



Trade-Union Hegemony: The Political Vision of the Rehn-Meidner Model

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Overview

- The Rehn-Meidner model was a policy framework for a **wage-led economy** developed by the blue-collar Swedish Trade Union Confederation (LO) in the aftermath of the Second World War.
- From the mid 1950s to the early 1990s, Swedish governance largely approximated the model, leading to Sweden's **unusually egalitarian outcomes** (Erixon 2000, 2010).
- Revisiting both its **economic theory** and its **political motivations** offers lessons for resuscitating **the social infrastructure of a just society**.



Principal Takeaways

Disciplining of Investment through Control over Relative Wage Rates

The Rehn-Meidner model utilized **relative wage rate growth** as a macroeconomic instrument to balance the goals of full employment, price stability, income equality and high productivity growth. It thereby forced **investment to adjust to living standards**, rather than vice-versa.

Independence of (Working-Class) Labor Market Institutions

The choice and proper application of this instrument was motivated by the **political ambitions** of the Swedish trade union movement, for which **the internal unity** of Sweden's working class required **independence of action** from the (social-democratic) state.

The Economic Theory

From disequilibrium analysis
to a central bank by and for organized labor

The Dilemma(s)

- Because investment in a market economy is mostly in private hands, the **profitability of enterprise** takes precedence over **fairness of outcomes**.
- The tension is best exemplified by the apparent incompatibility between **four macroeconomic goals**: full employment, price stability, income equality and high productivity growth.
- In the standard **equilibrium-conforming competitive setting**, the conclusion appears inescapable: **unemployment** is the **disciplining mechanism** by which prices are stabilized and dynamic efficiency is ensured.

Rehn and Meidner's Response

- While accepting the centrality of investment, Rehn and Meidner complicate the **functioning of competition** and therefore the **effect of net profits** on macroeconomic indicators.
- For Rehn and Meidner, industries and markets are instead in a perpetual **disequilibrium**: at any given time, firms vary tremendously in their productive capacities and therefore **price-setting and wage-offering ability**. This is compounded by the weight of **fixed capital investments**, which deter entry and exit.
- Moreover, the **labor market** is debilitated by information, search and skill underprovision, since they are **public goods** that private actors can **free ride off of**.

Disciplining Investment

- Under this light, **high profits** become much less beneficial than the standard story suggests. **Regulating firms** have fewer incentives to invest in labor-saving technical change, since they can **poach labor** and otherwise redirect their elevated profits to **non-productive ends**.
- **Subregulating firms** limp along by repressing wages, sweating labor and, if able, borrowing. Capital and labor are trapped in entities whose **private interest** is misaligned with the **public good**.
- **Adjustment is slow and borne primarily by labor**. The goal, then, is to **discipline investment decisions** so as to shift the burden onto capital!

The Proposed Instruments

- Rehn and Meidner's central insight is that, when coupled with public policy that restricts high profit margins and maintains full employment, **coordinated wage negotiations** can modify **relative wage rates** to balance the economy to labor's ends.
- A useful parallel here is with **central banking**: just as control over borrowing costs can be used to influence investment decisions, so too can control over **labor costs**.



01.
Restrictive Fiscal and Monetary Policy



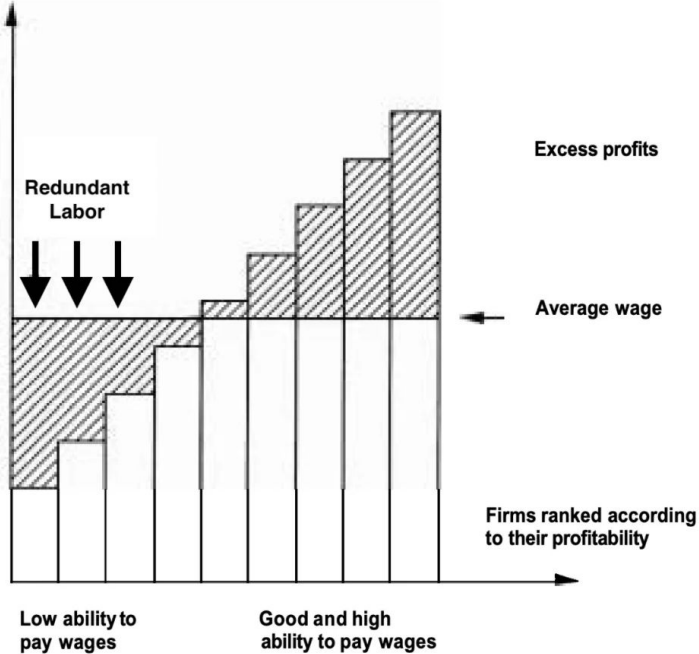
02.
Active Labor Market Policy and
Employment Subsidies



03.
Solidaristic Wage Policy

Consequences of wage policy of solidarity for firms with different ability to pay wages.

Wage costs



Solidaristic Wage Policy

- In sum, compensation for equal work is **completely divorced** from the profit situation of the individual establishment, and wage growth is **concentrated at the bottom end of the income distribution**.
- Such **compression** punishes laggards and rewards leaders (and productive entrants), while the **restraint** at the top eases inflationary pressures.
- Note that it can also serve as **industrial policy**, since it can accelerate the demise of sundowning industries and subsidize the growth of sunrising ones.

