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# Regional Policy in Norway and Sweden

a Comparative Analysis

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## Abstract:

Sweden and Norway are two relatively similar countries at a glance, which both have adopted the “Scandinavian Welfare State Model”. This includes the field of regional policy. However, if we look more carefully, there are certain discrepancies in this field. These differences have been discussed earlier, but previous analyses have focused mostly on comparing the aims and measures for regional policy in the narrow sense in the two countries. This paper deals with regional policy also in the broader sense, and tentatively discuss *effects* of such policies in terms of regional development and prospects for analysing these effects. An important part of the analyses is to what extent and how regional policies in Sweden as a member of the EU, and Norway as a non-member, are influenced by European integration. Our main hypothesis is that both countries’ regional policy aims and measures move towards the EU’s, Sweden’s faster than Norway’s. The result of this process may be a widening gap between the two countries with regard to the national regional policies and perhaps differing preconditions for regional development in peripheral regions.

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# 1 Introduction

This paper presents some preliminary results from an ongoing research project<sup>2</sup>, in which Swedish and Norwegian regional policies are compared. Earlier work (Mønnesland 1994, 1997; Mønnesland and Orderud 1993) have focused mainly on comparing aims and measures for regional policies, and to a large extent on regional policies in the "narrow" sense. Our project focuses on regional policies more broadly, as well as on comparing effects of the policies. We think this is a bit more challenging, as it includes a discussion of how well regional policy measures are connected to its aims and to what extent its effects correspond to these aims.

In the first section of the paper we discuss the rationale for regional policies, focusing on regional policies in Norway and Sweden, which can be quite different from regional policies in other countries. One particular point of interest concerns the EU influence on regional policies in the two countries. Our main hypothesis is that regional policy in Sweden as a member, as well as in Norway as a non-member, are strongly influenced by the EU regional policy and internal market regulations, that regional policies in both countries therefore gradually become more similar to the EU policies, but that Sweden as a member country is more obligated to moving towards the EU's policies than Norway.

In the second section of the paper we focus on comparing aims and measures for regional policies in the two countries. The comparison focuses on differences and similarities in aims and measures between the two countries, as well as on how the chosen measures correspond to the aims in each country. In addition, we compare to what extent regional policies are institutionalised in the two countries. We look at the institutions themselves, as well as at the degree to which regional policy is integrated as part of sectoral policies. The concluding section is a tentative and somewhat superficial analysis of the effects of regional policy in the two countries, and prospects for deepening this analysis in future research. We aim at suggesting some hypothesises as to what extent differences in regional development in Norway and Sweden can be seen as consequences of regional policies (in the broad and narrow sense), or if other conditions are more important when trying to explain these differences.

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## 2 What do we mean by Regional Policy?

The term *Policy* refers to governmental activities in a broad sense. These can be subsidies, taxes and other policy measures, or they can be public administration and public production of goods and services. The term *Regional* refers to something territorial or spatial at any scale. Here, we focus on applying the term to parts of territorial states. Regional policy can, in this sense, be defined as *government activities that have a certain spatial dimension*.

Such a broad definition might, however, cause misunderstandings since it can be argued that all government activities have spatial implications. A narrower definition is therefore needed, but is not easily arrived at as it will always cause dispute among both academics and practitioners. At one end of the scale, there are policies that are directed towards people or industries in certain less prosperous areas (usually the peripheries), which by definition classify as regional policy. At the other end, there are several policies that can be assumed to have small, or insignificant, regional implications. These can be excluded from the definition without hesitation. Between these two extremes, however, there are several types of policies with regional intentions and/or implications. These range from sectoral measures where peripheral aims are important, to sectoral measures where such aims are unimportant, but where the impacts might be significant. The *intentions* and/or the *effects* of the policies can, in other words, be used for defining regional policies, although choices made can always be subject to criticism. The former type of regional policy is often dubbed narrow, the latter broad, regional policy. What should be included in the analysis of the broader type of regional policy varies between contexts and should therefore be an empirical question.

Compared to many other countries, both Swedish and Norwegian governments have taken a rather active role in societal development. The Scandinavian Welfare State Model is the term used for this active state, where distribution of wealth in many cases has been more important than efficiently allocating resources via the market.

Norway and Sweden are both spacious countries with a limited number of inhabitants. This means that population densities are extremely low outside the urban areas. Welfare policies are important for living conditions. This applies particularly to peripheral areas, where small populations have ruled out market solutions to service provision problems. Therefore, the regional impacts of welfare state policies have been huge compared to the impacts of the more narrowly defined regional policy. The growth of the welfare state was perhaps – from a regional point of view - the most balancing factor in post-war Scandinavia, especially from the 1970s. In many regions and municipalities the public sector has become the most important employer, and from an economic point of view, almost like a base industry (Foss 1996).

With the completion of the welfare state construction, and more recently its declining tendencies, other public activities have been located in the peripheries in order to secure employment there, even though sectoral preferences as well as a more efficient use of resources would imply other, more central, locations of these activities. Higher education and military defence are examples of such sectors in both countries.

More indirectly, public transfers are also important for preserving the settlement pattern. Public transfers can in principle be directed more or less explicitly to activities or people located in certain parts of the country. If the transfers are explicitly and intentionally directed towards the periphery in a sense that similar activities, or people, outside the peripheries do not receive the support, we talk about a peripheral policy. A similar effect can be deducted without giving priority to certain regions, if the subsidies are directed towards activities that are specific for, or overrepresented in, the peripheries. This will, however, not be regarded as a peripheral policy per se.

