

Sidney and Beatrice Webb and the Swedish Welfare State : a Preliminary Consideration

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Abstract

The aim of this paper is to show the possibility of a comparative study of economic thoughts of welfare states, focusing on the influence of the Webbs on the architects of the Swedish welfare state. The Webbs' program of 'national efficiency' contained the 'national minimum' policy as a modernising strategy for Britain in the international free trade system. Although the Webbs' proposal was ignored in Britain because of strong Keynesian influences, Gustav Cassel at Stockholm University introduced their ideas in Sweden at an early stage. Later, two trade-union economists who graduated from Stockholm University, G. Rehn and R. Meidner, developed the Webbs' concepts into the combination of the 'solidarity wage policy' and 'active labour market policy'. Their intent was that the Swedish economy should be efficient to survive in the arena of international competition. This Webb-Swedish line of thinking was not subsequently accepted in Britain because of a mixture of Keynesian influence and the Labour party's domestic-oriented strategy.

I

The Webbs (Sidney Webb 1859–1947, Beatrice Webb 1858–1943) are well known as founders of the British welfare state. They have been depicted as one of several sources of the post-war British welfare state associated with the name of W.H. Beveridge but their influence was underestimated in two ways.

First, the Webbs were understood as ‘socialists’ outside the political trend of the western welfare states, partly because they supported Soviet Russia late in their academic career.¹ Second, even if their idea had been properly understood, they had a far-reaching perspective which the post-war British welfare state could not comprehend.

Recent comparative studies on welfare states, e.g. Esping-Andersen (1990), also suggested to the comparative analysis of intellectual history of welfare states. On the theoretical level, Hall and Soskice (2001) analysed welfare states in terms of economic language, in place of political dichotomies such as state vs. the market or liberalism vs. socialism.

This study’s argument contains four parts. First, it considers the Webbs’ theory based on an open-model of international competition. Second, it analyzes their ‘national minimum’ as a strategy for the British welfare state’s international competitiveness. Third, it shows that the essence of the Webbs’ proposal was not accepted in Britain but succeeded in Sweden as the Rehn-Meidner model. Finally, it explains the limitations of the Keynes-Beveridge system of the welfare state.

II

The Webbs explained their methodology as ‘applied sociology’ to be an ideal form of economic science.² Its key concept was an ‘efficiency’ that was different from Pareto’s static concept. For the Webbs, ‘efficiency’ was a dynamic concept indicating the smooth combination of the human faculty and desire. The Webbs appreciated the economics of A. Marshall because he attempted to analyse the economic growth based on human capital formation and the progress of industrial organisation.

1 For example, Freedon (1978) described them as bureaucratic socialists in contrast to the ‘liberal socialism’ of New Liberalists.

2 In modern terminology, it’s framework was the same as that of institutional economics.

However, the Webbs criticized Marshall's neglect of the institutional side of the economic system. The Webbs noticed the social elements that modern institutional economics would explain by concepts such as habits, cooperative/non-cooperative behaviours and information asymmetry. The problem of whether British economy can be 'efficient' was based on the coordination of these institutional elements. The objects of 'applied sociology' were 'social institutions...deliberately devised with a view to increasing social efficiency' (Webb and Webb 1932, 242). The Webbs founded the London School of Economics (LSE) in 1895 and launched their study project.

The prescription that the Webbs proposed for the British economy in the late 19th century was the 'national efficiency' strategy based on the 'national minim' policy. The basic theory was that of Marshall's economics, particularly that of human capital.³ The Webbs used the term 'functional adaptation' which meant the 'progress' of human economic ability (Webb and Webb 1897, 703–704). However, the Webbs criticized the Marshall's liberal assumption that such 'progress' would be attained harmoniously through free competition.

Their criticism focused on issues of problems. The Webbs focused on the existence of the economy of low wages (negative externality of poverty), which Marshall ignored. They pointed out the institutional interdependence of low wages and the traditional inefficient employment system. The solution, they thought, would be not free competition, but along the 'socio economic' line of thought. According to the Webbs, the market economy was an imperfect system. 'Evolution, in a word, if unchecked by man's selective power, may result in Degeneration as well as in what we choose to call Progress' (Webb and Webb 1897, 752–753). The Webbs' proposal had two features : first, it was strongly connected to industrial progress and second, it was formulated in the framework of the international free-trade system.