**SOLIDARISTIC
WAGE POLICY**

**RESTRICTIVE
FISCAL AND
MONETARY
POLICY**

**ACTIVE
LABOR
MARKET
POLICY**

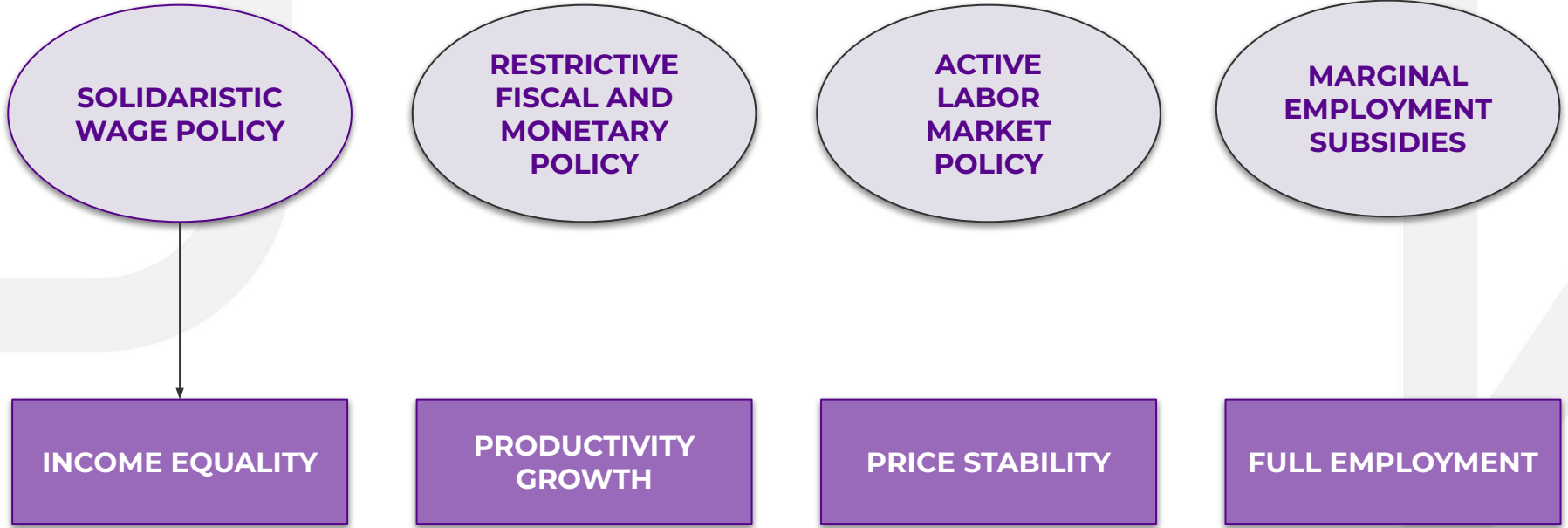
**MARGINAL
EMPLOYMENT
SUBSIDIES**

INCOME EQUALITY

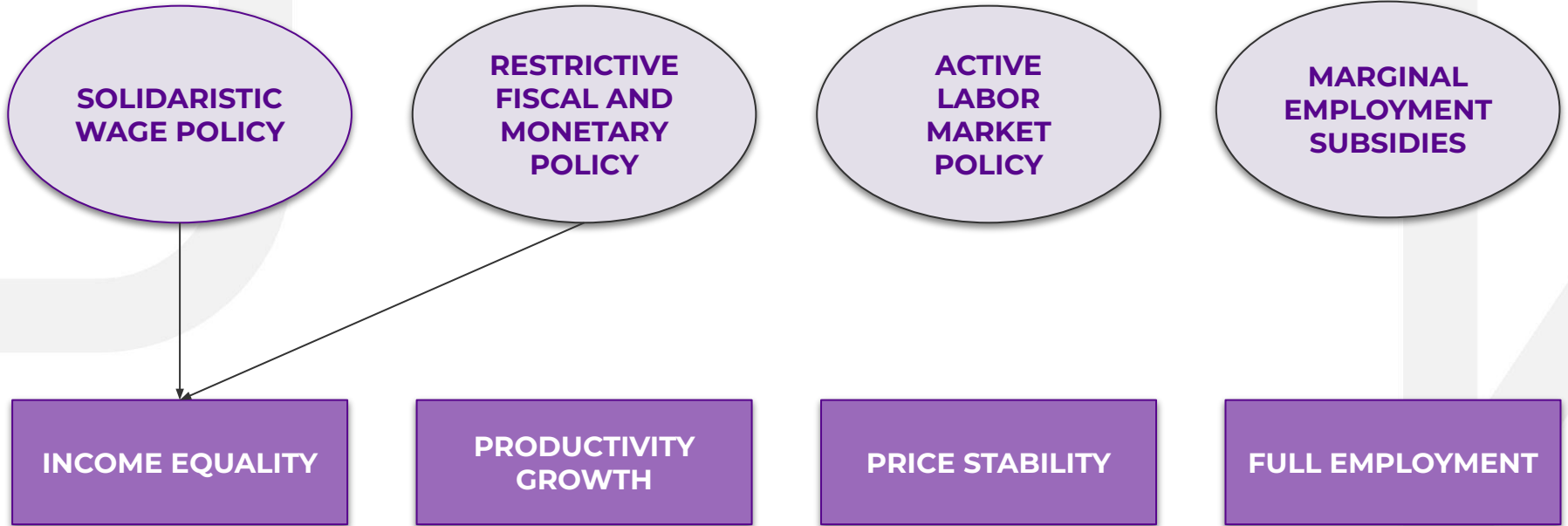
**PRODUCTIVITY
GROWTH**

PRICE STABILITY

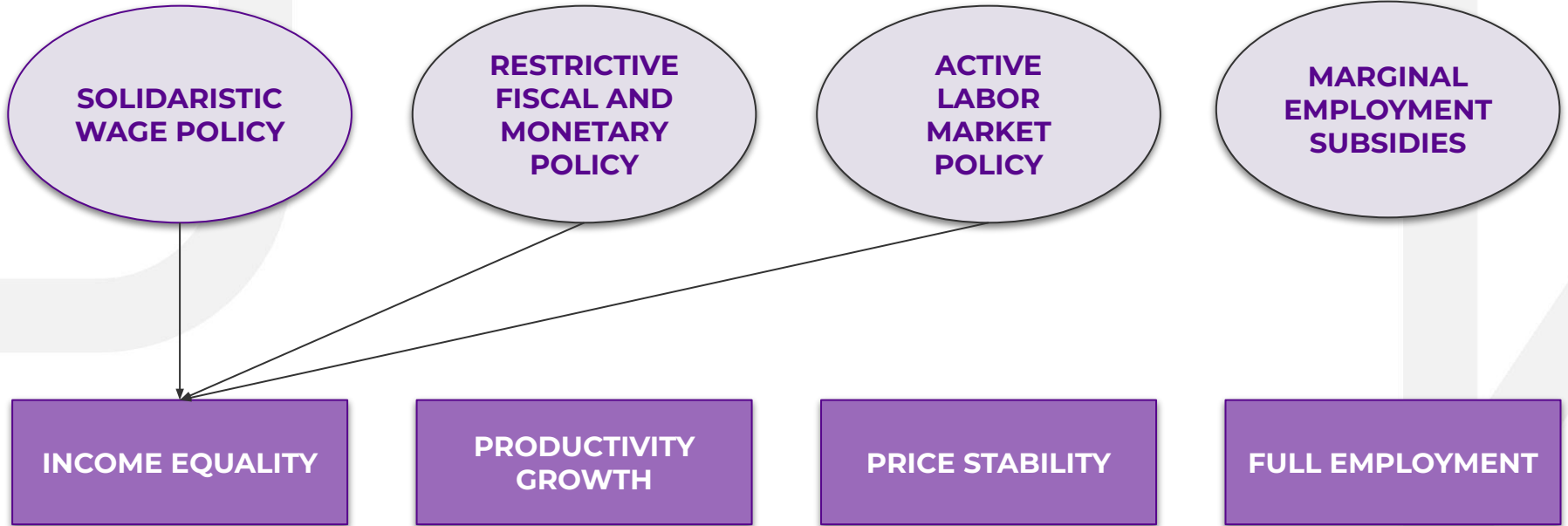
FULL EMPLOYMENT



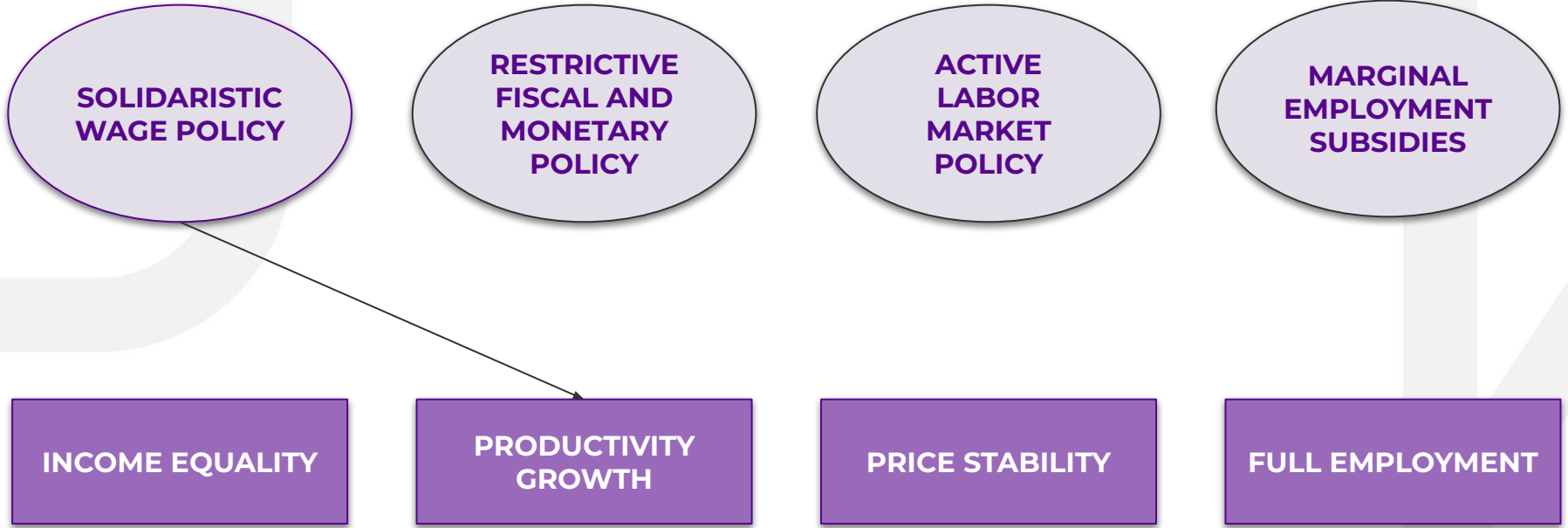
