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The Rehn-Meidner model of wage and productivity policy

The mainstream neoclassical school treats labour as any other commodity, where demand and supply meet on a voluntary and equal basis.

It also assumes that the best method for its allocation is open market coordination. The paper first outlines the epistemological faults in this model.

It then continues to discuss the alternative model, as charted by two Swedish economists, Gösta Rehn and Rudolf Meidner. This model is built on the assumption that the average productivity of a sector remains low if the minimum wage is eliminated (or is inflated). This is due to the fact that capital can chose to either invest in new technology to decrease production costs, or it can rely on low wages in order to maintain its margins. The second option is cheaper, as it requires no immediate expenditure. As many firms will opt for this second option, investment into productivity (technology and related skills) will fall behind, especially in comparison to similar industries abroad. The consequence of such policies is the gradual loss of competitiveness.

In the Rehn-Meidner model the actors must consciously raise the lowest wage payable in order to prevent firms from choosing the second option of relying on low wages, and forcing them to compete with the "high road" of technological improvements. This might be achieved through industry level wage bargaining by trade unions and employers for industrial wage floors, or it might be implemented through a statutory minimum wage determined by the state. Job losses resulting from the rise in the minimum wage are seen in this model positively, in terms of freeing up labour for active labour market policies, retraining for higher value added jobs as the value added range of the economy moves gradually upwards.

This logic runs contrary to the neoclassical theory, which (correctly) sees productivity as a limiting factor for wages, but does not have a theory for why entrepreneurs would prefer technological improvements to relying on low wages.

Prefered research area: C.) Policies for productivity and wages