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Chapter 3. Regional policy and the role of the regional level in Finland, Norway and Sweden – A comparative study*

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Introduction

A majority of peripheral and sparsely populated regions across the Western world are characterized by stagnation and depopulation. In various regional science publications, problems with growing gaps in terms of socio-economic conditions between expanding and declining communities, and measures to handle them, have been discussed over several decades. In Gløersen et al. (2006 and 2009) analytical overviews across the Nordic countries are presented. These studies highlight the demographic sparsity and remoteness, reflected by distances to main European markets, as core elements for the understanding of the specific problems of challenges to economic activities and service provision.

Since the mid-1960s, educational efforts and a wide range of regional policy measures have been implemented to handle the imbalances that have appeared, but it has been a great challenge to achieve an economic restructuring with sustainable results in terms of jobs and positive net migration. It should also be noted that there has been a substantial
expansion of jobs in public welfare service institutions. This has resulted in a considerably higher proportion of public employment in several municipalities in the Nordic countries. The highest dependency is found among the municipalities with relatively low population numbers (Gløersen et al. 2006, p. 131). This fact represents a major structural weakness across the three countries. In a report from the Commission of the European Community (CEC 2003), some policy implications related to this are addressed (see also Shucksmith et al. 2009). A viewpoint expressed in this report is that the promotion of economic competition and growth with the greatest potential could mainly favor the cities in marginal and peripheral regions. A reason for this is that these communities have more available resources and therefore the potential to act as economic dynamos with high productivity within a gradually increasing knowledge-oriented economy.

For several decades, strategies for economic growth and job creation have been on the agenda in both specific regional policy programs and several sector policy fields. The efforts in the north have generally, from a long-term perspective, managed to compensate for consequences of market forces through the concentration and relocation of plants and service supply to more cost-efficient locations both nationally or internationally. Yet the rather limited expansion of jobs has not led to even stabilization among the number of inhabitants. For example, official statistics in Sweden show that the total number of employed in the four most northern counties increased by 0.4% between 1985 and 2008, while the total population decreased by 2.9% (Statistics Sweden).

This paper discusses the regional policy in Finland, Norway, and Sweden searching for similarities and discrepancies. A specific focus is how the differences in the organization of the regional level might impact the policies. The aim is to compare what role the regional level has and how regional policies have developed over time and what consequences this might have for rural municipalities. The focus is on the regional level which is often the middle level in a multilevel system of political and administrative structures. It is ruled by the overarching level, which in these cases is the state, and is also an arena for the municipal level to have discussions with both the state and the international level.
The article starts with a short introduction to the study areas followed by a theoretical overview of different issues regarding regional development and decentralization of power. Then, a short description of the method is presented. After that, a comparison of the organization of regional development in Finland, Norway and Sweden follows with respect to their regional policy, recent trends, and similarities and discrepancies. A comparison of the regional level ends the results section, followed by a concluding discussion.

**Study Areas**

In Finland, Norway, and Sweden, a process of urbanization has taken place. The number of people living in urban areas has increased considerably, while in the sparsely populated areas outside city-regions, the numbers have fallen. For example, the population in the central and urban areas has increased from around 2 million to 3.5 million over the period between 1950 and 1995 in Finland (Loikkanen et al. 1998). At present about 2 million Finns, 40% of the total population, live in the six biggest centers. Consequently, the population density in the countries as a whole has increased, while large parts of the countries have fewer inhabitants per unit area. The overall picture of the population structure can be seen below in Table 1.

*Table 1. Population structure in Sweden, Norway, and Finland*

<table>
<thead>
<tr>
<th>Inh. per sq. km</th>
<th>Population Change 2000-2011 (%)</th>
<th>Demographic structure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0-19</td>
<td>20-64</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td>21</td>
<td>7</td>
</tr>
<tr>
<td><strong>Norway</strong></td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td><strong>Finland</strong></td>
<td>16</td>
<td>4</td>
</tr>
</tbody>
</table>

*Data from 2011

All of the countries are spacious with a limited number of inhabitants. This means that the population density is very low outside of the urban areas. Using municipal boundaries as a rough proxy for real physical space, the migration figures show that over 90% of Finnish territory constitutes an out-migration area (Hanell et al. 2002). The ageing population has started to manifest itself as a problem in all of the countries and
the process strikes even harder in the rural areas. This makes welfare and regional policies important for decent living conditions.

**Theoretical perspectives**

The development pattern in the Swedish, Finnish, and Norwegian northern periphery is far from unique in an international comparison. Development paths of places and regions are often rather stable in character over time. A suggested concept for the main barrier to break a negative trend is “path dependency”. The principle of path dependency originates from studies on the development of technologies, which have shown that technologies used over a long period of time, but increasingly inefficiently, cannot be easily replaced by new and more efficient ones. There often arises a “lock-in effect” when well established tools and methods block out the introduction of new technology (David 1985). The principle of path dependency has also been noted in organizational frameworks. In studies of institutions, American economist and Nobel Prize winner, Douglass C. North (1990), has found a similar pattern of barriers to renewal in cases of institutions having become inefficient.