The exercise of solidaristic wage policy compresses wage differentials and increases the wages' share of income...



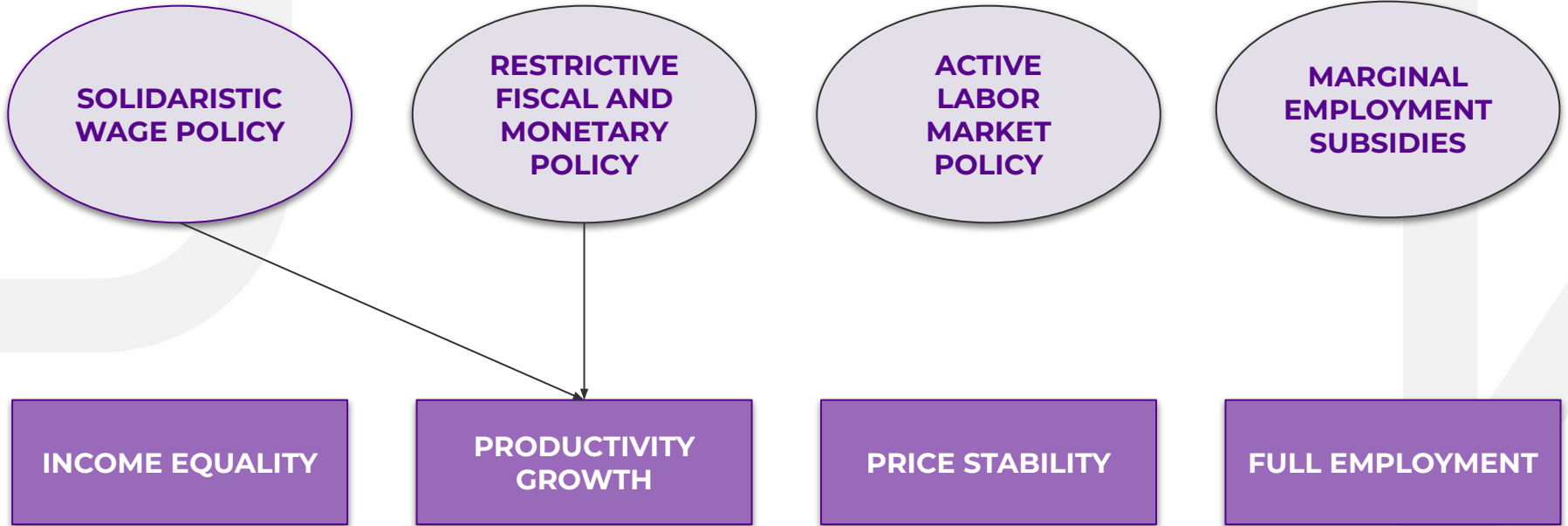
... restrictive fiscal and monetary policy presses down the profits' share of income as far as is compatible with full employment...



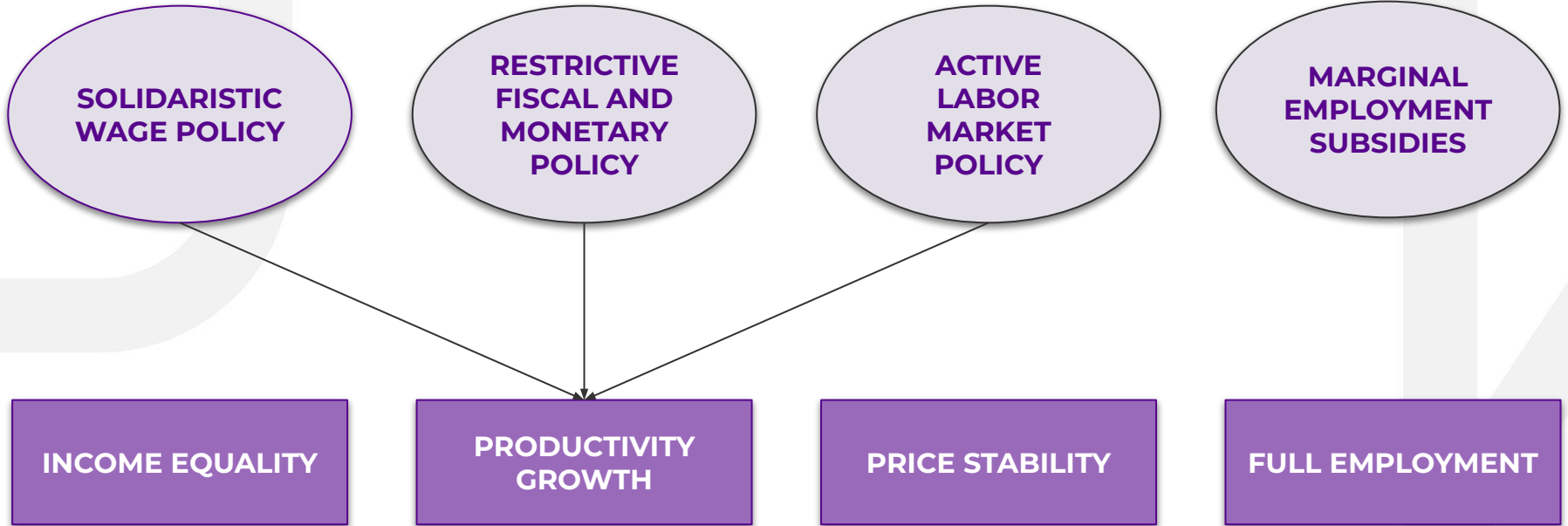
... and active labor market policies equip workers with greater skills and thus bargaining power.



