and the Labour Force, he will take note of this omission and the parties thereupon lose their right to choose between the three forms of participation laid down by the order.

In practice the second form (allocation of amounts representing the workers' participation to an investment fund belonging to the undertaking itself) is then applied compulsorily. The amounts granted to the workers are then deposited in current accounts, subject to a holding period.

To encourage the parties to endeavour to reach agreement, a double penalty applies in the case of non-agreement:

- a penalty applying to workers, whose claims are subject to a holding period of eight years instead of five;
- a penalty applying to the company, whose tax exemption on funds set aside for investment (which in the case of voluntary agreement is equal to the amount of the participation fund) is reduced by half.

16.7. The methods by which staff are informed of the results of the participation schemes are left open. In this matter, the parties are free to include any provisions they wish in the participation agreements.

However, in the absence of an agreement or where no provision is made on this point, employees are informed by notices put up on trade union noticeboards. The purpose is to inform them of the type of scheme chosen, to enable them to exercise their right to participate in company growth.

Each year, in the six months following the end of the financial year, it is the employers' duty to make a report explaining how the amount of the special workers' participation fund has been calculated for the past financial year, and containing precise information on the management and use of the amounts set aside in this fund. This report must be presented to the works council or, in its absence, to the staff representatives.

In any case, any sharing out between the employees must entail the distribution to each beneficiary of an individual report which includes certain information such that each person concerned will be able to understand the total results of the scheme and also his own individual rights under it.

When participation takes the form of a grant of shares or bonds to workers, they are entitled to all the rights associated with these securities. In particular, they may attend, speak and vote at general meetings of share-holders or bond-holders.<sup>1</sup>

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<sup>1</sup> A circular of 19 October 1970 (Official Journal of 21 October 1970) sets up the methods for transferring the participation rights of foreign workers.



The administration of the participation funds may be entrusted to bodies outside the company: these may be either investment companies with variable capital (SICAV) or other bodies, which must invest the funds in shares in a SICAV or set up a joint investment fund. Thus the workers become shareholders in a SICAV — and may exercise all the associated rights — or co-owners in a joint fund. In this case, the fund rules must provide for the setting up of a supervisory council composed of representatives of the workers participating in the scheme and chosen by election, by the works council or by the unions affiliated to the most representative organizations in that sector. Each year the council examines the report on the funds' activities and the results obtained; it exercises the voting rights associated with the shares in the joint investment fund by proxy.

Funds set up in a particular way can be administered by the company itself or by a company set up as a cooperative by the employees in the undertaking. In the latter case, the provisions relating to the supervisory council do not apply. The CFDT and the CGT-FO are amongst the founders of 'Inter-Expansion', a management company for joint investment funds and savings schemes set up in 1969 to implement the 1967 orders.

16.8. The schemes for workers' participation in company growth also give certain taxation advantages: the amounts earmarked for the special participation reserve fund from a specific operation are deductible from the base for calculating company and personal income tax in the corresponding financial year.

They are not, similarly, subject to those charges which normally are levied on wages and salaries, and not taken into consideration for the purposes of labour law and social security legislation. They are therefore excluded from, in particular, social security contributions, family allowances, taxes on apprenticeships, etc.

Article 62 VI of Law No 68-1172 of 27 December 1968 (Article 163a AA General Tax Code) provides for the possibility that the income from the amounts assigned to the workers under the participation scheme are free of income tax if they are allocated for the same purpose as the amounts themselves.

In application of this provision, Article 3 of Decree No 69-507 of 31 May 1969 (Article 81a, Appendix II GTC) provides for the refund of tax already transferred to the Treasury (tax credit) relating to this income. This refund is granted in the name of the agency entrusted with the safe keeping of the securities assigned to the workers or acquired for their account.

Undertakings are also authorized to set up, tax free, at the end of each financial year an *investment reserve* in an amount equal to that deposited in the workers special participation fund during the same financial year. However, this sum must be used within one year for the purchase or creation of capital assets, otherwise it will again be considered as taxable profits.

Companies which do not make this provision for investment carry half the burden of the special participation fund since company profits are taxed at 50%. On the other hand, companies which decide to set up an investment fund, which is tax free, can recover nearly all their payments under the profit-sharing scheme through the tax facilities offered. There is, however, an accountancy delay of one year.