3 M. Blaug (1962) already noted this aspect of human capital in the Webbs' theory. It is also similar to the productivity theory of social policy proposed by Kazuo Ohkouchi of Tokyo University.

The Webbs' 'national minimum' was based on Marshall's organic growth theory, which focused on the synergetic mechanism of human capital formation and the progress of industrial organization. The Webbs noticed that 'common rule', which meant that the minimum conditions of labour applied to all firms in a trade, had useful effects on industrial progress.

If an industry did not have trade unions, uniform conditions of labour or rules of reward for workers, employers would often seek only the cheapest of labour. As a result, the efficiency of workers remain low level, a phenomenon called 'reverse selection of labour market' in modern institutional economics.⁴ However, 'common rule' would introduce a new system in the labour market. More efficient workers would be rewarded according to their ability, and they would attempt to improve their ability further.

'Common rule' would also promote the modernisation of industrial organizations. In a chaotic labour market, the competition among firms would be transferred to the cheapness of labour conditions and often hamper the technological innovations. However, if 'common rule' was introduced, competition would result in the modernization of production processes. Although 'common rule' had to be established for the least efficient firms to afford it, it would also eliminate them. In short, 'it is always tending to drive business into those establishments which are most favourably situated, best equipped, and managed with the greatest ability, and to eliminate the incompetent or old-fashioned employer' (Webb and Webb 1897, 726–729).

Sidney Webb noticed the importance of 'rent' as profits of differential advantage among individual firms. The price competition for a greater amount of 'rent' would promote 'industrial progress'. The competitive pressure would eliminate the less efficient firms, and efficient firms would be driven to further competition (S. Webb 1888, 471–472). This theory of industrial progress was described again in

4 Their criticism of Marshall was of the institutional economics type that is presently based on asymmetry of information. See Eriguchi (2008).

Marshall's '*Principle*' as 'quasi rent'.

However, this Marshallian side of the Webbs' economic thinking has been ignored in the history of economic thought, partly because they had been understood as ordinary 'socialists' without being considered carefully. Sidney Webb himself criticised the 'common impression' held by socialists and stated the following :

There is a common impression that a manufacturer makes his 'pile' by screwing down the wages of his hands...But this is not the case... No — capitalist who makes a large income is not particularly the enemy of the wage-workers...We want many more of such capable 'captains of industry'. What we have to complain of is the system which places so much of the national capital at the command of incompetent and unsuccessful employers, who waste it and fail. (S. Webb 1887, 31-34).

This 'industrialist' aspect of the Webbs' theory was overlooked. It is obviously in the interest of British trade unions 'so to fix the Common Rule as to be constantly "weeding out" the old-fashioned or stupid firms, and to concentrate the whole production in the hands of the more efficient "captains of industry," who know how to lower the cost of the product without lowering the wage' (Webb and Webb 1897, 729—730).

Of course, the Webbs noticed the existence of unemployment caused by the shutdown of the less efficient firms. They anticipated that the expanding efficient firms would absorb the unemployed. Yet, even in the case, short term unemployment would occur. In this case, the Webbs proposed the Ghent system : the management of unemployment insurance by trade unionists. If a trade union raised the standard of 'common rule' too quickly, the contribution to unemployment insurance paid by members would rise. Thus, the Ghent system would control the excessive militancy of trade unionists. Although Britain ignored the Ghent system, Sweden adopted it. As discussed later, Gustav Cassel (1932, 320) in Sweden mentioned the Webbs' discussion. He noted that '(i)f the Trade unions have to support their own unemployed, this will constitute a powerful incentive towards such a reduction in

their wage claims’.

The Webbs had the vision that, as the ‘common rule’ prevailed over industry, the national economy’s efficiency would improve. However, there were some low paid and inefficient sectors, the ‘sweated industries’, with no trade unions. The employers of the ‘sweated industries’ did not pay the normal cost of labour, which one could interpret them as receiving a ‘subsidy’ from the national economy. In other words, they utilised the negative externality of cheap labour (Webb and Webb 1897, 749–755).