By adding policy measures with regional intentions and effects together, we get a picture of the total importance of the public sector for regional development. The obvious assumption is that in countries

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with a large public sector, like in Sweden and Norway<sup>3</sup>, regional policies defined broadly are of major importance for regional development in the peripheries. This applies especially to the parts of the countries where there are little other (private) activities, or where the importance of other (private) activities is declining.

The principal difference between the two kinds of policies with regional implications is that the 'narrow' regional policy has as its primary purpose to compensate for problems and difficulties that are consequences of the regions' geographical positions. The purpose of the 'broad' regional policy has – at least explicitly - nothing to do with regional problems, even if it will have regional implications. The 'narrow' regional policy can be seen as a form of 'reaction policy' – a policy that is demanded or required to solve regional problems. The 'broad' regional policy can instead be seen from the supply side – a policy that is demanded, but where the supply is independent of special regional problems or geographical positions. The differences between the two parts of regional policy can be illustrated - in form of examples - as in the following table.

**Table:** A schematic view of the difference between the 'broad' and 'narrow' regional policies. Some examples.

<b>'Broad' regional policy</b>	<b>'Narrow' regional policy</b>
Infrastructure	Localisation grants
Agricultural policy	Agricultural policy in specific regions
Labour market policy	Grants to sparsely populated areas
Education	Employment grants
Defence	Transport grants
General welfare policy	Reduced pay-roll taxes
Other index regulated expenditures	Other grants

The amount of money spent on the broad regional policies is many times higher than the money spent on regional policies in the narrow sense. It has been estimated that the 'narrow' regional policies only represent a few percent of the amount of public expenditures that is predestined to the 'broader' regional policy, with respect to the distribution in the Government's budget. This implies that even the impacts of the broad regional policies on regional development probably are many times greater than the impacts of the narrow policies. Any serious attempt at analysing regional policy and its effects must therefore take into consideration regional policy in the broader sense, despite the criticism that any delimitation of what belongs, or not, might provoke.

## **2.1 Regional policies in Norway**

As implied above, the meaning of the term 'Regional policy' varies among countries as well as among different private and public bodies within the same country. Moreover, the meaning is developing in time, according to changes in problem definitions and ideologies and corresponding shifts in political

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<sup>3</sup> The public sector measured in terms of employment is large in both countries. In terms of public expenditure as a share of GDP, Sweden has a large public sector compared to other countries, while the share is somewhat more moderate in Norway.

foci. In Norway the term has been applied to top-down socio-economic development policies for specific regions, as well as to nationwide policies for inter-regional balance or equality purposes. It has also denoted – although to a varying degree – systems of physical planning, or efforts to integrate economic and physical development planning, for large and small regions; often with a mix of top-down and bottom-up approaches. The term has been employed to denote rather narrow approaches as well as broader concepts of policies with assumed regional development impacts.

In this specific project (and section) the term 'regional policy' is mainly taken to denote national policies with the purpose and/or effect to influence aspects of inter-regional relations and development, while intra-regional and physical planning aspects are left out. However, the perspective encompasses regional policies in the rather broad sense of the concept (cf. above).

In Norway, specific regional policies were first explicitly formulated in the post-war years, and appeared as a special field of national politics in the 1950s. The challenge of rebuilding and repopulating Northern-Norway in the wake of Germany's "scorched earth policy", and subsequent deportation of a large part of the northern population during the war years, led to the establishment of the "Northern Norway Development Programme" and a scheme for funding capital subventions of industries, infrastructure investments etc. in this part of the country. Another development fund had been erected to support industrial development especially in geographical areas with high unemployment caused by a weak industrial basis. In 1961 the different funds were merged into "The Regional Development Fund" (DU), aiming at increasing opportunities for permanent employment in industrially weak regions, regardless of geographical location. A geographical area of operation (target area) was appointed on the basis of relevant criteria of "economic weakness", and later revised several times according to actual development and policy considerations. In 1993, the DU and some other public industrial funds were converted into "The state Industrial and Regional Fund" (SND).

Alongside the institutionalisation of regional policies through the support scheme of DU, the Labour government also during the 1960s engaged in direct industrial policies, i.a. by continuing the erection of state-owned manufacturing plants in rural areas, which had started in the late 1940s and culminated during the 1950s, and also launched other measures to promote industrialisation in specific locations. This policy was inspired by imported ideas of "growth-poles" and "economic base", and theories of industrial location behaviour, in a historical context of fast industrial restructuring and growth. Area planning efforts in the period was apparently supported by the so-called "central place theory", and a concept of "decentralised centralisation" was introduced to indicate that the development of networks or hierarchies of central places/centres could be efficiently influenced politically.