This scheme was amended by Article 11 of the 1974 Finance Act (Law No 73-1150 of 27 December 1973). For financial years closed between 1 October 1973 and 30 September 1974, only 80% of the amounts deposited for investment in the workers' special participation fund are free of tax in the year concerned.

This proportion was reduced to 65% for financial years closed between 1 October 1974 and 30 September 1975, and 50% for financial years closed after that date.

This means that at present companies which make provision for this investment scheme can recover 75% at the most of the related payments.

16.9. According to available information, 9 936 participation agreements had been registered on 31 December 1977; they covered 11 195 undertakings employing 4 773 600 wage and salary earners. The total amount distributed over eight years (1968-75) was over FF 13 600 million. In 1975 (the most recent year for which the financial results are available), a total of FF 2 418 million was distributed to

2 713 108 beneficiaries, in other words, an average annual *per capita* share of FF 891 as against FF 353 in 1968.

For the five financial years 1971–75, the average was as follows:

$$\frac{\text{Special participation fund}}{\text{Profits}} = 15\%$$

$$\frac{\text{Profits}}{\text{Capital}} = 12.98\%$$

$$\frac{\text{Wages and salaries}}{\text{Value-added}} = 43.3\%$$

$$\frac{\text{Special participation fund}}{\text{Wages and salaries}} = 3\%$$

16.10. A new law came into force on 27 December 1973 (No 731197) harmonizing the optional investment scheme introduced by the Order of 7 January 1959<sup>1</sup> and the workers' profit-sharing scheme introduced by the Order of 17 August 1967.<sup>2</sup>

In future, both types of schemes can be implemented by the two sides of industry, in particular by the works council. The procedures for examining participation and profit-sharing agreements will be harmonized and it will be easier to conclude 'mixed' agreements simultaneously applying the provisions of the two orders of 1959 and 1967. Undertakings coming under the 1967 order which fail to conclude any agreements will be prohibited from making provision for investment. The Law reminds employers of their duty to supply information on the results of participation schemes.

16.11. In the *Netherlands*, the decrees discussed in connection with savings premiums<sup>3</sup> also provide for exemption from taxation and social charges for employers on the amounts paid to workers as '*profit-sharing in the form of savings*'. These amounts are subject to holding periods and correspond to a given proportion of profits or to the proportion of the company's profits payable to third parties.

Participation may take the form of a share in profits as defined by the law (the amount paid to workers being linked to the operating or distributed profits), or it may take the form of participation in the loose sense of the word, in which case there is no such link. Workers then receive a share if and to the extent that profits allow.

The rules governing saving must be drawn up in writing and provide for the possibility of voluntary participation. The employee can decide from year to year whether he wants to continue the savings contract.

The amounts thus allotted — which may not exceed HFL 750 per year — must be administered by the employer or an institution (savings bank, etc.), named in the rules. A savings account is opened for each worker; he may keep a cash balance or may invest it in securities; in each case a holding period of seven years is provided for, which does not apply, however, to the yield on sums invested.

Under savings premium schemes a worker may withdraw money during the holding period, although he will lose the premium, whereas under participation schemes the sums set aside may not be used before the end of the holding period, except in cases where the decree authorizes withdrawal in advance.

At end 1974, 438 undertakings had offered their employees this possibility and 107 000 workers were taking part. The average amount saved *per capita* in 1974 under this system was HFL 452.

16.12. In the *Federal Republic of Germany*, the 'DM 624 Law' applies when contributions for asset formation are made by employers to ensure *participation* by workers in the benefits of improved productivity achieved with their collaboration. The relevant agreements — individual contracts or company agreements — must be in writing; they must set out the provisions governing profit-sharing, the basis and methods of calculation and the reference period. In individual contracts, the form of investment must also be indicated, and the company or establishment with which the investment is to be made.

Unless there is a provision to the contrary in the contract or company agreement, if the employment relationship is terminated during the period used as a basis for calculation, the worker keeps his rights if he has worked for more than half the reference period.

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<sup>1</sup> Point 16.2.

<sup>2</sup> Point 16.3.

<sup>3</sup> Point 15.7.

The employer must show the workers concerned that the calculations are accurate. He may present a certificate from an auditor, or request the workers to elect three representatives to carry out a check. Different rules may be decided on by agreement.

These legislative provisions have been applied very rarely in practice.

16.13. As already indicated,<sup>1</sup> the *employers' contributions* — other than those mentioned in the previous paragraph — may be the sole contribution made, under the 'DM 624 Law', to workers' asset formation. Collective agreements made under the law make increasing use of this possibility. Currently, the majority of them provide only for employers' contributions.

