

Can the Rehn-Meidner model be a guiding star for EU countries like Ireland?

The validity of a unique Swedish economic-policy programme for macroeconomic stability, growth and fairness

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A unique Swedish economic and wage policy

Two trade-union economists:

Gösta Rehn (1913-1996)

Rudolf Meidner (1914-2005)

The programme was presented in a report to the Swedish Confederation of Trade Unions (LO), the central blue-collar worker organization in Sweden (1951)

The background to the Rehn-Meidner model

- Overheating and inflation in Sweden after WW II
- The Keynesian revolution
 - i) Full employment in Sweden through expansionary fiscal and monetary policies
 - ii) Incomes policy (price controls and collective wage restraint), devaluation and selective fiscal policy measures to fight inflation or the negative effects of overheating on the current account

The Rehn-Meidner critique of the Keynesian postwar model

- Keynesian measures to fight inflation are ineffective in an overheated economy and also harmful for economic growth
- Inflation threatens the unity of trade unions and has negative effects on income distribution and growth
- "Voluntary" wage moderation is not the object of trade unions (resisted by the rank-of-files)

The dilemma for the trade union movement

1. The stabilization-policy dilemma

How to achieve full employment (below 3 % open unemployment) without inflation?

2. The growth-distribution dilemma

How to combine high economic growth with small income differentials?

The content of the original Rehn-Meidner model

- ❑ Restrictive fiscal policy, primarily consumer-good taxes, and/or restrictive monetary policy in the medium term to increase public saving and (particularly) to control inflation by squeezing (average and marginal) profits

Note: room for Keynesian countercyclical economic policy!

- ❑ Active labour market policy (ALMP)
 - Selective demand-stimulating policy
 - Supply-side measures (retraining, vocational education, support to regional labour mobility, etc)
 - Public matching measures
- ❑ Wage policy of solidarity
 - Equal pay for equal jobs (regardless of the profitability of firms) and a central job evaluation to determine "fair" wage differentials

Amendments to the original R-M model

- Marginal employment subsidies (a proposal by Rehn in the 1970s)
- High unemployment benefits in order to improve the matching process in labour markets and increase labour mobility (Rehn and Meidner in the 1950s)
- Wage earner funds (a proposal by Meidner/LO in the 1970s)

A unique model in macroeconomics

- All four goals of economic policy (full employment, price stability, equity and growth) shall be satisfied
- Each instrument has more than one goal

Example 1: The ALMPs shall satisfy all four goals!

Example 2: Wage policy of solidarity shall lead to equity, stimulate growth (by enforced productivity increases in firms and creative destruction) and prevent inflation

Example 3: Restrictive macroeconomic policy shall result in price stability but also in equity and growth (enforced productivity increases in firms and creative destruction)

A unique model in macroeconomics, cont'd

- Interaction between the instruments

Example 1: Solidarity wage policy will not lead to structural change unless combined with matching and supply-oriented ALMPs

Example 2: A restrictive economic policy will not lead to a profit decline in the medium term if not combined with ALMPs and wage policies of solidarity (preventing nominal wage reductions)

The R-M model – a third way in economic policy

Departures from the "new consensus" in macroeconomics

- a) A Phillips-curve relation between unemployment and inflation except under overheated conditions
- b) Strong trade unions should put a wage pressure on firms in general and on low-productive firms in particular to promote productivity and industrial renewal
- c) State interventionism (especially ALMPs) to obtain very low rates of unemployment

Relation between the R-M model and the Danish flexicurity model

Similarities:

1. Generous unemployment benefits. But see the changes in the social insurance system in Sweden, especially from the mid-2000s, and in Denmark, especially from 2013
2. Extensive ALMP programmes
3. Weak emphasis on job security. Employment security, not job security!
But see the difference between reality and model (ideal) in the R-M case. In Sweden still the Job Security Act (1974) although a tendency to lesser job security in the 1990s and 2000s especially for temporary workers

Relation between the R-M model and the Danish flexicurity model

Dissimilarities:

1. The Danish flexicurity model is defined by the Danish practice. The R-M model is normative.
2. The R-M model is a comprehensive policy programme for full employment, price stability, growth and equity. The Danish flexicurity model is predominantly a labour-market programme for high participation rates, low (equilibrium) unemployment and high productivity.
3. The macroeconomic policy is ambiguous in the Danish flexicurity model (see 2 above)
4. The R-M model advocates coordinated wage negotiations to achieve solidarity wages. The Danish flexicurity model advocates decentralized wage bargaining to achieve labour-market flexibility.