The Webbs’ prescription was the ‘national minimum’: the legal enforcement of ‘common rule’ in order to ‘prevent any industry being carried on under conditions detrimental to the public welfare’ as ‘a solid basis for industrial pyramid’ (Webb and Webb 1897, 767–768, 790).⁵ The Webbs noticed that the workers who could not earn the minimum would be unemployed. For them, the Webbs prepared the ‘prevention’ program of education and welfare and for the able-bodied unemployed people, labour exchange and counter-cyclical public works.

III

The second feature of the ‘national minimum’ theory was its premise of international free trade. The national minimum was the largest pillar of the ‘national efficiency’ strategy that the Webbs proposed against the crisis of decline in the early 20th century. Although B. Semmel (1960) depicted the Webbs as Chamberlain type ‘social imperialists’, they described their own idea as ‘inter’-nationalism’: that is ‘internationalism based on nationalism’ (S. Webb 1920). Former studies have overlooked this Webbs’ idea of internationalism among welfare states.⁶

5 The Webbs’ theory influenced American economists in the Progressive Era (Prasch 1998) and Japanese economists represented by Kazuo Ohkouchi who was a professor of social policy as a Marxian economist at Tokyo University. Ohkouchi’s theory of ‘preservation of labour power’ may have incorporated the Webbs’ theory into the Marxian context (Ohkouchi 1949).

The Webbs based their discussion on the comparative advantage theory of D. Ricardo. They noted that free trade was beneficial only when ‘each nation would retain the industry in which its efficiency was highest’. In reality, however, ‘parasitic industries’ became larger with a comparative advantage because of the ‘subsidy’ of cheap labour.⁷ Thus, the Webbs sounded the alarm about the unfavourable structure of comparative advantage in the British economy caused by the negative externality of poverty (Webb and Webb 1897, 854–860).

However, the Webbs did not support protectionism. W. Ashley, the representative of protectionists, explained the causes of industrial decline as protection tariffs and dumping in America and Germany. He suggested that Britain should also introduce import tariffs to reverse the industrial decline (Ashley 1903, 93–160). The Webbs argued that industrial decline could not be prevented by the protection tariff because the real cause of it was in domestic ‘sweated industries’ (Webb and Webb 1897, 857). The Webbs rejected protectionism and proposed free trade and national minimum as a prescription for eliminating ‘sweated industries’.

A.C. Pigou also discussed the combination of free trade and the national minimum. Pigou thought that if the national minimum was introduced in one country only, it would ‘handicap’ international competition and ‘cause a flood of imports from abroad’ or ‘capital freight’. Pigou’s prescription was the ‘international minimum’ (Pigou 1920, 765–766). The Webbs had predicted Pigou’s type of argument for the ‘international minimum’ and criticised it because ‘internationalism of this sort...is obviously Utopian’ (Webb and Webb 1897, 858).

The Webbs explained that the countries with general high wages would never stand behind those with lower wages. Rather, if high wages caused higher productivity, their competitiveness would improve (Webb and Webb 1897, 860). Pigou, based his argument on the paradigm of neoclassical economics and analysed the welfare policy as a cost factor for the economy, whereas the Webbs based their

6 Myrdal (1960) criticised welfare states to be ‘nationalistic’.

7 Mill (1948, 689-692) noted this point but did not pursue it in depth.

argument on institutional economics and argued the national minimum as a condition for ‘progress’.

For the Webbs, ‘each community is economically free, without fear of losing its foreign trade, to fix its own National Minimum, according to its own ideas of what is desirable, its own stage of industrial development, and its own customs of life’ (Webb and Webb 1897, 863). The Webbs proposed the strategic merit of welfare states and predicted the emergence of international competition between these welfare states. Although their scheme of strategic welfare states was not accepted in Britain, it did succeed in Sweden.