Except for the area planning aspects, explicit regional policies in most of the preceding forty years period have been restricted to direct (firm- and enterprise-oriented) or indirect (local government-oriented) *industrial* policy measures. The incentives were mainly directed towards production, i.e. stimulation of investment, in order to overcome regional differences in labour market situations and transport costs, and thereby enable peripheral/rural areas to keep up with the economic development in more central parts of the country. This "productivist" approach in explicit regional policy continued to dominate, and was even further emphasised during the post-keynesian and post-planned-economy periods following the early 1970s, and especially in the context of economic liberalisation and a more market-oriented policy regime emerging during the 1980s and 1990s. The measures gradually became somewhat more indirect and neutral with regard to industries, more oriented towards "soft" investments and promotion of knowledge and innovation, and more directed towards entrepreneurial support, but essentially the emphasis on industrial development was preserved (Foss og Selstad 1997, Mønnesland 1997).

The official main objective of regional policies, however, was from the 1960s on gradually reformulated to be *the preservation of the overall pattern of population settlement*, and especially during the 1970s and 1980s even more explicit ambitions of inter-regional equality of welfare and living-conditions were formulated. However, as long as the actual policy measures mainly remained directed towards production units rather than towards individuals and households, i.e. towards

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influencing spaces of production rather than places of living, we may assume that the policy rested on the idea of a certain causal chain, implying a positive relationship between the immediate effects of "productivist" policies and supposedly critical determining factors regarding individual- and household locational behaviour.

Actual regional development in the broad sense can hardly be explained by regional policy in the narrow sense, and the relative influence of such policy measures to a large extent escapes evaluation and may never be ascertained. Moreover, evaluations in this field tend to limit their focus to the most immediate effects, avoiding the complex causal route from immediate effects to criteria of overall goal attainment. Hence, limited knowledge exists on the effectiveness of the narrow regional policy in the broader regional policy perspective, namely in terms of its relation to the stated overall policy objectives. This has led to a gradual recognition of the necessity to acknowledge regional impacts of the interaction of measures across a wide spectre of policy sectors, and the need of policy coordination among sectors and levels of government as part of regional policy. In the later years the concepts of a "narrow" and a "broad" regional policy approach have been launched to indicate the rather limited scope and ambitions of traditional regional policies. The "broad" regional policy concept in principle comprises all national policies with assumed differential effects across the territory, and provides a more plausible perspective on the relation between "regional policies" and actual regional development, as indicated below.

The Norwegian regional policy ideas and emphasises since the middle of the 1940s can be summarised as follows (Foss og Selstad 1997):

- 1945-60: Rebuilding – especially the northern counties, modernisation theory, emphasis on exogeneous factors, trade theory/economic base, keynesianism
- 1960-75: Planning optimism, localisation theory, central-place theory, diffusion theory, economic base, keynesianism, establishment of "growth-poles" based on clusters of key industries. Infrastructure and welfare-state development. Strong emphasis om the spatial dimension (territorial planning) and institutionalisation of regional policies.
- 1975-85: Ideas of self-reliance and self-development emerged. From top-down to bottom-up. Regional planning for industrial attraction. Mobilisation of regional resources. Emerging focus on the service sector and entrepreneurship in regional development. "Completion" and decentralisation of the welfare-state, municipality expansion by central-state financing. The end of central planning optimism, and emerging deregulation and market-orientation.
- 1985-95: Growing emphasis on endogeneous growth factors and theories. Farewell to keynesianism. Focus om knowledge and learning and the stimulation of entrepreneurship. Growing regionalist thinking and new ideas of regional industrial agglomeration ("industrial districts", Porter-type "clustering", flexible specialisation). Priority on national economic growth and emerging neo-liberalism.
- 1995- : Emphasis on periphery-oriented welfare- and development problems and "thinning-out" socially oriented policies, in combination with EU-inspired "regional development programmes" and ESDP-inspred approaches (regional systems of cooperating centres with planned regional divisions of labour), regionalism, regional competition policies, knowledge and innovation policies. Emphasis on "new" endogeneous growth theories and the importance of local/regional (institutional) capabilities.

### **Actual development and policy effects**

The last forty years - i.e. the period of explicit regional policy - have seen a marginalisation of the traditional goods-producing sectors as a direct source of income for the population. The *mining and manufacturing* industries have recorded a fall in the number of employed from the mid 1970s.

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Measured by person-hours, these industries' use of labour power has been steadily declining from the middle of the 1960s. *Primary sector* employment fell rapidly all through the period, fastest during the 1960s. Even in typical rural areas, "rural" industries have gradually been reduced to a marginal position. The number of employed in the public sector was more than tripled in the period, however, and the public sector's share of total national employment grew from less than 13 percent to almost one third. The sector contributed around 85 percent of the total net employment growth in the period. *Other industries*, not including public sector activity (private services among others), recorded substantial employment growth in the period, but the increase in person-hours was insignificant except for a brief culminating period around 1986-87. The work-force of the public sector expanded considerably faster than the work-force of the private sector in all decades after 1960. Moreover, whereas the territorial pattern of growth in public services favoured the less central, rural areas, the overall growth of private services overwhelmingly favoured the central and urbanised areas.

Major national welfare reforms, especially during the 1960s and 1970s, were carried through by local (municipal and county) governments. The central government initiated municipal reforms in order to utilise local government in the efforts to implement national welfare policies. Because the municipalities were made into basic units of a national system of planning, implementation and management, municipal administrative and service capacity had to be strongly expanded in each separate unit. The number of municipalities therefore became a key factor in determining the size and territorial distribution of institutions, infrastructure and employment. As a consequence the number of people employed by local government grew by more than 325 percent in the years 1962-1992.