In current policy discourse, rural decline is often described as an inevitable process associated with broader structural trends as globalization and urbanization. Governments withdraw from their responsibilities, and the rural areas are left on their own, but in the new regionalist literatures there is a return to intervention through strategic investments in community infrastructure. Doing things at the local and regional scales matters, and not doing things, has consequences (Markey et al. 2008). An important term in rural development is post-productivism. It refers to the transformation in values and economic activity associated with an emphasis on more diversified economic activities (Reed and Gill 1997). Post-productivism can be presented in terms of dimensions, including the nature and type of production (from commodity to non-commodity outputs), the multidimensionality of objectives associated with landscape and resources, and the importance of governance (representing a greater diversity of actors and institutions) in land-use decision-making (Mather et al. 2006). This means that places need to create competitive advantage both through quantitative (infrastructure, location, etc.) and qualitative (institutions, social capital, etc.) terms.

For this, the literature surrounding new regionalism and community economic development (CED) are helpful. New regionalism has been tracking the reconfiguration
of both economic competitiveness and governance as expressed at the regional scale. Economically, new regionalism understands development as a socially embedded process where the social capital of a region may exert influence on economic performance (Barnes and Gertler 1999). The governance theme is equally important, as regions experiment with different institutional structures and relationships in an attempt to compensate for government withdrawal, and innovate to establish better local participation, competitive advantage, and economies of scale (Storper 1999). Key within new regionalism is the potential to improve a region's economic, social, or environmental situation through appropriate intervention (Polèse 1999). Porter's (2004) study of the competitiveness of the United States' rural regions identifies the importance of both acquired attributes (location, resources, etc.) and development choices and leadership in determining regional fortunes.

Governance implies re-drawing the lines of accountability and control away from centralized state power, to be dispersed amongst a greater diversity of local and extra-local actors and institutions. The participation in governance also gives a sense of ownership, over decisions and resources, which may not have existed under previous top-down regimes. Thus, it may also give a sense that those assets are local and may be used for local purposes (Markey et al. 2008).

Perhaps the greatest challenge to this increased role for local capacity concerns the compensation of state withdrawal from the functions and responsibility for service provision. Importantly, this transition also burdens senior governments as they strive to find the correct policies and balance between top-down management and support with bottom-up direction and control (Bradford 2005).

To create regional employment in the north requires an investment orientation that recognizes the critical role played by services in rural communities along with an understanding of rural competitive advantage. The narrow parameters upon which questions of efficiency are assessed miss that in rural and small-town places, the provision of services provides a crucial foundation for both economic activities and is necessary due to the leveraging effect generated by them (Markey et al. 2008). The issue of provision of service continues to be one of the most important matters for rural development, or as Troughton (1999, 28) argues, “as the reductionist process goes on,
the loss or retention of key institutions, including local hospitals or health centers, can represent the difference between community survival and collapse”.

**Theoretical perspectives on the organization of the local and regional level in the Nordic context**

In the case areas, we can distinguish two main models for organizing the relationship between local municipalities and the elected regional level in the Nordic countries: the Scandinavian model (Norway, Sweden and Denmark) and the Finnish model. The Scandinavian model is based on the existence of two parallel levels, a local and regional level. The levels have different tasks and require different population amounts. The regional level is led by directly elected bodies, has their own taxing powers, and is multifunctional (Lidström 2003). Health care is the primary responsibility (though Norway moved it to the state level 2002), but regional planning, secondary education and culture are also placed at the regional level. The Finnish model differs from the Scandinavian in two respects. The tasks that are organized on a regional level are the same as in the other Nordic countries: health care, regional planning and secondary education, but the organization of tasks is indirect and functionally specialized. The regional level is organized through a co-municipality model, which are independent and functionally specialized cooperative bodies that are controlled and funded by the municipalities. The co-municipality has no taxing powers; the primary municipalities are responsible for government finances and the decision-making body is based on the results of the municipal elections (Sandberg 2009).

The basic principle of the Scandinavian model is that the municipal and regional levels are equal, and in the Finnish model, that the regional level is based on municipalities. But these are not independent of each other in either model. In several areas the responsibility is shared, which means that some tasks are occasionally operated by municipalities, and occasionally by the regional level (Sandberg & Stahlberg 2000).

**Decentralization of responsibilities**

In several cases, decentralization has initially been motivated by political concerns, as a part of the democratization process or as a response to pressures from regional groups for more participation and control in the political process. The economic theory of decentralization agrees that central government should have responsibility for macroeconomic stabilization, overall redistribution, and for functions providing clear
collective benefits. A key presumption of decentralization is that centralized provisions in other areas can be too uniform and relatively inflexible in the face of potentially diverse regional preferences and needs (Oates 1999). In many respects, the notion of ‘subsidiarity’, relates closely to this concept of efficiency in public service provision. The notion has received further power, both within individual EU states and from the EU’s Committee of the Regions (Tanzi 2001).