IV

It is known that Gustav Cassel (1866–1945), a professor at Stockholm University (1904–1933), introduced the Webbs’ theory in Sweden. Although Cassel became famous for his international monetary theory, he was influenced by *Kathedersozialismus* and ‘English Fabianism’ in his early academic career.⁸ In his book *The Theory of Social Economy*, which he continued to revise, Cassel mentioned the Webbs’ *Industrial Democracy*. He noticed the above-mentioned sections on ‘common rule’ and called it ‘highly optimistic’. He stated following :

The Webbs’ theory, however, has the great merit of focussing attention on the influence of the forms which we give to competition in the labour market, on the wage-earners themselves, and on the direction of the moral, intellectual, and physical forces which ultimately determine the supply of labour. In this way a very valuable impetus is given to a change in the study of the supply of labour from a pure computation in terms of arithmetical magnitudes to an examination of the underlying economic and social processes which determine the supply of labour. (Cassel 1932, 319)

8 Carlson 2003, 448.

As Carlson (1999) noted, Swedish economists were strongly influenced by institutional economics. This line of thought was followed by two trade-union economists, graduates of Stockholm University, who architected the Swedish model.

The word ‘Swedish Model’ has several meanings. Some scholars emphasize its high level of public spending and universal welfare provision, while others focus on its corporatism with a highly centralized industrial relationship. The present study deals with the Rehn-Meidner Model (RM model), the combination of the Solidarity Wage Policy and Active Labour Market Policy. In fact, the RM model has changed several times since the 1940’s⁹ and this study focuses on the original RM model proposed at the 1951 Landsorganisation i Sverige (LO) conference.

The RM model was originated by two scholars : Gösta Rehn (1913–1996) and Rudolf Meidner (1914–2005). Gösta Rehn studied at Stockholm University and the Stockholm School of Social Work (1933–1936) and worked for the LO Research Department (1943–1959). He left LO as a member of the government committee on the stabilization of prices and full employment (1952–1958). After that, he worked for the Ministry of Finance (1959–1962) and OECD (1963–1973). He was also a professor of labour market policy in the Institution for Social Research at Stockholm University (1974–1979).¹⁰

Rudolf Meidner was born in Poland of Jewish parents, escaped from the Nazis and was naturalized in Sweden. He studied at Stockholm University under G. Myrdal and presented his doctoral thesis titled ‘Swedish labour market in full employment’. He started working for the LO in 1954 and became the administrator of the Research Department. He accepted the position of head of the Institution for Labour Problems at Stockholm University in 1966 and returned to the trade union arena as an independent researcher. He consistently opposed Sweden’s participation in the EURO.

The RM model was presented in its original form in the LO Report of 1951¹¹,

9 Rigidly speaking, the RM model was proposed in the reconstruction programme which that was submitted in the Second World War (Wadensjö 2001, 5–6).

10 Milner and Wadensjö 2001, xii.

which clearly directed the path for the Swedish economy, to promote its ‘efficiency’ within the international free trade system because the Swedish workers’ standard of living depends on the competitiveness of its industries. The report stated following :

Without industry, Sweden to-day would live in misery. Without her industry-i.e. without her technical methods of work-without her exports and comprehensive foreign trade, Sweden would probably not be able to provide for more than half of her present population. (LO 1953, pp.21–22)

The RM model was based on the international framework that the Swedish economy should be strengthened through international competition. This is the corporatist concept that trade unionists and the national economy as a whole share a common interest. The report continued that ‘rationalization of the economy’ should be promoted by measures such as concentration and standardization of production, rational management, continuous output and the introduction of labour saving machinery. At the same time, good organization of firms, co-operation between different workers, good supervision and personnel welfare are important factors in improving the efficiency of industrial concerns (LO 1953, 24).

The LO report argued that the efficiency of the industries would be promoted by competitions among individual firms. The report said :

The best results are no doubt achieved by promoting price competition on equal terms, so that the most efficient concerns can more easily eliminate the less effective ones, aided by a price and consumer information policy capable of inciting both consumers and firms to buy rationally. A basic problem in this connection is the question of competition : unrestricted competition between firms not being always and from every point of view the most effective method. (LO 1953, p.25)

LO report shared Marshall’s framework in its perception of the competitive

11 In this paper, I used the English Translated version in 1953 (LO 1953). The writers of the LO report were Nils Goude, Sten Sjöberg, Andreas Karlsson, Carl F. Lindahl, Sven Jerstedt, Knut Johansson, Rudolf Meidener, Gösta Rehn, Nils Kellgren and Arne Henrikson. Among them, Rehn and Meidner played central roles.

market that was also followed by the Webbs, assuming that price competition among firms would promote industrial efficiency by eliminating the less efficient firms.