The application of the R-M model in Sweden

The Golden Age of the model: 1957-1973

- The breakthrough of ALMPs and wage policy of solidarity
- Large increase in public saving
- Fiscal and monetary policies became more restrictive
- The introduction of consumer taxes
- A significant decline in profit shares

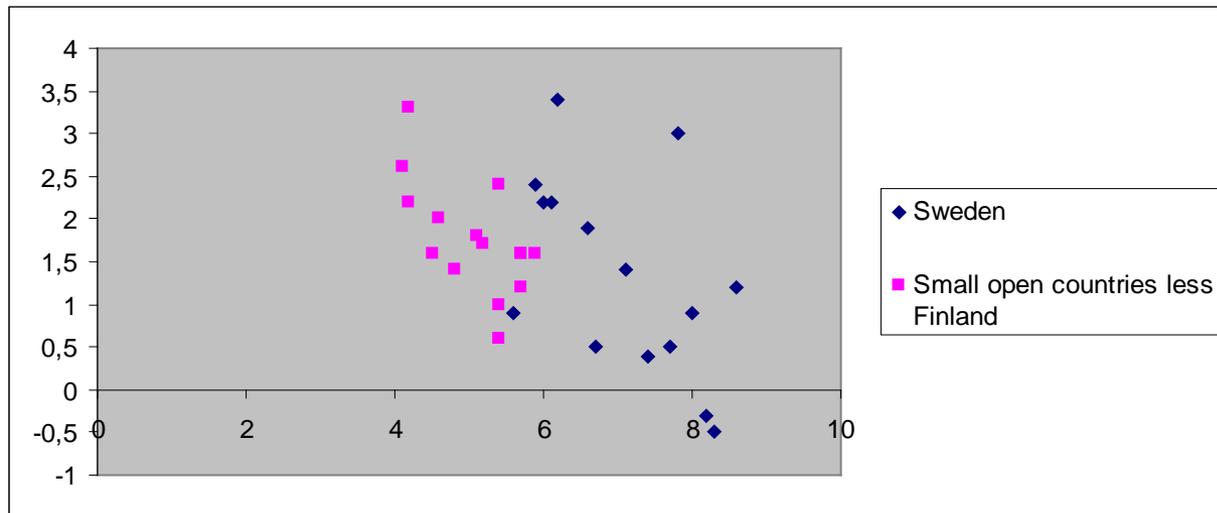
The application of the R-M model in Sweden 1957-1963. Some qualifications

- Wage equalisation, not only for similar but also for dissimilar jobs (general wage compression)
- The profit decline, the (more) restrictive macroeconomic policy and the increase in public saving did not primarily reflect a strict application of the model

Swedish departures from the R-M model from the mid 1970s

- Too expansionary fiscal and monetary policies and devaluations of the SEK in the 1980s (Swedish overheating)
- Structural change was delayed by grants to industries in crisis in the late 1970s and the early 1980s
- Industrial, not coordinated, central wage agreements since the mid 1980s
- Increasing wage gaps from the mid-1980s until the 2000s (especially for similar work)
- High unemployment in the 1990s and 2000s e.g. through the inflation target (2 %)
- Sweden was passed in the 2000s by Denmark and the Netherlands in terms of ALMP expenditure
- Voluntary incomes policy to achieve wage moderation (see e.g. the Industrial Agreement for manufacturing 1997 -)
- Lower compensation in (and coverage of) the unemployment benefit system especially under the current centre-right coalition government.
- Lesser emphasis on public saving in the new Swedish pension system (1998)

Figure 1 The trade-off between inflation (vertical axis) and unemployment (horizontal axis), Sweden and the small open Western European countries less Finland on average, 1998-2012. OECD inflation and unemployment data



Arguments for that the R-M model is still applied in Sweden

- The inflation targets and fiscal rules introduced in the 1990s can be seen as a price-stabilizing framework in line with the model
- Ambitious ALMP programmes (and an increasing importance for employment subsidies) even with centre-right governments
- Resistance by the current centre-right coalition government to support the automobile industry during the crisis 2008-2009
- Smaller wage gaps in the 2000s, e.g. through informal LO influence over the industrial agreements. Sweden is still the country of small wage differentials (see the low Gini coefficient for Sweden)

Arguments for that the R-M model is invalid

- Labour-market decentralization and globalization (incl. of labour markets) have made it more difficult to implement the wage policy of solidarity
- The verdict by the European Court in the Laval case (2007) is a challenge to the wage policy of solidarity
- Tendency to larger wage gaps through high demand for skilled labour (see the ICT boom)
- Globalization has made it more difficult to pursue a (national) profit-squeezing macroeconomic policy
- Weaker trade unions (also in Sweden)

Arguments for that the R-M model is still valid

- Industrial agreements seem to be compatible with income redistribution (see Sweden)
- Wage policy coordination at the EU level - a possibility in the future?
- The R-M model does not assume equal wages for unequal jobs
- ALMPs are recommended by the EU commission especially in combination with other measures to increase labour-market flexibility and life-long learning
- Leading economists (and the S&G pact) recommend a public saving surplus in the medium term
- The R-M model recommends a reduction in the profit share in the medium term but a constant profit share in the long run
- Dynamic firms are favoured by the ALMPs, the wage policy of solidarity and the marginal employment subsidies even if average profits are reduced
- Consumer taxes are "good" taxes according to economic research