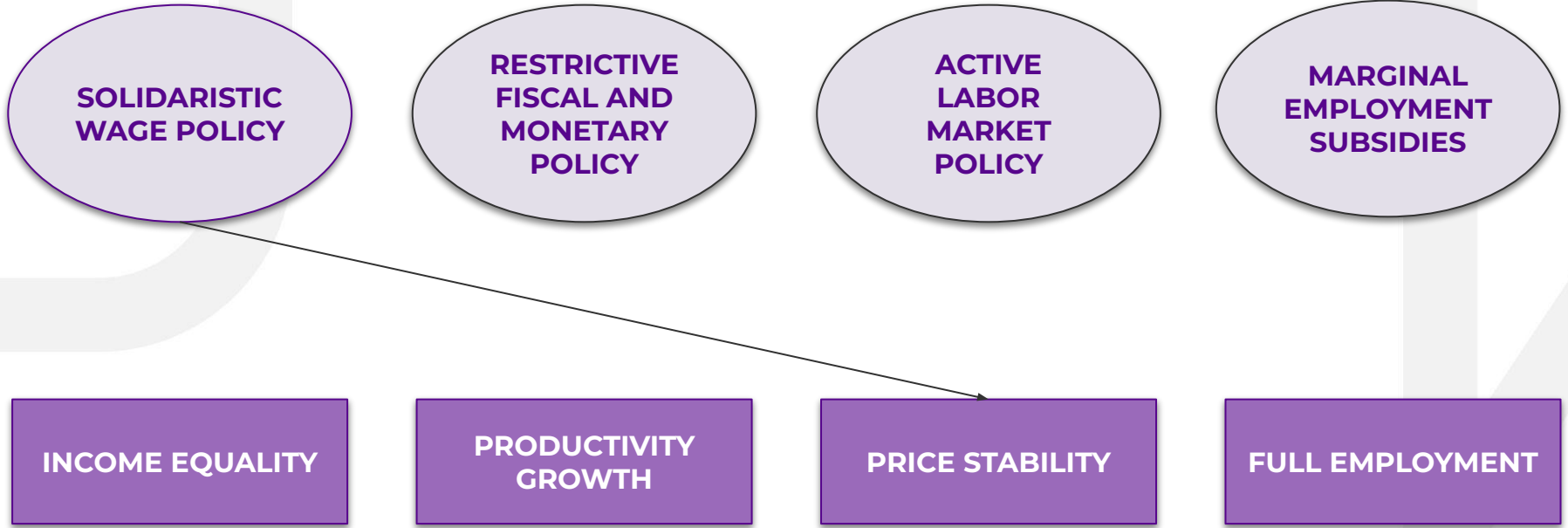
By concentrating wage growth at the bottom of the income distribution, solidaristic wage policy puts pressure on unproductive firms to exit (and productive ones to enter)...



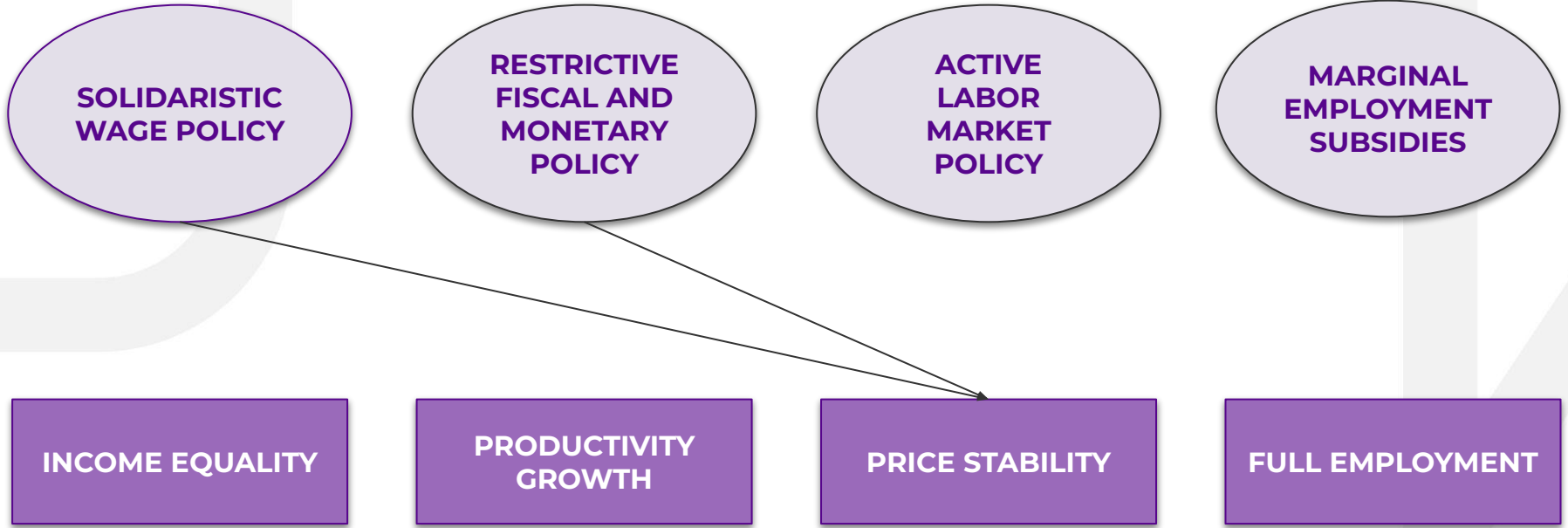
... a pressure that is intensified by high interest rates and taxation...



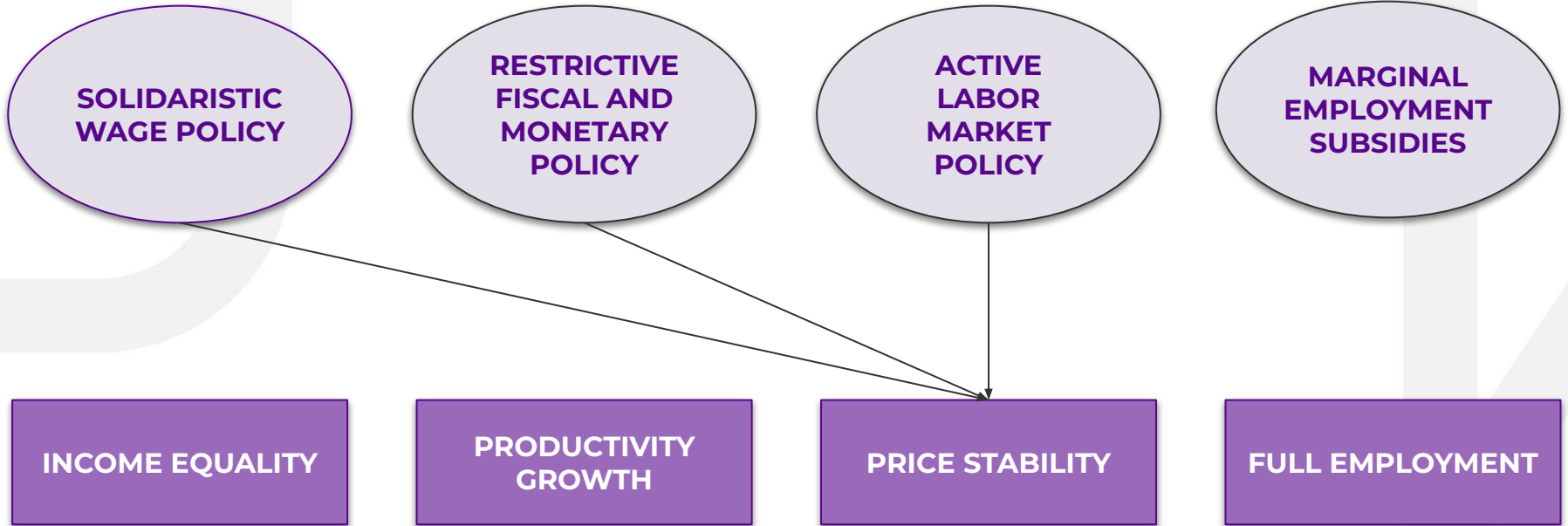
... and the economic gains of job matches are multiplied by active labor market policies that lower the costs of relocation and transfer.