Seniority in the company sometimes plays a role, in relation both to the right to the employers' contribution and in the calculation of the amount.

16.14. Some *German* undertakings have introduced profit-sharing schemes for their employees under which the sums involved are at first invested in the form of loans to the undertaking itself; the funds can later be transformed into shares, however (co-ownership).

16.15. In the *United Kingdom*, various types of profit-sharing schemes exist, particularly in the banking sector where a proportion of the profits before taxes is allocated to the employees.

## 17. Various types

This sector covers measures, which, for different reasons, could not be classified in any of the groups already examined.

17.1. The *French* law instituting *workers' shares in the Régie nationale des usines Renault* (Law 70-11) of 2 January 1970, covers several systems on which the plan for this report was based. The handing over of ownership to the workers of part of the company's capital — which could not in any case exceed 25% since 75% was reserved for the State — would be achieved by a free distribution of shares, or through workers participation in the benefits of company growth (employers' contributions) or under a company savings scheme (mixed type).

The free issue of shares is governed by Decree No 652 of 8 July 1970. It takes into account the seniority of the workers and their responsibilities in the company.

Issues of shares under participation schemes should not, on the contrary, take such factors into consideration. It should be noted that this law is in derogation from the provisions of Order 67-693 of 17 August 1967, under which public sector undertakings may not issue shares to their workers in the context of profit-sharing schemes.<sup>2</sup>

The shares thus issued are registered. In principle, they should be held for five years but they may be transferred to company employees, to the Régie itself, to a special fund set up by the undertaking for this purpose, or to the State. The maximum number of shares any one person may hold is fixed at 500 by the above decree.

The worker shareholders are represented on the Board of Directors of the undertaking, taking into account their share in the capital.

The worker may keep his shares on termination of the employment relationship. The shares may also be held by the spouse or a direct descendant who has inherited them. All other persons must give up their shares, otherwise they will lose their rights.

The tax provisions already examined apply to share issues under a profit-sharing or company savings scheme; no tax is levied on free issues.

17.2. Two other *laws of 4 January 1973* introduced workers' shares in the nationalized banks and insurance companies, the SNIAS (National aerospace company) and the SNECMA (National company for the study and construction of aircraft engines).

Two implementing decrees were issued on 4 July 1973 for the nationalized banks and insurance companies. The provisions are, on the whole, very similar to those implemented at the Renault factories. The staff will be able to enjoy the benefit of a free issue of shares of up to 25% of the capital. Together with certain institutions, companies or bodies, the staff also has the right to purchase more

<sup>1</sup> Point 15.1.

<sup>2</sup> Point 16.2.

shares subject to payment. These shares can be disposed of freely after five years. The maximum number of shares which can be held by one employee is fixed at 500 in the banking sector and 250 in the insurance sector. When shares are distributed free of charge, seniority and the level of responsibility of the employee in the company are taken into account.

17.3. Law No 73-1196 of 27 December 1973 aims at extending to the private sector the *shareholding system* in force in the public sector under the abovementioned legislation. Companies, whether quoted on the stock exchange or unlisted, will be able to carry out capital increases reserved for their employees and the latter may also be offered the right to acquire shares in the undertaking through the market. Two million wage-earners working in about 1 500 undertakings will therefore be able to obtain shares on advantageous terms, but the optional nature of this scheme should be noted.

Wage-earners can become a shareholder if the following requirements are met:

- (1) wage-earners subscribing will be allowed three years at the most to pay for their shares;
- (2) the sums devoted to the acquisition of shares will be deducted from the basis of assessment for income tax up to a maximum of FF 3 000 per year (temporarily raised to FF 5 000);
- (3) deductions from wages for the acquisition of shares can be supplemented by the company up to a maximum of FF 3 000. The payments are not subject to corporation tax or payroll tax and will not be taken into consideration when applying labour and social security legislation.

They are also exempt from income tax due by the wage-earner. In principle, shares acquired in this way are not transferable for five years. Wage-earners can take part in general shareholders' meetings and can ultimately be elected to Boards of Directors and supervisory committees.

