# Social Democracy Needs Democratic Socialism

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*If Swedish-style social democracy is the cure to the ills of American capitalism, as some US liberals maintain, then socialism is its only possible liberal and democratic outcome.*

Daron Acemoglu laments the ills befalling the US economy over the last four decades: slow productivity growth, stagnant median wages, a corporate oligarchy that 'dominates much of the economy', and a patrimonial income distribution—an increasing share of national income accruing to 'capital owners and the highly educated'. In response to these ills, he advocates the panoply of social-democratic policies: centralized wage-bargaining, wage compression, subsidies for productive investment, social welfare policies and public education.

Acemoglu contrasts this form of of social democracy, which he finds in 1940s and 50s Sweden, with democratic socialism, 'whereby companies would be controlled either by their workers or by an administrative structure operated by the state'. This arrangement, he argues, is undesirable, because it 'cuts the system's most important lifeline: private ownership of the means of production.' Not only is democratic socialism unworkable in theory—the experience of 1970s Sweden also proves it to be unworkable in practice.

Acemoglu's gloss on the history of Swedish social democracy is untenable. There are, moreover, good theoretical reasons to think that the form of social democracy he favours will either degenerate into neoliberalism, or result in

democratic socialism.

Consider, first, the historical record. In the late 1960s, the Swedish Trade Union Confederation (LO) proposed to socialize firm profits through ‘wage-earner funds’. Under the so-called Meidner plan, profitable firms would be obliged to issue new stock for every unit of profit, paid directly into employee insurance funds. The funds were to be collectively owned and managed by shop-floor workers and the LO. Acemoglu glosses Sweden’s experimentation with these funds as a kind of left-wing adventurism, which ‘destroyed the cooperative agreement between businesses and unions, and distorted the incentives that had previously driven investment and productivity growth’.

It did no such thing. First, the ‘cooperative agreement’ between capital and labor in 1970s Sweden was merely a temporary truce buttressed by the strength and assertiveness of labor. Under conditions of historically low unemployment and mounting wage demands, the social democrats found it impossible to continue their traditional policy of wage compression without eating into capital’s share of national income. Acemoglu does not appreciate the corollary, namely that *the wage-earner funds were intended as a mechanism of wage-restraint.* Labor was to get a share of profits in return for moderating its wage demands.

In the early 1970s, Swedish employers feared that, without the Meidner plan, wage pressure and union militancy would eviscerate their profits in a decade. This explains their original acquiescence to the plan; it also explains the acquiescence of their political representatives in the so-called ‘bourgeois parties’ (the Centre Party and the Conservative Party). Far from being an incubus on Sweden’s ‘cooperative agreement’—Acemoglu’s historical thesis—the Meidner plan was originally seen as a way of preserving it.

Second, the Meidner plan did not distort any existing 'incentives driving investment'—unless one thinks that only capitalists are amenable to such incentives. It merely purported to transpose that incentive structure from capital-managed to labor-managed firms. If the Meidner plan had been realized, moreover, labor management would have been the only liberal-democratic way to assume control over production. Anything else would have led to a bureaucratization of economic life, structurally similar to the economic oligarchy Acemoglu rightly castigates.

But Acemoglu does not just misinterpret the historical record; he also misunderstands the theoretical reasons why social democracy *needs* some form of democratic socialism. This necessity was nowhere better expressed than in 1970s Sweden. In an economy of relatively low inflation, low unemployment, and high productivity growth, wages have a natural tendency to eat into profits. Capitalists then have a choice: they can either acquiesce to an ever decreasing share of the pie—to their own detriment—or do at least one of three things: raise prices, lower wages, lay off workers.

Now, capitalists operating in a well-ordered social democracy, like 1970 Sweden, can do none of these things. They cannot pass wage pressure onto prices, because inflation is relatively low; they cannot cut wages, because the labor movement is strong and assertive; and they cannot lay workers off, because the demand for labor is institutionally kept high. So they must convince *governments* to help them to do one or more of these things. This is exactly what the Swedish capitalists achieved in the late 1970s.

The 1976 election was won by the 'bourgeois parties' and the Meidner plan was scaled down. In the meantime, the capitalists recouped their losses through a combination of price increases, wage cuts, and increased unemployment. The

Swedish social democrats under Olof Palme did not wholly repudiate these policies. Indeed, by the mid-1980s, they had quietly abandoned their post-war commitment to full employment, joining the ranks of neoliberalism, where they remain mired ever since.

Acemoglu connects his criticisms of democratic socialism with Bernie Sanders' presidential campaign, the most recent political reincarnation of wage-earner funds. Economic circumstances in the US are relatively propitious to setting up such funds, since unemployment is low and inflation stable. By contrast with 1970s Sweden, however, US unions are weak and wages are stagnating—which is what explains burgeoning profit margins.

Acemoglu is right that wage stagnation in the US is partly due to low productivity growth. But the solution to the productivity problem consists in steadfastly abandoning neoliberalism and committing to a policy of full-employment. And now it follows that the productivity-led social democracy that Acemoglu favours, consistently implemented, can only eventuate in democratic socialism.