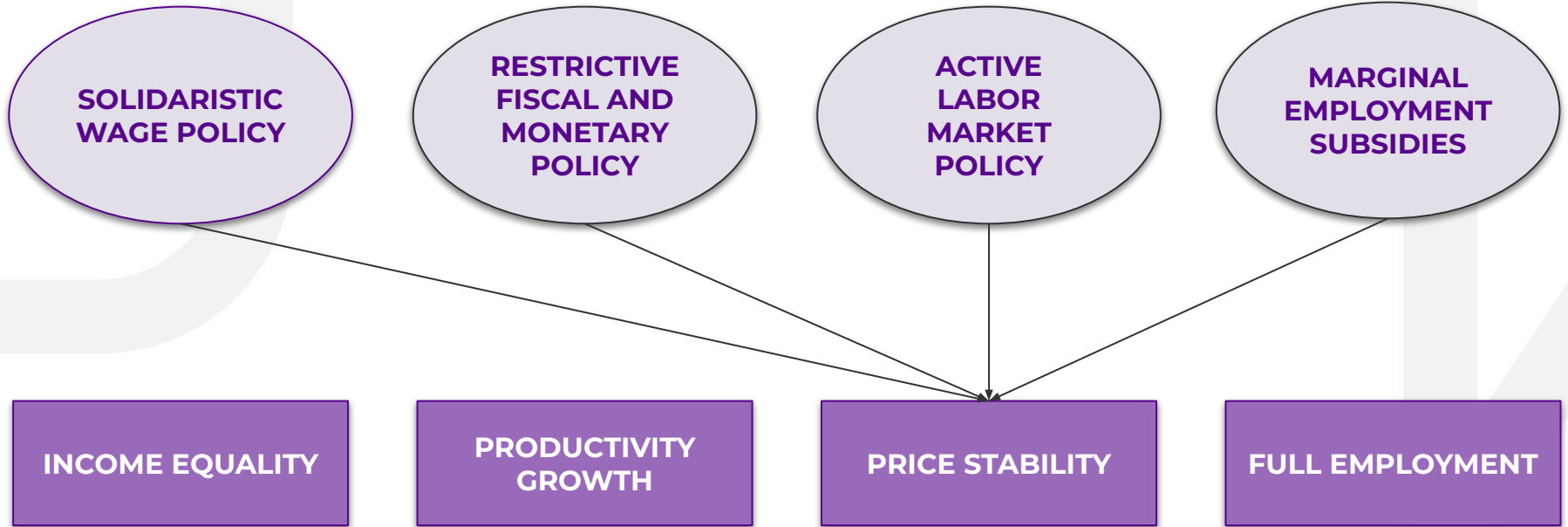
Wage-price spirals are prevented by the restraint in the growth of wages of the highest-paid...



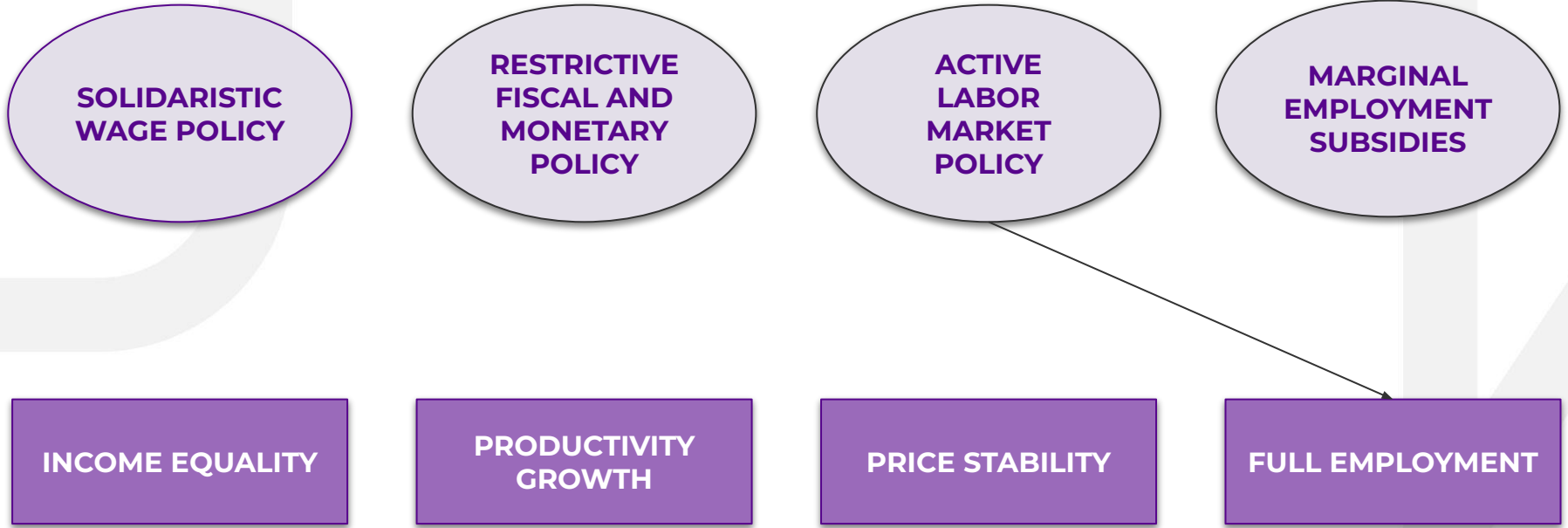
... as well as by the tight hand of the public purse, which holds down aggregate demand...