17.4. In the *United Kingdom*, the 1978 Finance Act provides that from April 1979 undertakings who so wish may *issue shares to their employees* under a profit-sharing scheme approved by the tax authorities. The amounts allocated by the undertaking to this scheme will be used to buy shares in the

undertaking, which will be distributed to the beneficiaries but placed in the care of a trust. The maximum any beneficiary may receive is UKL 500 per year. These shares receive preferential treatment for tax purposes, as liability will gradually be reduced over the holding period, which is normally five years (shorter in the case of invalidity, dismissal or retirement). At the end of this period, only half the original value of the shares (or the sales value if it is lower) will be subject to tax while after ten years of holding no income tax will be due. Beneficiaries are nevertheless still subject to normal taxation on capital gains and dividends. With respect to undertakings, the amounts disbursed under schemes of this type can be deducted from the basis of assessment for corporation tax.

17.5. In *Italy*, provision is made for tax concessions in respect of the *seniority allowance*, calculated in relation to earnings and length of service, which must be paid to workers on termination of the employment relationship. Tax relief of 50% is granted for seniority allowances up to LIT 10 million, 30% for allowances of LIT 10 million to LIT 20 million, and 20% for LIT 20 to LIT 50 million; in all cases, LIT 100 000 per year, or part thereof, is taken as the basis of calculation. No rebate is applied to allowances of over LIT 50 million.

### **Incentives for asset formation in the form of real property**

There are few measures giving incentives to workers to acquire assets in the form of real property. Here again the types of incentives are similar to those examined in the first two parts of this report (reduced interest loans, interest rate subsidies, etc.) and also typical forms, similar to those examined in connection with workers' asset formation in the form of securities, where taxation benefits and exemption from social security charges are offered to workers on the amounts they save, and to employers on the amounts they pay, in pursuit of an asset-formation policy.

Moreover, many varying types have been set up within companies, over and above those specified in legislation.

## 18. Home-building, reduced interest loans and interest rate subsidies

18.1. In *Italy*, a substantial *home-building* programme exists for workers, financed in the first place by the State, and implemented by GESCAL (Law No 60 of 14 February 1963). This law modified previous legislation with the aim of facilitating home ownership. The financing of this ten-year programme is assured by a State contribution and by a 1.05% tax on earnings (0.70% to be paid by the employer and 0.35% by the worker; an exception is made for agricultural workers). A minimum qualifying period of social security contributions is required for entitlement to the benefits under this law, and certain negative conditions are also applied (one must not be the owner of subsidized housing, or of any kind of dwelling situated in the same locality where one wishes to buy, or of a dwelling providing income above a certain ceiling; an applicant may not have a high taxable income).

The law also specifies certain characteristics and limits on dimensions, number of rooms, as well as the relationship between dimensions/number of rooms (five rooms which can be lived in given a living surface of 112 square metres).

Dwellings built under this law may be intended for either workers in general or employees of companies or public or private organizations; they are allotted to those requesting ownership on a guaranteed mortgage with payment spread over twenty years. They may not be resold for ten years. The worker purchases at a specially favourable price. In fact, this price is fixed at between 60 and 90% of the nominal cost of the dwelling, which itself is lower than the true construction cost. The true cost, in its turn, is reduced by the possibilities provided for the expropriation of building land. The provision of Article 3 of the law should be noted here; it allows for payment in advance of the amount of the cost still outstanding which is reduced by 5% per year of duration of the debt.

Home-building loans can also be obtained, directly or through cooperatives. Articles 15 and 16 of the law set up a fund for the granting of loans to workers who wish to buy or build dwellings for their own occupation.

There are a whole series of tax exemptions (from registration duty, tax on buildings, tax on building materials, etc.) which also help the implementation of the law.

Industrial undertakings themselves may be authorized to build homes for their workers.

A building programme for dwellings for agricultural employees was approved by Law No 1676 of 2 February 1960.

18.2. The 'Cassa per il Mezzogiorno' may also take action in the field as provided for in Article 4 of Law No 1462 of 29 September 1962. The 'Cassa' is authorized to grant *subsidies* to companies for the construction of workers' houses in industrial zones. The methods for achieving this must be defined by the Ministerial Committee for the 'Cassa'.

18.3. Also in *Italy* there are special provisions (Law No 408 of 2 July 1949, and Law No 715 of 10 August 1950) aimed at facilitating home-ownership for civil servants. They can make use of the provisions examined under 18.1. and also become purchasers of a dwelling belonging to INCIS (Istituto nazionale case impiegati dello Stato). This institute may sell 30% of the dwellings it owns. The sale price is 30% below market value. The dwellings purchased in this way may not be sold for ten years.