However, the LO report admitted that private firms often hampered effective rationalization because they were more concerned about their own interests than about the national economy. The LO report argued that trade unions should be responsible for the efficiency of national economy (LO 1953, 25). The report stated following :

The Swedish trade union movement considers that one of its main tasks is to support and promote a development leading to greater efficiency in industry. Yet, this should not be at the expense of the workers in the way of speeding-up work, or unhealthy working conditions. (LO 1953, 23)

Historically speaking, for the Swedish trade unionists, rationalization was regarded as unfavourable. However, ‘a change of opinion’ took place among them. Moreover, trade unions should avoid wearing out the manpower, promote welfare and devise a system of ‘incentives’ for the desired efforts.¹² The report did not oppose to the payment by result and scientific management, and proposed the further application of the process of assessing workers’ efficiency, such as the setting tasks.

The LO report proposed the ‘Solidarity Wage Policy’, which meant that the standardisation of labour conditions throughout the industries where the same sort of workers engaged in similar tasks. The report discussed the effects of the Solidarity Wage Policy on industrial efficiency and stated that ‘it can also increase the efficiency’ of industry.

...since, under this policy, it is the lowest paying trades and firms which are forced to grant de (the) largest wage increases, these firms and trades experience, as a rule, a deterioration in the relation between prices, wages and costs, which makes it pay for them to induce labour saving devices. Wage increases can be the signal for the delayed technical improvements. If it proves impossible to

12 LO 1953, 36.

rationalize sufficiently, then enterprise will be compelled in due course to reduce production...(LO 1953, 34)

As the Webbs presupposed in their *Industrial Democracy* (1987), low wages sometimes hampered the ideal course of competition among firms for greater efficiency. The report said that the Solidarity Wage Policy would reduce the risk of ‘wage dumping’ which tended to preserve irrational employers. Wage pressure exerted on low-wage enterprises would hasten their rationalization and the transfer of manpower from inefficient to efficient firms (LO 1935, 35). The report also said that :

...a certain group of workers accept wages which are lower than those normally paid for work of the same nature ; this means that this particular group of workers are actually subsidizing their industry by abstaining from the wages such an industry should normally pay. Subsidies to unprofitable industries should, in principle, be avoided, and these industries should, instead, be made to increase their efficiency. (LO, 1951, 96)

Thus, ‘wage dumping’ was viewed as a sort of ‘subsidy’. This idea is similar to the Webbs’ analysis of ‘sweated industries’. The ‘Solidarity Wage Policy’ had the same viewpoint as the Webbs’ ‘common rule’.¹³ As Erixon (2001, 18-19) noted, the Solidarity Wage Policy, together with a restrictive budgetary policy, contributed to the Swedish economy’s efficiency by eliminating the less efficient enterprises. This brought about the reallocation of resources such as capital and man power to the expanding and dynamic sectors and rationalised the industry as a whole.

Of course, Rehn and Meidner encountered the problems of their own time, those of inflation caused by full employment. Inflation would make the Swedish economy less competitive. Thus, inflation was a vital problem for the Swedish Economy because the percentage of total exports to its GDP remained over 20% during the 1950–60s.¹⁴

13 Strangely, the 1951 LO Report did not mention the Webbs, perhaps because the Webbs were already famous for supporting Soviet Russia in the 1930s.

The Swedish Krona (SEK) was pegged to US dollars (USD) from the 1920s to the 1970s. Just after the Second World War, the Swedish government attempted to restrain post-war inflation. The government chose to appreciate the SEK to USD by 17% in 1946 and introduced price controls, higher taxation and more regulations in 1947. However, this strategy provoked a flood of imports and a balance of trade deficit. In 1949, to improve the economic climate, the government depreciated the SEK by 30% and introduced import regulations and a wage freeze. After restoring the trade balance, the exchange rate was kept as \$1=5.17 SEK from 1950 to 1971.