The extremely low population densities in most rural areas leave the public sector almost without competition with regard to the provision of many kinds of services. During the preceding decades the expansion of local public service sectors and general local government activity was a key factor in the development of the municipal centres, which enabled the transition of rural employment from "traditional" to "modern" occupations in the wake of industrial change, based on a regionally rather dispersed pattern of small and medium sized urban settlements throughout the country. The building of the welfare state dramatically reduced territorial disparities in employment and the supply of welfare services in less than a couple of decades. By the double effort of expanding and decentralising educational opportunities, and at the same time supplying the necessary job opportunities especially in peripheral and rural areas, the public sector even contributed to a general rise and territorial equalisation of educational levels.

Being "territorial organisations", the structure, functions and performance of local government and the municipalities have developed into the most important instruments of regional and rural policy. The three principal factors of change, namely increasing population mobility, substantial central place expansion, and the formation of steadily widening integrated regions around centres of different sizes, were all mainly fuelled by the fulfilment of general political nation-building ambitions and the implementation of far-reaching equality-based welfare state programmes. They had the effects of completing and strengthening the bottom and lower levels of the system of central places, notably the municipal and partly the regional centres, implying a certain degree of local and regional population centralisation. Rural/low density settlements, and local employment and welfare in rural/low density areas, grew increasingly dependent on commuting by the spatially integrating effects of the spread of modern infrastructure and means of communication, and a strong "community of fate" emerged between the rural peripheries and the small and medium-sized urban settlements of rural areas.

These aspects of the regional system of production, welfare and settlements render regional development critically dependent on the level and performance of a multiplicity of public sectors and policies. Changes in the size, structure and activity of the public sectors come into wider effects through the general broad classes of activity the different sectors are involved in, namely i) the provision of the legal framework of economic transaction (regulations), ii) the production of goods and services, iii) the purchase of goods and services, and iv) the redistribution of income. The net effect of the activities on federal government income and expenditure is the crucial entity of governmental financial policy. In the light of present and prospective policy changes and public sector

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structural reform it is perhaps surprising that no systematic study of territorial and rural effects have been ventured, taking into account the specific features of policy and public sector change, as well as our full knowledge of mediating mechanisms (Foss 1996).

The effects of policy measures within regional policy *in the more narrow sense* is a matter of scientific dispute. Effect-studies demonstrate that the methodological problems are severe. Going back to the 1970s, some studies seem to show that manufacturing employment to a certain degree was redistributed in the favour of the periphery in spite of the periphery's unfavourable industrial mix. Other studies maintain, however, that this redistribution was the effect of spontaneous deconcentration forces, and not so much of regional policy. The period also, as mentioned above, was one of extensive public sector expansion at the regional level, as part of i.a. national welfare policies, influencing the infrastructure and other conditions of local/regional economic development. During the 1980s centralisation recommenced, industrially as well as demographically, and some of the dynamism of the 1970s vanished.

In the last period – from the middle of the 1980s – the key question has been about the ability to restructure and adjust to meet the requirements of emerging new economic, political and competitive environments. The "old" regional policies were manufacturing-oriented and had contributed (at best) to the creation and preservation of a number of manufacturing towns in the periphery. The transition to service-orientation came slowly in regional policy, and evaluations show that the traditional industries continued to dominate peripheral economies (except for the fast and decentralised growth in the public-municipal sectors) even in the general "service era", and despite certain regional policy efforts to promote the development of private services. Even if regional policy to some degree failed (in relation to ambitions) in its restructuring efforts, some studies seem to show that general effects on job-creation has been considerable during the 1980s. Other studies maintained that the job-creation ability of narrow regional policies has been constantly falling since the "golden age" of regional policy in the first post-war decades (Foss og Selstad 1997, Grimsrud et al 1993).

As for the last decade, including the period of formal and most active EU-adaptation policies, much is still to be learned about the effects of narrow as well as broad regional policies. Redefinitions of regional development problems as well as of policies are under way, and the question is how Norwegian authorities are able to – and intend to – utilize the special interface of national political traditions and the formally more loose relations to EU regional political initiatives and rules.

### **Implications of EU-adjustment on regional policies.**

The focus in this paper is on differences between Norway and Sweden with regard to regional policy (aims and measures) and regional policy effects, especially in the light of implications of the two countries' formal and actual relationships with the EU. Norway is not a formal member of the EU, but economically the integration is complete as the rules and forces of the European Single Market came into effect in the case of Norway with the EEA treaty in 1994. The implications of this are threefold:

1. Specific regional policies at the national level generally have to be in accordance with EU competition policy, i.e. the general rule that support for private firms should not negatively influence competition between countries within the EEA, unless the measure is mandated by specific paragraphs in the treaty.
  2. The selection of regions qualifying for regional policy support, and the types (investment or operating support) and levels of support, have to be in accordance with the criteria stated in the specific paragraph on regional policy support.
  3. Economic development, economic policy and the general economic-political "climate" will gradually come to reflect the rules and actual forces of the developing competitive context of the European Single Market, also influencing a wide spectre of specific sector policies in a broad regional policy context .
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An indirect – fourth – effect is Norway's exclusion from participation in EU's own "regional policy", namely the federal transfer programmes called the Structural Funds, which is generally applicable to EU member states only. Among the main regionally specified programmes of the Structural Funds (four programmes), especially "objective 6" – targeted at regions with low population density – would have been applicable to large parts of Norway in the case of membership.

