

Distributive Justice of Common Wealth and a New Universal Welfare Regime

- A Critical Reconstruction of the Theory of R udolf Meidner (Summary)

Jeong-Im Kwon/Nam Hoon Kang
Basic Income Korean Network

1.

- **This paper critically reviews Rudolf Meidner's wage-earner funds. On the basis of the review, this paper intends to create new prospects for a universal welfare regime with common wealth fund that is a reconstruction or supersession of wage-earner funds.**
- Wage- earner funds project was based on guild socialist ideology, the same ideology on which the Swedish welfare system was built. Its fundamental premise was labor- centrism. At the same time, the fund s project tried to go beyond the limitations of the Swedish welfare system.
- The wage- earner funds project failed. The main theoretical reasons for its failure are guild socialist ideology and labor- centrism, which the Swedish universal welfare regime has in common.

- This failure shows that in order to overcome the limitations of the existing universal welfare system represented by Sweden, a 'scientific revolution' is needed; a revolution that dismantles and substitutes the fundamental premise on which the welfare system is based. The funds project's failure also allows for opportunities to create a prospect of a new universal welfare regime by reconstructing it on a new fundamental premise.
- Sweden's universal welfare regime was formed as a part of the "Swedish model," a Swedish-specific", comprehensive economic-social management model" led by the Swedish Social Democratic Party (SPD) from the mid- 1930s to the 1970s.
- The background of the creation of the Swedish model is a compromise between the capitalist class and the working class. Therefore, the Swedish model has the characteristic of mixed economy. That is, production preserves the essential principles of the existing market economy, but the state intervenes comprehensively in the distribution.

- More specifically, the Swedish model seeks to increase productivity through rationalization of the industry as a whole, and to promote the welfare of all the people – including the working class – based on their performance. To achieve this, SPD takes both growth-oriented economic policies favorable to big capitals and a universalist welfare state policy.
- Sweden's universal welfare regime aims at improving income distribution through redistribution, rather than correcting existing distributional injustice or market income distribution itself. Under the influence of the Beveridge welfare model, the goal of income redistribution is alleviating various social risks, especially the risk of want.
- For this purpose, the system tries to maximize tax revenues, and strives to ensure full employment in order to minimize the dependence on social income transfers. In this way, the success of this system depends absolutely on the attainment of full employment.

- Sweden's universal welfare system has effectively improved the lives of the people of Sweden. It is still considered as a pioneering example of the welfare system. Nonetheless, the system has the following limitations due to its redistributive and labor-centric characteristics.
- The first limitation is that this welfare system overlooks the structural distributive injustice. This system, of course, alleviates the existing injustice through redistribution.
- However, considering that the main financial source of redistribution is the progressive personal income tax, the mitigation effect of the distributive injustice is limited mainly to personal income.

- On the other hand, there is no redistribution effect from income derived from commons. Here, commons refer to historical, social, and economic resources for which community members have equal rights.
- Revenues from commons, such as the rise of land price through investment in social overhead capital and profits from the monopolistic use of scientific and technological development, are mostly appropriated by a small number of individuals, such as landowners or capitalists.
- Only a fraction of them result in personal income and are subject to redistribution. Overall, the revenues from commons are monopolized rather than redistributed.

- If the welfare system overlooks the structural injustice of distribution, it can jeopardize the existence of the system itself. The deepening of the unequal structure of property and economic power creates good conditions to break the balance of class power that enabled the welfare regime.
- The second limitation is that the welfare regime is overly dependent on wage labor because of labor-centrism, potentially hindering the development of society, economy and people's lives.
- For example, using robots productively and giving everyone a basic income is more effective in improving people's lives than prohibiting the use of robots to achieve full employment. No system can ultimately prevent the use of robots. Therefore the system comes to a contradiction: as production is increasingly automated and productivity increases, it becomes more difficult to achieve its primary goal, "prevention of want". This welfare system is inadequate for the rapidly changing social and economic situation represented by the fourth industrial revolution.