According to Erixon (2001), the Swedish economic policy was Keynesian from the 1940s to 1950s, when Rehn and Meidner submitted the RM model. When policy makers used expansionary Keynesian policies to achieve full employment, they attempted to counterbalance the harmful effects of inflation through political measures.¹⁵

Before the RM model was introduced in Sweden, the Swedish governments measures to restrain inflation followed the proposals of W.H. Beveridge. In *Full Employment in a Free Society* (1944), Beveridge proposed continuing wartime price controls and wage regulations to counterbalance the inflationary effects caused by expansionary Keynesian policies. The wage regulations became well known as an ‘income policy’ that forced trade unions to refrain from wage bargaining that would stimulate inflation.¹⁶

The LO report¹⁷ mentioned the following :

One type of wage policy which theoretically could reconcile full employment with a stable value of money, could be headlined ‘The Wage Restraint Policy’. Policy-making would then have to be so centralized that the leading body of the trade union movement, LO, would always be in a position to decide the average

14 See Miyamoto (1999, 125). The percentage grew to 30% in the 1970s and 40% in the 1980s.

15 Erixon 2001.

16 Beveridge (1944), 198–202.

17 Meidner (1952) also mentioned the Beveridge’s book.

size of nominal wage increase. ... (This view is) most clearly expressed in William Beveridge's famous book '*Full Employment in a Free Society*'... (LO 1953, 86)

However, this 'wage restraint policy' (income policy) had been a difficult problem for the British government. The British government could neither undermine the bargaining power of trade unions and inflation caused by expansionary Keynesian policies nor stop inflation from stimulating the cheaper import goods, the deficit of the balance of trade and the outflow of dollars. Ultimately, the British economy experienced the pound crises in 1949 and in 1967 and the humiliating IMF bailout in 1976.

In these difficult circumstances, the British government could not avoid 'stop-go' policy management, which meant that, even in the midst of expansionary Keynesian policy ('go'), they suddenly turned to be restrictive ('stop') when faced with the symptom of trade deficits. Of course, although the government demanded that trade union leaders co-operate with the income policy, it was unsuccessful even in the Labour administrations. The political factor of trade unions was a huge risk for the Keynes-Beveridge system.

In 1951, Rehn and Meidner had already provided a far-reaching foresight on this difficult problem that plagued the post-war British economy. Their report stated following :

The results-even in Beveridge's own country-have not been exclusively favourable, in spite of the fact that 'wage freeze' have been generally regarded as exceptional measures taken in exceptional circumstances. The difficulty attached to such a policy would appear still more vividly if...restraint in trade union wage policy were to become a permanent feature of a policy aiming at a long-term stabilization of full employment. (LO 1953, 86)

Although the income policy would be effective only as an emergent and short-term measure, it would have lost the support of trade unions had it been repeated. Although Britain managed to continue the income policy until the 1970s, Rehn and

Meidner proposed alternative measures in as early as the 1950s.

V

The first measure to attack inflation was the Solidarity Wage Policy itself. Rehn and Meidner insisted upon the freedom of trade unionism. The LO report said Beveridge's concept, dependent on trade unions to carry out the income policy, meant the self-denial of trade unionists. It proposed 'a full employment policy which does not threaten the existence of free labour market organization' and then continued in stating following :

To put it differently, it is up to economic policy to carry out the programme of full employment while retaining a system under which wage-fixing takes place by collective agreement between free organizations without any State intervention in the form of compulsory arbitration or wage legislation. (LO 1953, 89)

It seems like a partisan argument to defend the *raison d'être* of trade unions, i.e. the freedom of collective bargaining. Certainly, the LO report was a trade unionist and social democratic policy document. Also, the priority of the freedom of wage bargaining seems to be an irresponsible proposal in the Keynesian paradigm that was disrupted by the trade-off between full-employment and inflation.