Of greatest relevance to regional development in Norway as a non-member, will probably be the general long-term impacts of the EEA-rules as well as of full economic integration in the European Single Market, on regional policy *in the broader sense*. In this respect Norway is expected to be exposed in the same ways, and much to the same degrees, as other EEA-countries, including the EU member states, like Sweden. However, differences may nevertheless occur as a consequence of i.a. variation in national regional structures, industrial structures, general economic conditions and policy responses, and due to differences in access to modifying EU-regional policies. On the other hand, important policy approaches promoted by organisations like the EU, has a tendency to "rub off" and come to effect as nationally adjusted "policy-copies" in a wider area, and Norway is traditionally very open to this kind of policy import (cf. i.a. the Norwegian "regional development programmes", with an emphasis on regional economic growth and competition policy, regionalism, regional public-private partnerships etc.). Moreover, several EU policy initiatives (like the ESDP approach and the INTERREG initiative) are intended to affect the wider cooperation area, and are already possible to trace in Norwegian politics.

The more specific – or narrow – Norwegian regional policy has so far been explicitly exposed to EU-/EEA-rules in limited ways. Some reductions in support levels have been made - differentially according to "target zone" and type of enterprise. The special regionally differentiated payroll tax (the Norwegian parallel to transport aid) was in conflict with EU/EEA rules and had to be transformed into an acceptable arrangement. Other areas of conflict, and probable subsequent adjustments, may be expected. However, the main restrictions are probably of a more theoretical nature, namely in terms of limitations posed by EU-/EEA-rules, and their potential effects, on future policy-making in the regional policy field. In this respect, however, Norwegian political development has to be considered in a wider context of "globalisation policies" where Norway traditionally has exposed a rather adaptive attitude towards international initiatives and rules, even in cases where no formal obligations existed, as exemplified by the growing emphasis on deregulation and decentralisation, innovation policies, regional innovation systems, learning and knowledge, regional competition strategies, networks and partnerships etc.

## **2.2 Regional policies in Sweden**

One of the central ingredients in the Swedish regional policy and official rhetoric is the concept of 'regional balance'. The problem with this concept is, however, that it has – and can be – defined in numerous ways. There is also a contradiction – more or less arbitrary – between growth and regional balance or between growth and distribution. The official opinion is that the purpose of the policy is to minimise the regional imbalances but not at the cost of the national growth. Instead, the consequences of the regional policy will result in a more harmonised and sustainable national growth – regional policy will not only reduce the regional imbalances but also stimulate the growth and reduce the bottlenecks in the economy. The purposes of the regional policy in Sweden is twofold – to reduce the negative impacts of the market forces and to give people possibilities to live where they want to live, even at the expense of rising public expenditures. The Swedish long-term study from 1955 had, by the way, the title *Balanserad expansion* (Balanced expansion).

It was not, however, the increasing imbalances as an effect of the expansion that was in focus. Instead, it was the contraction and structural transformation in differing regions with a growing out-migration as one result – especially in the Northern parts of Sweden – that was the centre of attention. During the 1960s, the industrial districts in the Southern part of Sweden – including the Stockholm region – experienced a shortage of labour at the same time as there was a surplus of labour in the Northern

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parts. One problem was that the transfer of labour to the expanding areas – despite an active labour market policy – was not fast enough and that new industrial jobs should be created in the out-migration areas in the Northern Sweden as an alternative to the redistribution of people. ‘Balanced contraction’ was perhaps a more relevant concept than ‘balanced expansion’. The meaning of ‘balanced contraction’ was that dramatic changes in the population distribution should be avoided and that large out-migration should be hampered (Axelsson et al, 1999). The idea behind this policy was, among other things, that there was a time lag in the development with respect to different regions in Sweden. The problem was, thus, that some regions were lagging in the transformation process, especially with regard to industrial development. The policy was, more or less explicitly, inspired by the theories of economic dualism and economic stages consisting of sectors and regions in different stages on the development ladder – it was some form of modernisation or industrialisation policy that was recommended. In the beginning of the 1970s, the concept ‘localisation policy’ was replaced by the concept ‘regional policy’ (SOU 1970:3). This new policy had many similarities and was perhaps also inspired by the theories that were in fashion with regard to the recommendations for development in the ‘Third World’ (the ‘stage theory’, where different regions are supposed to be at different stages of development).

In the beginning of the 1970s – 1972 – new ingredients were introduced in the Swedish regional policy. In *Sverigeplanen* (The Swedish Plan), the regional policy was extended to including even the central public sector. This was a shift from a growth-oriented industrial policy, to a policy oriented towards distributing and transferring public expenditures. Numerous branches of government services were relocated into towns in the assisted areas, which were supposed to act as growth poles in these areas, and in the long run stimulate the national economic growth (Governmental Bill 1972:111). Another aim was that these ‘growth poles’ should hamper the inter-regional migration and the concentration to the metropolitan areas and instead stimulate the intra-regional migration toward these centres. In other words, the intra-regional balance was de-prioritised at the expense of the inter-regional balance.