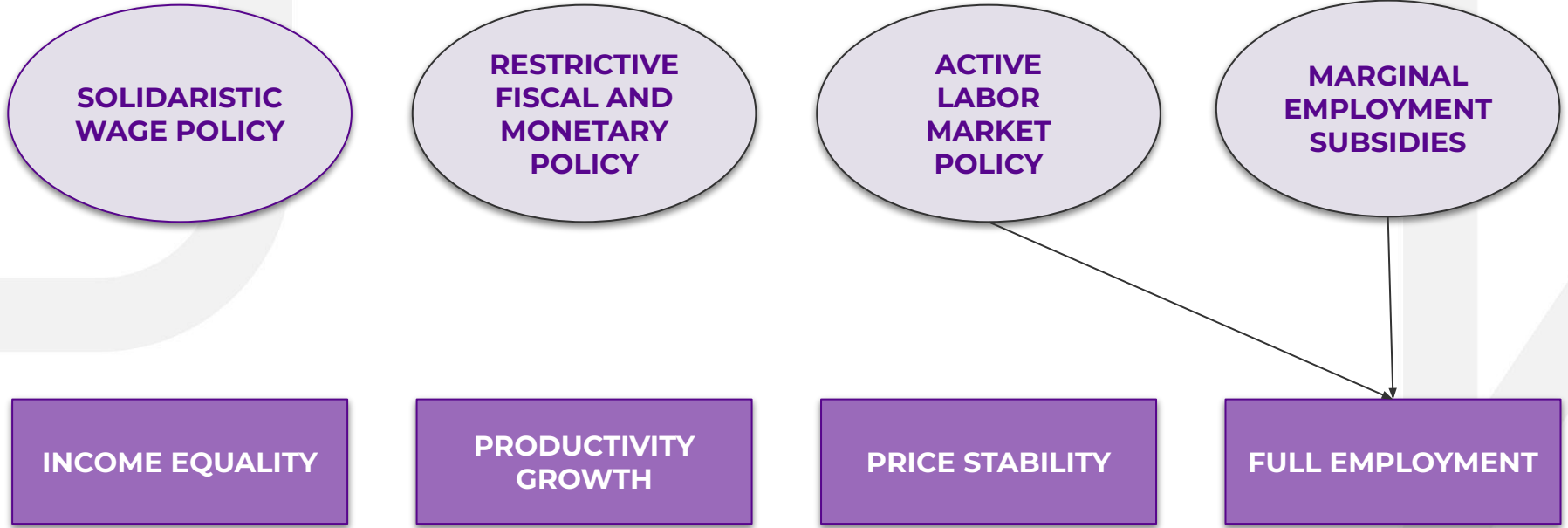
... whereas the inframarginal costs of labor recruitment are dampened by active labor market policies...



... and targeted subsidies can further ease the cost of labor recruitment in high-productivity sectors.



Active labor market policies cushion the job losses expected from technical change...



... and employment grants and/or public works mop up any remaining islands of unemployment.

**SOLIDARISTIC
WAGE POLICY**

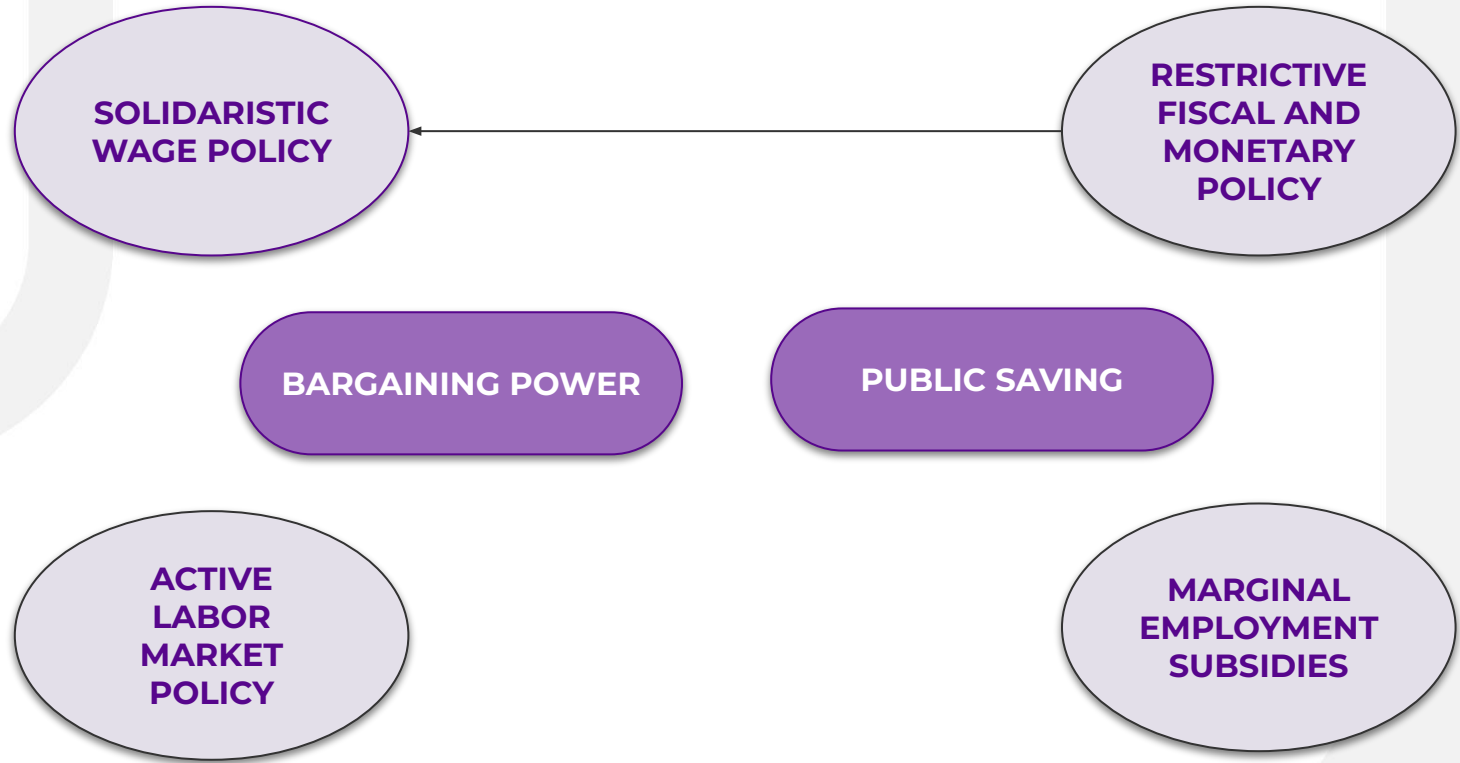
**RESTRICTIVE
FISCAL AND
MONETARY
POLICY**