However, the proposal of Rehn and Meidner was unique in the history of economic policy thought. For them, the 'Solidarity Wage Policy' had the effect of undermining inflationary wage bargaining. The report argued that it is of utmost importance that the wage policy 'should not create any feeling among some groups of workers that they are being unfairly treated' and continued by stating the following :

In case some groups try to obtain higher increase than what is generally regarded as the permissible maximum during a certain period, a competition can be expected to start between the different groups as to who will get the biggest increase. Even if the representative of all groups are aware of the undesirable consequences of such a race, inability to agree to a joint policy may render it

inevitable. During the past ten years, the many of those who got the lowest increase consider they are therefore overdue for particularly large ones. Other groups, who obtained large increases, consider that they are entitled to further increase in relation to the average. (LO 1953, 94)

The result of this ‘feeling’ of unfairness would be that everybody thinks that ‘he is entitled to larger increase than anybody else’, and inflationary wage bargaining would never end. The analysis here is similar to the institutional economics of T. Veblen, for it is supposed that the real cause of inflationary wage bargaining is explained not by neo-classical maximization of utility (wages), but by psychological competition among workers (feeling of unfairness). In this explanation, ‘wage drift’, i.e. wage differences among the same trade of workers, would provoke inflationary wage pressure. The employers who made larger profits would pay the premium (wage drift) above the standard wage rates of trade unions. However, the ‘Solidarity Wage Policy’ denies such ‘wage drift’ without reasonable differences of tasks among workers. The principle of equal pay for equal work would prevent inflationary wage pressure (LO 1952, 91-92).

The second measure against inflation was, at first sight, based on the Keynesian budgetary policy. The report stated that the instrument to balance the national economy was the State budget. By increasing or decreasing the state revenue above or below current government expenditure, purchasing power could be controllable.

However, this budgetary policy is prioritized not to minimize unemployment but to avoid inflation.

Here, it is essential to stress that it is possible, in principle, to influence the balance of the national economy either in one direction or in the other, with the budget as a main instrument, thus doing away with most of the *restrictive* system of detailed controls. From the point of view of wage policy, such a main line would appear particularly desirable. (LO 1953, 91)

The budgetary policy should be introduced in place of the ‘price controls’ (income policy) that Beveridge proposed, because, for Rehn and Meidner, it is

politically impossible to force trade unions to restrict wage bargaining. In place of income policy, budgetary policy should be responsible to curb inflation. The report stated that ‘the better balanced purchasing power...must also imply that the profits made by firms will not allow for much wage-drifting...What must be done is to maintain such a general level of purchasing power as does not allow of large profit margins’.¹⁸

The LO report proposed the increased taxation to keep the aggregate demand always at lower level to avoid inflation. This would be continued throughout complete trade cycles, which meant that the aggregate demand always remained at a lower level than a full-employment level. Does this mean that the LO report allowed unemployment?¹⁹

In fact, the report offered another policy for unemployment caused by restrictive budgetary policy, i.e. the Active Labour Market Policy: the government should spend the budget surplus to minimize unemployment. The report stated that :

...the State should follow a tax policy aimed at keeping purchasing power within non-inflationary bounds and should partly use the revenue therefrom to finance comprehensive schemes aimed at removing any incipient unemployment, either by directly creating work for the unemployed, or by encouraging their transfer to desirable occupations. (LO 1953, 93)

The report proposed that the revenue from increased taxation should be used as active labour market policies, composed of public works and job-training.

Before the era of Rehn and Meidner, Sweden had a long history of active labour market policies. During the first half of the 20th century, the public administration bodies were set up and evolved into their modern form in the decade before 1948, when the Labour Market Commission was established. Rehn and Meidner were able to use these examples of active labour market policies.

Among them, the Relief Work and Labour Market Training programs existed in

18 LO 1953, 92.

19 LO 1953, 92.

the early 1950s. According to Agell (1995, 71–72), Relief Work, introduced in 1931, was the oldest type of active labour market measure in Sweden intended to counteract unemployment in times of recession, seasonal downturns or other circumstances that lead to a reduction in employment. The objective was to enable the unemployed to receive an opportunity for maintaining contact with the regular employment market, thereby increasing their reemployment probabilities.