18.4. In *France*, the State as employer takes action to promote home-ownership among civil servants, employees of public institutions (which are not of an industrial or commercial nature), judges, military personnel paid by the month, government employees and employees of local authorities and departments.<sup>1</sup>

Under these provisions, a *loan* may be obtained only after approval has been obtained in principle for a housing premium and a loan from the Crédit Foncier de France. The sums are fixed at a flat rate; they represent about 40% to 50% of the special loan.

Three-year loans are accorded by the 'Comptoir des Entrepreneurs', and are funded by the Crédit Foncier de France for a period of up to twelve years.

<sup>1</sup> Decree 62-976 of 13 August 1962 and Circulars 62-58 of 29 September 1962 and 69-86 of 31 July 1969.

Employees of national companies and nationalized undertakings may also obtain loans on favourable terms.

18.5. In *Belgium*, a law of 3 July 1967 authorized the National Housing Society and the National Landowning Society to build low-cost housing, primarily intended for the employees of new or expanding companies. Some of these dwellings may be reserved for workers who do not meet the conditions giving entitlement to low-cost housing (mainly their income is above the permitted maximum). The rent is then set at a rate of 7.5% of the cost price of the dwelling, land included (for workers whose income is lower than the maximum, the rent is fixed between 3.5% and 4.6% of the cost price of the dwelling, land included) and the sale price is equal to the cost price increased by the value of the benefits granted by the State.

Also in *Belgium* a special system has been set up by a decree-law of 14 April 1945 for *miners*. When they borrow — with the intention of purchasing or building a dwelling — from agencies accredited by the National Savings and Retirement Fund, from National Landowning Societies, or from Provident Funds under the Ministry of State Insurance, they pay an interest rate that varies according to length of service in the mines, from five to twenty years or more.

The difference between the reduced rate and the real rate is paid by the State.

18.6. In *France*, a decree of 1953 (replaced by Decree 66-826 of 7 November 1966) gave a legal frame to a scheme for the compulsory payment of a sum for building to be deducted from the operating accounts of companies with more than ten employees. The employers (with the exception of undertakings classified as agricultural for social security purposes, State undertakings, or local authority's undertakings not of an industrial or commercial nature and public or administrative institutions) must invest in housing 0.9% of the wages and salaries paid during the last calendar year, of which 0.1% is for migrant workers. Half the amount is to be used for rented dwellings and half for facilitating home-ownership.

This contribution may take different forms:

- payment to inter-trade organizations which invest these sums in building operations, reserving them, if the case should arise, for company employees;
- loans or subsidies to building organizations;
- direct loans to company employees.

Among these different types of aid, those which are important for this report are the *loans and subsidies* granted by the company to its workers. They may not be above certain ceilings and vary depending on the type of dwelling and the region, and are fixed in such a way that the employers' contribution cannot totally finance the dwelling. The dwellings financed must, moreover, be in accordance with the limits as to dimensions and price established for dwellings that qualify for premiums.

The loans must not be made at a rate higher than 3%; the minimum length must be for five years, and the annual repayments may not be more than one quarter of the loan. If repayment is made before twenty years, the amounts concerned must be reinvested in housing.

The subsidy is considered as earned income for purposes of social security payments. Provision is made for a rebate (varying according to number of dependants) for income tax purposes.

Company directors are not entitled to loans or subsidies.

The works council must be consulted on the use of the money; if the employer does not wish to follow its advice, he must state his reasons.

Loans to workers may also be made by the 'Inter-trade Housing Committees', formed voluntarily by agreement between employers, or with the workers' participation, to administer the funds which the employers do not wish to administer directly. In this case, the loan has no minimum duration and the annual repayment may be more than one-quarter of the loan.<sup>1</sup>

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<sup>1</sup> Loans at favourable interest rates may be obtained from the Family Allowances Fund, the Public Servants Retirement Fund and the Supplementary Retirement Fund.

## 19. Premiums and fiscal advantages

19.1. As has already been noted,<sup>1</sup> in the case of the *Federal Republic of Germany* the 'DM 624 Law' provides two possibilities for *savings in the form of real property*. Under the first, premiums are granted to the worker on the sums set aside for the purchase or construction of a dwelling or for the purchase of building land or to pay off debts contracted for this purpose. The dwelling or the land may belong to the worker himself, his spouse or his children aged under eighteen years. The dwelling must be situated in the *Federal Republic of Germany*.