BARGAINING POWER

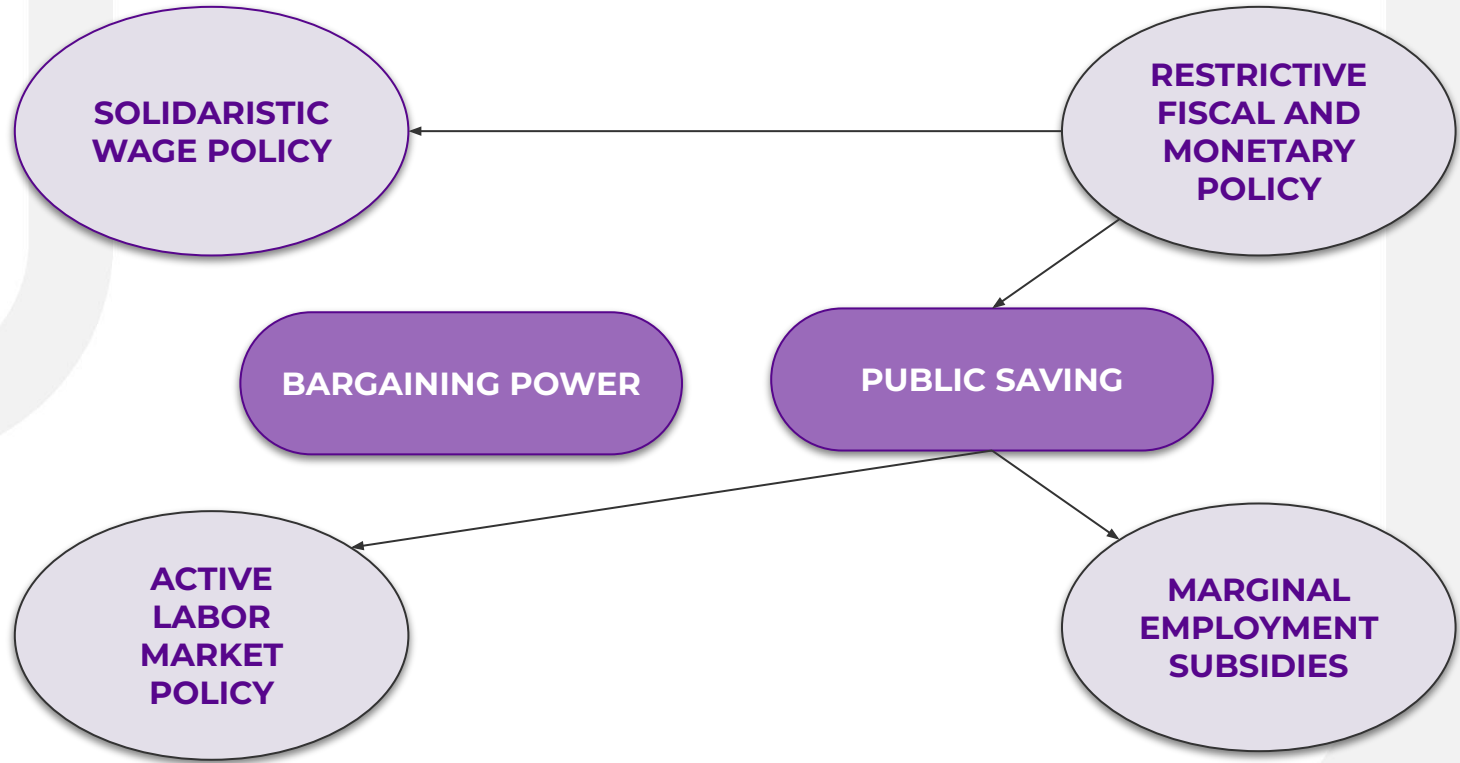
PUBLIC SAVING

**ACTIVE
LABOR
MARKET
POLICY**

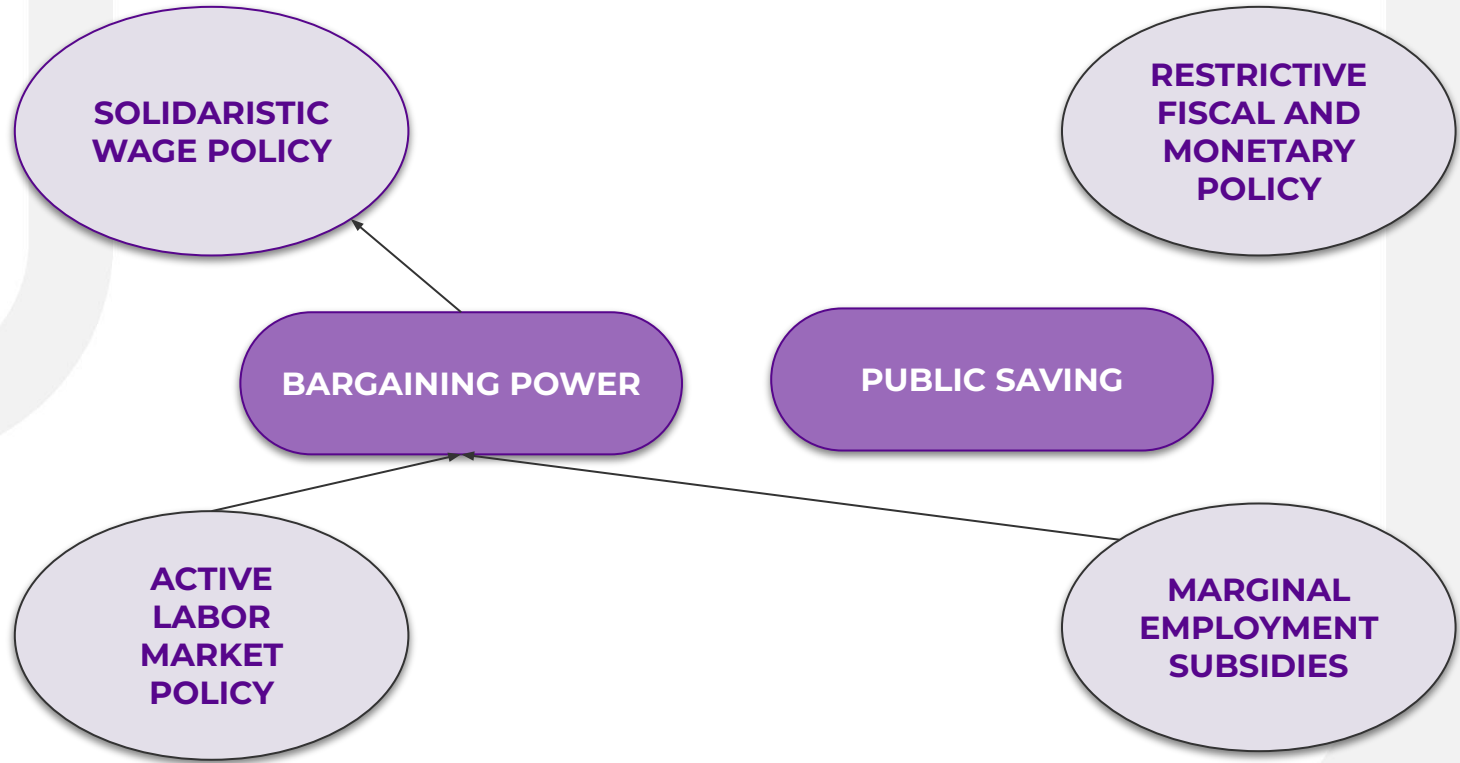
**MARGINAL
EMPLOYMENT
SUBSIDIES**



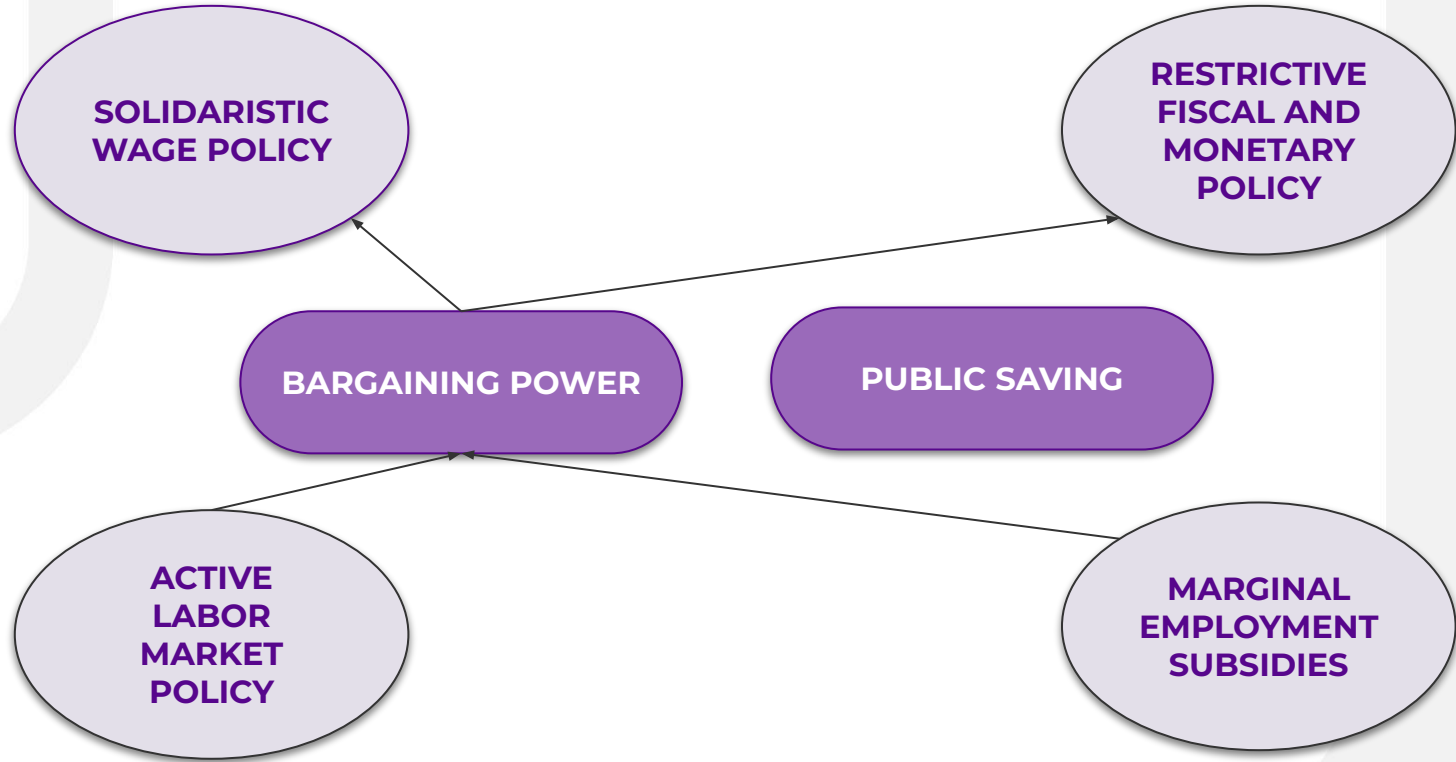
Solidaristic wage policy is non-inflationary when fiscal and monetary policy is restrictive...



... and the public saving generated by high interest rates and taxation finances labor market policies (and the welfare state).



By maintaining full employment, they, in turn, shore up the bargaining power of the unions to conduct solidaristic wage policy...



... as well as put pressure on the state if it provides expansionary largesse to the business community.

The Political Project

Legitimacy and freedom of action
for a counter-hegemonic vision

We cannot pursue a wage policy independent of society's economic policy. Our bargaining rounds grow ever less a matter between us and the employers, because the bargaining affects social policy overall.

August Lindberg, LO Chairman (1941)

The Context

- The postwar boom precipitated an **inflationary spiral** in Sweden. Uncoordinated bargaining caused LO's unions to leapfrog one another in wage claims, what Rehn and Meidner termed **“wage drifting.”**
- The impasse caused the Social Democratic government to step in and impose **incomes policy**, which only partially remedied the problem.
- If LO was to survive as an **check on the power of private capital and the state**, it had to formulate an economic program for its constituent unions that **took care of all of society.**

We run the risk that things will work out as before: each union takes what it can possible, without regard for the common concern to restrain prices... I would ask the Secretariat... to keep the unions' bargaining rounds together and steer them!

Oskar Karlen, Wood Industry Workers' Union (1947)

[The] trade union movement, which is the movement in this country which basically carries Social Democracy... we do not show a lot of what we tell others they should manifest. The last couple of bargaining rounds show very strikingly that we are lacking in internal solidarity.

Gustav Vahlberg, Secretariat (1948)

The Task of Hegemony

- For LO to act as the **steward of the economy** for “the benefit of the broad masses,” it had to secure **the internal unity** of the blue-collar working class, **win over** other subaltern groups, and **divide the opposition** presented by the employers.
- This is precisely what the Rehn-Meidner model, and solidaristic wage policy in particular, achieve: **the coordination problem** for the unions is solved, **a balanced economy with a well-funded welfare state** brings over the middling strata, and regulating capitals **are pitted against** subregulating ones.

The Case for Working-Class Independence (I)

- The key lies in the **centrality of independent working-class institutions**, a theme not often associated with social-democratic governance.
- Since bargaining power requires the preservation of the unions' ability to threaten to strike, the **legitimacy** of the wages policy to the **rank-and-file** is of paramount importance.
- There are moreover **efficiency concerns**: local knowledge often trumps regulation from the top.

During the past decades, the trade union movement owed its strength to the fact that members could, to a large extent, identify their interests with the policy pursued by the unions.

A wages policy which is believed to have been dictated by the interests other than trade union ones, will inevitably prove disastrous, in the long run, to trade union solidarity. *The greatest danger is that members may lose confidence in their leaders, partly or altogether.*