During the economic recession of the 1970s, new ingredients were necessary to cope with the structural industrial problems that hit some regions very hard. Short-term selective measures were introduced to solve especially the labour market problems in the hardest hit regions and areas, which resulted in a closer connection between the regional and the labour market policies. These policies, which focused on employment creating measures, continued up to the middle of the 1980s when the good times in the Swedish economy eroded some of the relevance of this direct employment creating policy. Instead, the focus was more on training and upgrading the labour force and thus on development of the human capital – ‘technical centres’ were established and small regional universities were grounded and growing. A central ingredient in this policy was that human capital was considered to be a localisation factor for new firms in the knowledge-based sectors.

During the 1980s, reduced pay-roll taxes were introduced in some regions in Northern Sweden. The primary motives for this policy were compensating for long distances and stimulating labour intensive production in peripheral areas. This would give the private sector incentives for substituting capital with labour. In the end, this policy was supposed to result in a larger demand for labour and also a shift towards more service oriented activities.

From the early 1990s on, Sweden has been through the worst labour market crisis since the great depression of the 1930s. This crisis lasted at least up to the second half of the decade. Every region experienced high unemployment – even the metropolitan areas – and the regional problems were even more fragmented than before. The mismatch on the labour market increased – when the economy was better off by the end of the decade, the labour market mismatch became increasingly a regional mismatch. Although the demand for labour was rising, there was a surplus of labour in certain parts of the country. This phenomenon was both intra- and inter-regional and it seemed as if high structural and long-term unemployment had come to stay. As a consequence of the crisis of the 1990s, one of the primary aims of the regional policy in Sweden was to stimulate cohesion between the differing regions in the country and to create preconditions for a development in every region in order to stimulate

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national growth. Here it is obvious that there has been a harmonisation with the EU's regional policy, which is more focused on general measures than on the selective measures that in many cases are not neutral according to the free market rules.

However, Swedish regional policies started to change directions already before the Sweden joined the Union. The restrictions on what sorts of policies that were possible without conflicting the EU free market rules and policies became more and more obvious. This resulted in a narrowing of the Swedish regional policy towards the EU regional policy. Already the Governmental proposition of 1993/94 acknowledged that regional policy should be regarded a part of a national growth oriented policy (see also Nilsson 1993). This shift in policy became even more obvious in the regional proposition of 1998, where the point of departure is a regional industrial policy where the differing regions' specific characteristics are pronounced as bases for the policy and where the 'regional growth contracts' are of strategic importance.

When Sweden became a member of the European Union in 1995, the preconditions for an independent Swedish regional policy were changed. This development was, however, not quite new – instead there has been a gradual integration with the regional policy of the EU both before and after the assignment of the EEA agreement (Persson, 1994, Hallin and Lindström, 1998). After joining the Union, one of the most concrete results for regional policy was that Sweden now could get access to the Structural Funds. The most obvious harmonisation of the Swedish regional policy with the EU policy beside this, is probably the 'regional growth agreements' where the focus is more on growth aspects than on regional ones. These contracts are not even restricted to the traditional regional problem areas – instead all regions in Sweden have the same possibilities to participate in the process on more or less same preconditions. The point of departure for the differing projects is to develop the 'unique' characteristics in every region and then as a consequence starting up a self-generated developing process. Prestige words with regard to these contracts are e.g. partnership, growth potentials, bottom-up, and participation. A strategy of regional partnerships will be developed, where official and private actors co-operate and where the private sector's involvement has high priority.

The 'regional growth agreements' indicate, thus, a shift from a regional policy to a regionally focused growth policy which is not so discriminating with respect to competition as the 'traditional' regional policy. This is also obvious in the Governmental Bill on regional policy, where the regions' different prerequisites are underlined as preconditions for a regional development that will have positive effects on the development of the whole nation. At the same time, Sweden is considered to be a region in the international division of labour and production. The Swedish regional policy since the middle of the 1960s can be summarised as follows:

- 1965-1972: Localisation policy oriented towards industrial policy, inter-regional balance
- 1972-1976: Central place policy where regional planning is a central ingredient, inter-regional balance
- 1976-1985: Employment policy – regional mobilisation of jobs, integration of local labour markets, intra-regional balance
- 1985-1994: Upgrading of human capital, regional competence development, inter-regional balance
- 1994 -> : EU-adjustment, regional growth policy, inter-regional cohesion

### **2.3 Comparing regional policies in Norway and Sweden**

Despite the obvious similarities of regional policies in Sweden and Norway, which are dealt with throughout this paper, there are also interesting differences. The first one concerns the establishment of regional policy and the urgency of regional problems in respective country. Regional policy as an explicitly defined field of policy came into being at least a decade earlier in Norway than in Sweden. It also seems that the underlying regional problems were more urgent in Norway, very much as a

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consequence of German occupation during World War II and the deportation of population particularly in the northernmost parts of the country. Also in Sweden, regional policy was, and still is, concerned mainly with northern - particularly inland - parts of the country. It came into being as a response to growing out-migration from certain areas during structural economic change. If we accept the idea that regional problems were more acute in Norway, one might wonder if the measures taken were also more powerful than in the Swedish case, a notion that surfaces in the Swedish regional policy debate every now and then.