The second possibility under the law is investment under the provisions on *home-building premiums*. If the form chosen is building savings, a tax abatement may be chosen.

19.2. The *Dutch* system of *savings premiums* set up under the 1962 Law<sup>2</sup> provides also for savings in the form of real property. Entitlement to the premium is operative immediately — without a waiting period — on the amounts set aside by the worker or his spouse for the acquisition of real property, or for paying off a mortgage. The amount of the premium is fixed at a maximum of 50% of the sums saved; it may go up to 200% if it is also partly set aside for investment in real property. These maximum percentages are rarely achieved in practice.

The dwelling in question may be situated in any country.

19.3. In *Belgium*, company profits, which are in fact used for the grant of loans to the personnel, are only taxable up to half during the twelve months following the end of the accounting operation. These must be loans which are supplementary to a principal loan obtained from certain credit agencies for the construction or purchase of a dwelling intended for the personal use of the borrower. The conditions on such loans must be at least as favourable as those on the principal loan.

## 20. Contractual types

20.1. Finally, incentives have been offered, without State advantages, by employers under collective

agreements or company agreements or on the unilateral initiative of the employers.

In *Belgium*, the collective agreement made on 23 April 1970 for the building industry provides that a sum equal to 1% of gross earnings shall be paid by the employers into a 'Building Industry Social and Economic Fund' and it should be used to facilitate home-ownership by the workers concerned and to increase the activities of the building industry. At the end of 1976, the Fund, administered by trade union organizations, amounted to about BFR 3 000 million, but was liquidated in 1978. The new collective agreement provides for the award of a supplementary annual allowance to construction workers who are pensioned off on 1 April 1978.

In *Denmark*, quite a large number of companies have set up bodies to administer the investments of their workers and officials. The bodies often include a savings department and in some cases a loans unit for construction in general. The loans are taken out at a low or nil interest rate.

In the *Federal Republic of Germany*, many employers, although no statistical survey has been made, give their workers many different forms of aid for the purchase or construction of dwellings. The grant of credit without interest or on special conditions is as important here as the free use of building machines, or the sale of building land at special rates.

In *Italy*, several undertakings in which the State participates have adopted different measures, on their own initiative, such as loans, payment of land costs or of taxes, premiums, which aim to make it easier for their workers to become home-owners.

Various facilities (building land, building materials) are given to their workers and employees by *Luxembourg* companies.

From 1 May 1968, the largest *Luxembourg* employer introduced new proposals on home-ownership saving for his workers occupying company-owned dwellings. To encourage people enjoying this advantage not to lose interest in purchasing a dwelling, they are obliged each month to deposit in a savings account an amount equal to a nominal rent.

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<sup>1</sup> Point 15.2.

<sup>2</sup> Point 15.7.

The deposits thus made receive the same benefits as other savings accounts,<sup>1</sup> but are subject to a waiting period until the worker leaves the company dwelling and has no more obligations resulting from it towards his employer.

However, earlier withdrawals may be authorized from these accounts, if there are very serious grounds — e. g. purchase of building land, building of a house, etc.

In the *Netherlands*, companies frequently grant mortgage loans on special terms to their employees. There is no exact information on how widespread this practice is.

In the *United Kingdom*, some informal schemes exist whereby employers may make loans to their employees at nil, or very low, interest rates for the purchase of real property (generally in the form of a dwelling for the employee and his family). In particular, commercial banks run these schemes.

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<sup>1</sup> Point 14.7.



European Communities — Commission

**Employee participation in asset formation – Memorandum from the Commission**

Supplement 6/79 – Bull. EC

Luxembourg: Office for Official Publications of the European Communities

1979 — 80 pp. — 17.6 x 25.0 cm

DA, DE, EN, FR, IT, NL

ISBN 92-825-1558-3

Catalogue number: CB-NF-79-006-EN-C

BFR	DKR	DM	FF	LIT	HFL	UKL	USD
120	21,20	7,60	17,60	3 400	8,20	2	4

The Commission has drawn up guidelines that could form the basis of a wide-ranging discussion among all interested circles and give new impetus at Community level to asset-formation policy adopted by the Member States to reduce social inequalities. These guidelines and a description of the incentive schemes implemented in the Member States to promote employee participation in asset formation are the subject of a Memorandum that was forwarded to the Council, the European Parliament and the Economic and Social Committee.