- 2.
- **The primary trigger for the funds project was the problem of excess profits that high-income firms acquired due to the solidaristic wage policy.**
- This issue was raised at the LO (Landsorganisationen i Sverige; the Swedish Trade Union Confederation) General Assembly in 1971, and in 1973 Meidner was asked by LO to work as a research director to resolve the issue.
- **In addition to solving the problem of excess profits, Meidner set the goal of the funds project to increase workers' influence on economic life through equality of property distribution and economic democracy, i.e., participation of workers in capital ownership. In fact, the latter two are the main objectives of his funds project.**

- The funds are financed from profits to meet the goal of correcting the excess profits of large corporations resulting from solidaristic wage policy. As a result, companies with more than a certain number of employees are to pay about 20% of the annual pre-tax profits to the funds.
- The method of payment is in the form of newly issued shares. The reason for the formation of the funds in the form of stocks is that stock ownership has wide control over the enterprise and the economy as a whole by having decision-making power over the enterprise.
- In this sense, it is especially important in relation to the purpose of redistribution of economic power.

- **For the same purpose, Meidner seeks to collectively own and manage the shares paid by each company at the level of the working class. Personal equity ownership and personal dividends are prohibited.**
- This is to prevent increasing only the individual consumption, which prohibits the reorganization effect of economic power relations and adversely affect capital formation and economic growth, violating the premises of the funds project.
- As such, funds play an important role in redistributing property and economic power to the benefit of the working class, by increasing stock ownership annually.
- **In relation to the use of revenues from funds, Meidner suggests that about half of the revenues be used for the purchase of new stocks and the remainder for the solidarity of workers, for example on education, research, and improvement of working conditions and environment. From the perspective of the welfare regime, this attempt of the funds project is the correction or supplementation of the Swedish universal welfare regime centered on redistribution.**

- 3.
- The funds project was passed unanimously at the LO General Meeting in June 1976. However, it could not be realized because the majority of the people did not agree with it.
- The theoretical factors that cause the funds project to fail are as follows.
- First, there is a fundamental conflict between the funds-dominant firm and the market economy. The objectives pursued by the funds-dominant firm are not in line with the principles of a market economy in which profit maximization is the principle of survival of individual companies due to competition among firms.

- The second factor is related to the purpose of the funds project. Equalization of the distribution of property and the way for economic democracy presented by the funds project is a monopoly of property and economic power by laborers or their representatives.
- The beneficiaries of the funds project are limited to such workers only.
- The project is also restricted to indirect collective benefits, forbidding individual dividends. These are thought to be the reasons for the low public support for the funds project.
- The third factor is related to excess profits. It is difficult to measure and confirm excess profits.

- Even if we solve this problem politically, the following problems remain.
- First, if the existence of excess profits is true, then this means under-profits of low-profit firms. Therefore, the solidaristic wage policy can not affect the distribution of labor and capital income at the national level.
- Furthermore, if the 'excess profits' are such a problem, dismantling the problem by abolishing the solidaristic wage policy may be a better solution as Lindbeck asserts.

- 4.
- Let's look at the fundamental causes of these difficulties in the funds project. Meidner's funds project is based on guild socialism which he inherited from Wigforss.
- The fundamental premise of Wigforss' social democratic thought is labor-centrism. According to this, labor plays an important role in maintaining and enriching human society.
- However, he leaps from here and defines labor as an obligation as well as a right to be shared by all members. Thus, he not only sees society from a workers' perspective, but also links the rights and duties of members of society with labor.

- **Consistent with this labor-centrism, Wigforss' economic policies and ideas evolved under the influence of British guild socialism, including Cole.**
- An alternative socio-economic system in guild socialism is a dual power system in which the autonomous association of workers exercises sovereignty over issues within the industry and democratic states exercise sovereignty over general political and macro-economic issues.
- This system is actually a labor-centered system, in that the state functions as a complement to the autonomous associations of workers. In this respect, the fundamental premise of guild socialism is labor-centrism. In this system, unless you are a worker or public servant supplementing workers, you may be a welfare recipient for the elimination of want, but you have no unconditional right to income.