If we remain with the perceived problem and the purposes of regional policy, differences are more at the margin from the 1960s onwards. Norway's prime objective has since then been the preservation of the settlement pattern, while Swedish regional policy has been preoccupied with the preservation of regional balance. While it is obvious what a settlement pattern is (although the aim is not easily to operationalise), it is far more uncertain how the concept of regional balance should be understood, which has also permeated the Swedish regional policy debate. In Norway focus has been very much on production units, or production spaces, by direct (firm- and enterprise-oriented) and indirect (local government-oriented) industrial policy. Swedish regional policy has had a less distinct identity than its Norwegian equivalent. It has until recently been closely tied to labour market policy, earlier as measures geared at creating employment, in later days more focused on upgrading of the labour force and development of human capital.

Despite somewhat different motives and ideas behind regional policy in the two countries, measures were, at least at a brief glance more similar than different. Both engaged in localisation policies aimed at promoting a more equal distribution of both industrial and public investment. If we look at regional policy in the narrow sense, similarities seem stronger than differences. The table compares some of the properties of regional policies in the two countries.

	<b>Norway</b>	<b>Sweden</b>
<b>Key problem</b>	Post-War situation – regional unbalance (re-population and reconstruction) Unbalanced migration	(lack of...) Structural change Unbalanced migration
<b>Key problem</b>	<i>Earlier:</i> Resource management – national economic growth. Equal welfare and living conditions <i>Now:</i> Preserve settlement pattern	<i>Earlier:</i> Limit regional unbalances. Compensate market forces. Equal living conditions. <i>Now:</i> Economic growth
<b>Measures</b> (narrow regional policy)	<u>Firm oriented:</u> Investment grants Interest subsidies Development grants (investment) Employment subsidies  Transport subsidies Reduced pay-roll tax  <u>Local government oriented:</u> Reimbursement of hydro-power incomes Development support Industrial funds Rural development funds  <u>Individual oriented (labour force):</u> Reduction of study loans	<u>Firm oriented:</u> Localisation aid Development grants (investments) Employment subsidies Rural investment aid  Transport subsidies Reduced pay-roll tax  <u>Regional administration:</u> Project support – regional development  <u>Other:</u> Loan to investment trusts
<b>Measures</b>	<i>Earlier:</i> Public services (broadly),	<i>Earlier:</i> Public services (broadly), state

(broad regional policy)	statet owned (manuf.) industry <i>Now:</i> Sectoral policies incl. military, education policies	authority localisation <i>Now:</i> Higher education. Red military expenditure
<b>Current tendencies</b>	”Soft” investments, Knowledge/competence improvement, innovation.  Bottom-up approach upgraded Partnership principle adopted Regional development programmes	Graduate decline, reduced number of measures Economic growth focus Programme orientation (not project) Bottom-up approach upgraded Partnership principle adopted Regional Growth Contracts
<b>Effects</b>	Unclear, but anticipated effects (better with than without)	Largely unknown

While the benefits of efforts aimed at affecting industrial investment patterns were always debated, there has been a strong consensus that the importance of such measures was marginal in comparison with the expansion and spread of public services throughout territories. The welfare state building processes of both countries were without comparison the strongest forces in counteracting the more centralising forces of the market. In later years, when the increase in public spending has been reduced, and in some fields of activity even cut, and the welfare state has ceased to expand, the expansion of higher education also in peripheral areas is a most important state policy for levelling out regional differences. Particularly in Norway, regional policy has been associated with security considerations and military spending, where a good spread of the population was seen as an important aspect of territorial control. This issue linkage has not been as obvious in Sweden until more recently, when cuttings in defence expenditure has meant regional considerations has come into play in the process of closing down military establishments. This has been true also in Norway.

In Sweden, Norwegian (narrow) regional policy is often held considered a better model, at least from within support areas. Three reasons for this deserve mentioning here. First, there is the reimbursement of incomes from hydro-electric power to municipalities with power plants in their territories. Second, there is the reduction of study loans for people moving up north in Norway. Third, there is envy of the Norwegian agricultural and rural policy which is seen as a strong reason for the relatively inhabited rural areas of Norway. The two former are discussed as viable options in Sweden, while the third is not considered an realistic due to very limited weight of the primary sector, particularly in northern Sweden.

In addition to the above, yet another distinct feature of Norwegian regional policy is its connection with foreign policy, where relations particularly to neighbouring Russia, but also to Sweden and Finland, increasingly tend to be considered a window of opportunity in the northernmost part of the support area. There is no such discussion in Swedish regional policy, but on the other hand, Sweden does not have any immediate border of such foreign policy concern in its regional policy support areas.

In as far as there are unique features of Swedish regional policy in comparison with Norway’s, these have very much to do with the EU memberships and the introduction of the Structural Funds. Norway’s exclusion from participation in EUs own ”regional policy”, which is generally applicable to EU member states only, therefore stand out as an obvious difference in terms of adjustment between the two countries. Among the main regionally specified programmes of the Structural Funds, especially ”objective 6” – targeted at regions with low population density – would have been applicable to large parts of Norway in the case of membership. Change in the system has mainly taken the expression of marginal adjustments of regulations and measures, mainly narrowing down the scope of regional policy in the traditional sense. It is not unjust to say that Swedish regional policy has been lacking in imagination for a long time, and that any new influence can traced into the Structural Funds system. The most recent and obvious example of this is the Regional Growth Contracts (RGC) which are

strongly influenced by the guiding principles of EU regional policy, although described as a regionalisation of industrial policy.