Trade Unions and Full Employment (1951)

The Case for Working-Class Independence (II)

- But the second basis for independence in the labor market comes from an awareness of the **class character of the state** (Block 1977).
- In a capitalist class structure, even a social-democratic government confronts a **structural dependence on business confidence**, for which it will be punished by voters for neglecting.
- Given this reality, the unions are the ultimate guarantee for the progressivity of social policy—**but only if they are free to act on the labor market of their own volition.**

It can be assumed that even a bourgeois regime would, for reasons of self-preservation, endeavour to avoid unemployment and clashes with the trade unions. The ability of the latter in such a political situation to uphold the interests of the working class depends to a high degree upon the ability of the trade union organizations to stand united and co-ordinate their actions.

Bearing in mind that, in a democratic community, a political change of regime is always theoretically possible, *it is essential that the trade union movement should retain its independence and work in such a way to give its members cause to regard it as the obvious defender of their own interests.*

Trade Unions and Full Employment (1951)

Toward Socialism?

- There is nonetheless an unresolved political problem in the model: how can the allegiance of the **higher-paid groups** be preserved over time?
- The answer is to couple **public saving with public investment**, that is, to transform wage restraint into **collective capital formation**.
- The model's functioning thus pointed to the **wage earners' fund** proposal that LO advanced in 1975.



Conclusion

What is living and what is dead
in the Rehn-Meidner model?

The Road Ahead

- Our world is not the world of the twentieth century. The **sociological factors** that facilitated unionization back then are long gone, and the **weight of professional and managerial labor** is much greater (Chibber 2022).
- Additionally, the economic climate is one of relative **stagnation**, as opposed to the boom conditions that facilitated redistributive policy.
- What can we nonetheless extract from this novel experience?

ESSAY

The Market and Workplace in a Democratic Socialism

Mike Beggs

Introduction

In a socialist society, should workers have democratic control over their own workplaces? For many socialists, the answer is obvious: of course, almost by definition. But among economists who have developed proposals for how a socialist system might work, the answer is much more controversial. Some of the most well-known models do not involve democratic workplaces.

Workplace democracy is not a feature of one major vision published in *Catalyst*, John Roemer's "sharing economy," though workers share in firm profits.¹ In his seminal earlier proposal, A

¹ John Roemer, "Market Socialism Renewed," *Catalyst* 4, no. 1 (2020).

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In Closing

- So long as fixed payments for labor inputs remain **the primary form to allocate work**, solidaristic wage policy is a (the?) method by which to reconcile the goals of **freedom, equality and prosperity**.
- And so long as we have reasonable grounds to doubt **technocratic neutrality**, independent labor market institutions are **the best safeguards of the common interest**.
- In this basic sense, the Rehn-Meidner model is still a guide for us today.