- Meidner's funds project is a development of Wigforss' guild socialist conception. The core organizational form of the economy that the funds project envisions is the workers' self-management firm, which is run through the collective ownership of capital.
- The state supports workers' self-management firms in the form of macroeconomic adjustments and the management and enforcement of universal welfare.
- However, **the difficulties of the funds project we have discussed above are derived from this guild socialism and its fundamental premise, labor centrism.**

- First, like Wigforss, Meidner also accepted the market economy, but did not integrate guild socialism and the market economy into a model of coherent economic system. This is the cause of the first difficulty, i.e. the fundamental conflict between the funds dominant firm and the market economy.
- Second, due to guild socialism and labor-centrism, Meidner insisted on collective ownership and self-management of workers to major corporations while presupposing full employment policy.
- This is the major flaw of the funds project and may actually hinder its goal of achieving economic democracy based on equalization of property distribution. This is because economic power will be concentrated on workers, especially trade union leaders, excluding citizens who are not workers.

- Finally, It is labor-centric that workers should occupy all of the excess profits of firms, because excess profits can arise from technological innovation.
- The impact of this ideology is also confirmed in the Swedish model. Examples are the dual power system between the strong trade union and the Social Democratic government, full employment policy and labor-centric universal welfare regime.

- Strictly speaking, the funds project is the resurgence of a program that was defeated in competing for socialization methods under Swedish democracy.
- Swedish social democracy, in relation to the "socialization of the means of production," diverges to the line of Wigforss, which seeks to socialize ownership of the means of production, and the line of Karlevy, which seeks to restrict ownership gradually. The Swedish model is based on the latter.
- However, both routes share the basic ideology of guild socialism and its fundamental premise, labor-centrism.
- This means that alternatives to overcome the limitations of the funds project and the limitations of the Swedish universal welfare system should be based on a new ideology and fundamental premise that is distinct from guild socialism and labor centrism.

- 5.
- **This paper presents basic income based on the commons as an alternative to wage-earner funds.**
- Peter Barnes and Guy Standing have also made the same suggestions. The Alaska Permanent Fund is a good example.
- **The fundamental premise of this proposal is that commons, as well as labor, are the basis of society and the economy. All members of society have equal rights to commons: right to use, right to dispose and right to revenues accruing.**
- **If commons are already legally privatized, we can interpret that the right to commons is ‘rented’ to its owner. In this way, we can justify everyone’s equal right to revenues from commons, and hence, justify basic income.**

- Thus, this new welfare regime is clearly distinguished from labor-centrism and guild socialism by emphasizing as a basis of society not only labor but also commons to which all have equal rights.
- In other words, society is seen not only from the viewpoint of workers, but from the point of view of all members as an equal sharer of commons. Furthermore, the rights of members not linked to labor, especially the rights to income, are recognized.

- In connection with this paper, it is necessary to study the projects of James Meade and Yanis Varoufakis. Varoufakis designs a new universal welfare regime based on Commons Capital Stock (in his words, Commons Capital Depository), which is shared by all members.
- According to Varoufakis, wealth is always produced collectively, but is monopolized by corporations. Corporations also receive capital from society at no costs, through the stock system. Revenues from commons are produced through science and technology or stock system but are monopolized by corporations.
- He therefore argues that Commons Capital Stock that reflect the contributions of all members of society should be created and the rights to dividend should be recognized. Basic income is a form of dividend accruing from commons capital stock.

- This article tries to transform Meidner's funds project into the project of Commons Capital Stock and basic income based on that. We will show that this transformation can solve the difficulties in the funds project and increase its feasibility.
- The formation of Commons Capital Stock does not imply denial of private ownership of the stock capital and of the market economy.
- In this regard, we accept James Meade's proposal. He embraced the market economy for the harmony between efficiency and security and independence resulting from asset ownership, and set the ratio of commons capital to private capital at about 50:50.
- Following Meade, this paper suggests that on average, 50% of total capital is the upper limit of Commons Capital Stock.

- Varoufakis suggests that when making an initial public offering, a certain percentage of the equity capital, for example 1%, is to be paid to the Commons Capital Depository. He also suggests that basic income be paid based on this stock.
- However, this suggestion seems unfair since it is disadvantageous to start-up companies compared to already listed companies. And the ratio is also too low.
- If the ratio is increased, there may be a concern about tax resistance. From the perspective of corporations and capitalists, Commons Capital Stock can be regarded as an additional 'tax'.