Labour Market Training was introduced in 1936, targeting mainly unemployed people older than 20, for whom training was regarded as leading to a permanent job in the regular labour market. Courses were provided free of charge and during the training the participants received a training grant equivalent to the unemployment insurance benefit. Training programs ranged from vocational education to general introductory courses and were purchased by the Labour Market Commission from various providers.²⁰

The LO report proposed that the labour market policies should be launched not during a recession but during a boom²¹ because Active Labour Market Policies could also curb the inflation. The report argued that the general expansionary policies had asymmetrical effects. The national economy had both expanding and declining sectors. Although general expansionary policies might be helpful for declining sectors, the scarcity of manpower in expanding sectors would cause problems. It would bring about raising wages, and inflation initiated by expanding sectors would affect the entire national economy because the same effects as those of ‘wage drift’ would accelerate inflationary wage bargaining.

To avoid this harmful effect, the report proposed that these policies should be introduced at the ‘local’ level rather than national level, and stated the following :

On the other hand, they should consist in encouraging the voluntary transfer of labour to firms, trades and localities, where the prospects of expansion are favourable. Much greater importance than hitherto should be attached to

20 Agell 1995, 70.

21 Wadensjö 2001.

incentives to labour to transfer to places where it is most needed. To combat the inflationary tendencies of full employment, the speedy overcoming of bottlenecks is as important a factor as a general limitation of the general level of purchasing power. (LO 1953, 92-93)

Its primary purpose was the transfer of manpower to expanding sectors in order to avoid the ‘bottle-neck’ effects. Labour Market Training was necessary to avoid ‘bottle-necks’ because it encouraged the transfer of manpower from declining sectors to expanding sectors. It is important to notice that the original active labour market policies were an anti-inflationary measure rather than relief program for a recession.

Active labour market policies were severely criticized by G. Myrdal when it was proposed at the early stage in 1946.²² Sihto (2001, 686) noted that the LO report’s proposal went against the findings of the Myrdal Commission, which viewed the effectiveness of labour market policy as being rather limited.

It should be noted that the Active Labour Market Policy of the original RM model was a device to curb inflation rather than relief work in a depression. Erixon (2001, 21) also noticed the fact that the RM model was formulated in an overheated economy determined its character. In any case, the Active Labour Market Policy developed into its modern form, which made Swedish welfare state famous. In the 1960s, the Active Labour Market Policy was given the new function of a relief for the recession in the co-ordination with the expansionary Keynesian policy.²³

VI

To conclude this study, let us recall the point under consideration is the comparison of the Webbs’ economic ideas and the RM model in the context of post war British Welfare State. In the 1950s and 1960s, the British labour movement and its Swedish counterpart had different economic policy targets. In Sweden, the Social

22 See Miyamoto (1999, 133).

23 Sihto 2001, 691–692.

Democratic Party (SAP) and LO gradually accepted the RM model and launched deflationary demand controls, the Active Labour Market Policy and Solidarity Wage Policy. In Britain, the Labour Party and Trade Union Congress (TUC) ignored the RM model although they knew it. Labour and the TUC retained the ‘income policy’ under the Keynes-Beveridge plan.

Rehn and Meidner felt that their model could also successfully apply to Britain’s struggle with inflation. Wickham-Jones (2001) explained that the British Labour movement’s resistance to the RM model was partly caused by ‘insularity’. The same attitude applied in the Webbs’ case in Britain. Admittedly, the Webbs’ model had its limitations. In the late 19th century, when the Webbs were writing *Industrial Democracy* (1897), there was no dilemma between full-employment and inflation. In the context of Keynesian economic policy, the Webbs’ model seemed of the 19th century type. Furthermore, in Britain, one might say that there had been a ‘Keynesian complex’, by which I mean a vague body of thought mixing Keynesian policy (Liberal) and non-Keynesian policies in the history of the British Welfare State or left-wing politics. One good example of it was the ‘alternative economic strategy’ that attempted to combine the protectionism to isolate the British economy from international trade with domestic expansionary Keynesian policies (Gamble 1981). It may be that the Webbs’ proposals and the RM model did not fit into this ‘Keynesian complex’.

However, economic ideas sometimes revive in another place and time if their environments have many elements in common. In the case this study analysed, it is understandable that the Webbs’ ‘national efficiency’ model revived in Sweden as the RM model, because they both shared the purpose of national economic survival of in the context of international free trade. I suggest further that the Webbs’ ‘applied sociology’ had many things in common with the Swedish tradition of ‘social engineering’ (Shito 2001, 690). However, these issues require further discussion beyond the scope of this study.

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