Although Norway is not a member of the Union, there is a great political interest in the country for trying to adapt to EU rules in most (all) fields of policy. The EEA agreement is an important reason for this, but Norway tries its best to adapt also in fields not covered by this agreement. As a consequence, Norway is as adapted to the EU as any member state, but in some fields Norway is not allowed to participate in the benefits of the Union (decision making processes and getting money from Structural funds are examples of this). Strategies for developing Norwegian regional policies imply that the intentions and measures become more and more similar to the ones within the Union. For instance, the bottom up approach, where regional and local characteristics (endogenous characteristics), knowledge and growth poles are in focus, is gradually taking over from the traditional equality and top down (exogenous factors) Norwegian way of thinking. Local/regional partnerships, contracts, and the ESDP approach are gradually becoming important also in Norway.

This means that apart from the Structural Funds, other aspects of European integration affect Sweden and Norway more similarly. Three factors with a strong bearing on the formulation of regional policy deserve particular mentioning:

1. Specific regional policies at the national level generally have to be in accordance with EU *competition policy*, i.e. the general rule that support for private firms should not negatively influence competition between countries within the EEA, unless the measure is mandated by specific paragraphs in the treaty.
2. The selection of regions qualifying for regional policy support, and the types (investment or operating support) and levels of support, have to be in accordance with the criteria stated in the specific paragraph on regional policy support.
3. Economic development, economic policy and the general economic-political "climate" will gradually come to reflect the rules and actual forces of the developing competitive context of the European Single Market, also influencing a wide spectre of specific sector policies in a broad regional policy context .

These points exemplify that the general long-term impacts of the EEA-rules, as well as of full economic integration in the European Single Market, are on regional policy *in the broader sense*. In this respect Norway is expected to be exposed in the same ways, and much to the same degrees, as other EEA-countries, including the EU member states, like Sweden. However, differences may nevertheless occur as a consequence of i.a. variation in national regional structures, industrial structures, general economic conditions and policy responses, and due to differences in access to modifying EU-regional policies. On the other hand, important policy approaches promoted by organisations like the EU, has a tendency to "rub off" and come to effect as nationally adjusted "policy-copies" in a wider area, and Norway is traditionally very open to this kind of policy import. Moreover, several EU policy initiatives (like the ESDP approach and the INTERREG initiative) are intended to affect the wider cooperation area, and are already possible to trace in Norwegian politics.

The definition of peripheries in Norway and Sweden is quite different from the definition used by the European Union. In the EU, peripheries are areas of industrial decline, high unemployment and/or low income level, or one might call them the poorer areas. This is not the case in Norway and Sweden. This implies that the aims as well as the measures of regional policy differ quite substantially between the EU and Norway/Sweden. In the EU, regional policies are directed mainly towards subsidising these poorer areas, and the aim is a more even distribution of wealth between all regions in the Union. Policies in the Union are generally restricted, as the main philosophy is that the market, and competition, is the proper place for allocation. Therefore, regional as well as other policies are not meant for subsidising industries in certain regions or sectors. They are of a more distributional character. In Norway and Sweden, subsidising private industries (mainly investment support) in the peripheries has been an important part of regional policies.

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### 3 Conclusion and dilemmas of analysing regional policy effects

One of the intentions of the project is to compare the *impacts* of regional policies in the two countries. This can, of course, not be done without also discussing the aims and policy measures. However, there are several problems connected to comparing impacts between countries. The most obvious one is that we have to find the proper indicators for measuring them. Indicators are worth little if they cannot be used for measuring what one wants to measure. This can be a problem if we only wanted to measure impacts in one country, and comparing the impacts between two countries increases this problem. How can impacts be compared if similar indicators do not exist in both countries? A second question can be added to this. How can impacts be compared, if comparable indicators do exist, but if the measures as well as aims for regional policies differ?

An additional problem is that the narrow and broad definition of regional policies might vary between the countries. The measures for regional policies also varies and the impacts will therefore vary. The final comment is that the regional level of impact is also important. The size of the municipalities, labour markets and counties vary, and this has to be taken into account when comparing the impacts.

However, we strongly feel that already at this preliminary stage of our project, we are able to trace some of the differences and similarities between the two countries. Some of these are discussed in section 2.3. Both countries have traditionally been mixed economies, with a strong and participating public sector. The development of the welfare state and public services directed towards the population have probably been the most important factors in developing the peripheries in both countries. Economic problems for the public sector in Sweden in the 1990s, together with a more liberal political wind blowing in both countries and regardless of whether they are members of the EU or not, both Norwegian and Swedish regional policies seem to develop in the same direction. Each region has to look more to the endogenous factors and extract whatever they can based on their own structures, networks, knowledge and innovations. The importance of the more "fatherly" and traditional top down regional policies is diminishing.

In this paper, we have not looked particularly at structural differences within or between the two countries. We want to point out that Sweden's manufacturing sector has been most important for the development in Sweden. In Norway, primary sectors and the utilisation of natural resources (fisheries, oil, electricity) have probably influenced regional development more. When we continue the project, we will focus on discussing the impacts of the development of private industries for regional development, and try to consider if regional policies (in the broad sense) have influenced regional development more or less than the sectoral development, and to what extent there has been a connection between the public and private sectors of the economy. The importance for us will be to look further into comparing the private-public connection and its impacts in the two countries. This implies that we also have to work more with comparing impacts of regional policies themselves.

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