- **But the resistance of the capitalists' taxation can be overcome by having a certain percentage of the corporate tax paid in the form of the company's new share, as proposed by E. O. Wright. This is because the total amount of tax is almost the same as before.**
- In this case, tax revenue will decrease. However, as dividends of Commons Capital Stock result in welfare of the entire people, the necessity of tax expenditure will also decrease.
- Wright sees this share tax as a kind of wealthy tax. The dilution of the value of a company's shares due to new shares issued annually to pay share tax is the same as shareholders pay part of their shares. Strictly speaking, this wealth tax is to regain part of revenues from commons that capital alone appropriates. Therefore, this wealth tax is justified.

- But Wright does not link his project to basic income. This paper proposes to link Wright's project with basic income and integrate it into Commons Capital Stock.
- In this way, the second problem of Varoufakis' project - the possibility that only a small part of capital stocks can become Commons Capital Stock due to tax resistance - can be avoided.
- Also, the first problem of his project - the violation of fairness due to disadvantage to start-up companies - can be mitigated.
- Commons Capital Stock formed through share taxation is a part of Common Wealth Fund, but an independent part of it. And like the Common Wealth Fund, it must be managed by a governance structure that is independent of the government and companies.
- It should not be used for private interests or political purposes, as Standing emphasizes. It must be democratically controlled.

- The main role of Commons Capital Stock is to pay basic income. Commons Capital Stock should not be sold or bought. This is to reduce the possibility of loss in the process and to prevent moral hazard of the manager.
- In the event of a company failure, the shares paid by the company will expire, but this will be offset by the new shares that will be paid by the new or emerging company.
- We propose that Commons Capital Stock delegate decision-making rights to the workers of the company. In this way, democratization of the economy can be promoted.
- At the same time, we suggest that the upper limit of the decision-making power to which workers can be entrusted is limited to less than 50% of the company's stock. This is to prevent the power monopoly of union leaders and the collective selfishness of workers.

- It is desirable that the national economic policy, such as the correction of market failure, is set as conditions of competition that are equally applied to all companies.
- Under this premise, it is desirable that the Commons Capital Stock have auditing and checking rights as to whether these regulations are complied with.

- The project of the Commons Capital Stock has the following advantages over the funds project of Meidner.
- First, it can overcome the difficulties that the Meidner's funds project had, such as conflict with market principles and the monopoly power of the working class.
- Second, the Project of the Commons Capital Stock better implements just distribution of property and economic power beyond the 'redistributive' framework of the existing universal welfare regime.

- This is not just because revenues from commons are distributed equitably to all as basic income. The basic income, which is distributed before the market distribution, is favorable to the workers in the negotiation of wages and working conditions through the effect of decommodification of the labor force.
- In this respect, the Commons Capital Stock and the basic income associated with it are also favorable conditions for a more just distribution of labor income. Furthermore, it will also promote socially useful unpaid work such as ecological preservation work.

- **Third, since almost all the people are beneficiaries, they have more supportive groups which increases the possibility of political realization.**
- The possibility of realizing a "democratic welfare society", an ideological society that Meidner dreamed of in which classes and privileges are gradually abolished and the gap between union politics for workers and general politics for citizens is narrowed, is also increased.

- Fourth, this new project is in line with the new universal welfare regime required by the changing social and economic system.
- The fourth industrial revolution is expected to lead to a rapid increase in unemployment, enlarging welfare blind spots that are not covered by the existing welfare regime.
- The labor-centric welfare system and the changing socio-economic system are institutionally "incongruent".
- Commons Capital Stock, on the other hand, does not have these difficulties, since basic income is paid unconditionally regardless of any conditions including 'labor'.

- The fundamental reason that the project of the Commons Capital Stock can have these advantages is that it is 'disconnected' from the ideology and its fundamental premise that universal welfare regime of Sweden and the Meidner's funds project share, i.e., guild socialism and labor centrism.
- As a result, it is replaced by a new fundamental premise that emphasizes not only labor but also commons and everyone's equal right to it. In other words, it can revolutionize the existing welfare regime.