Oates (1972) suggests that different services would be associated with jurisdictions of different optimal sizes. Obviously other inefficiencies would result from a multiplicity of tiers of government, but the key principle is that the size of the sub-central tiers should be chosen to suit the broad range of services provided.

Of course, there are arguments that suggest that limits should be imposed on the extent of decentralization of spending decisions. Central government is likely to be concerned about issues of equality of access to public services and uniformity in standards of provision. These concerns are particularly strong in areas such as health care and education. Shared responsibilities of central and sub-central tiers of government may increase administrative complexity, create a lack of transparency and potential clashes in competence. These disadvantages could easily offset potential benefits (Darby et al 2003).

The theory of fiscal federalism provides a number of arguments for sub-central fiscal autonomy. Heavy reliance on grants places too little pressure on local administrators and politicians to manage spending efficiently. By decentralizing the fiscal authority, the local politicians have to bear the costs of their decisions. It is also important that the costs of services are apparent to the voters, so that they can make meaningful decisions on alternatives (Darby et al 2003). Overlapping and poorly defined central and local competencies can result in excessive spending that is unchecked by limited motivation to raise their own revenues. Competition over the tax base can also easily destroy some of the potential benefits of fiscal autonomy (Darby et al 2003).

Though Nordic local governments look quite different from what is described in the economic theory. They provide redistribution services, the populations they serve are homogenous and with low mobility, and the political emphasis on equality has motivated central government controls restricting local decision making. One could
argue that local government delivery of welfare services could be more of an administrative convenience rather than an action made on economic principle.

Method

Literature on how the regional policy and the role of the regional level works in the Nordic country was reviewed. A literature search was undertaken using the terms ‘regional policy’ and ‘regional level’ combined with the different countries. The literature regarding these issues were included if they were published after 1990, regardless if they were published in English or Swedish. Other relevant literature, specifically books and book chapters, were identified through an iterative process based on the journal papers. In the next section, the regional policy of the three countries will be presented, followed by an overview of what the regional level does in Finland, Norway and Sweden.

Regional policy in the Nordic context

Regional policy can be defined as government activities that have a certain spatial dimension. The obvious assumption is that in countries with a large public sector, like in Sweden, Finland and Norway, 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 is little or declining private activity.

There has been a shift in regional development in recent years with respect to theory, policy goals, and implementation. The previous policy was that central government used subsides to firms, infrastructure and public sector activity. The more contemporary approach is decentralized interventions based on regional development plans designed by regional and local actors. The regional development policies of Finland, Norway and Sweden contain elements of both approaches. The Nordic regional policy has been directed towards areas with low population density with long distances to the larger market centers. The aim of the policy has been to prevent depopulation of the remote regions. They all have the need to balance out regional development across the nation while at the same time enabling local and regional actors to participate (Bachtler and Yuill 2001, Mønnesland 2001).

There is a differentiation between “narrow” regional policies (i.e. regional incentives in assisted areas) and “broad” regional policy (i.e. the spatial implications of other state
activities), and several public reports have proposed moving towards the “broad” policy approach (Bachtler and Yuill 2001). For instance, industrial policy, location of public institutions and public transfers to private households will generate important stimuli to the regional economies even more than the regional policy incentives (Mønnesland 2002). In Sweden, the Norwegian (narrow) regional policy is often considered a better model, at least from within support areas. There are three reasons for this-- first, there is the income from hydro-electric power to municipalities. Second, is the reduction of study loans if one moves up north in Norway. Third, are the Norwegian agricultural and rural policies which are seen as strong reasons for the relatively inhabited rural areas of Norway. The two former have been discussed in Sweden, while the third is not as interesting as the primary sector is quite small in northern Sweden (Foss et al 2000). Norway also encourages women and young people to remain in peripheral regions. Currently when the public spending has been reduced and the welfare state has ceased to expand, the expansion of higher education in peripheral areas is an important and efficient state policy for leveling out regional differences (Tervo 2005). Previously in Norway, regional policy has partly been active due to a military consideration, where a good spread of the population was seen as an important aspect of territorial control. Recent drawbacks in defense expenditure have meant that regional considerations have been active in the process of closing down military establishments (Foss et al 2000). There have been different forms of regional policy in Sweden, but they have become less and less visible. The transport subsidy has also been important, but also added to the image of Northern Sweden as a remote part of the world (Westin 2006).

Through the income system for local government funds are now being transferred from the state to the counties and between the local governments to even out the differences. How these system work will therefore have a substantial influence on the regional economic development as well as the public service in the different parts of the countries (Mønnesland 2002). There are a lot of specialties in the income system of Finland, Norway and Sweden but there are also a range of similarities. One dimension, which is of regional policy relevance, is to what extent the systems are based on the demographic structure-- social dimensions and how center oriented factors are weighted compared to periphery oriented factors. The ranking between Sweden and Norway is dubious: Sweden has a much more periphery oriented indicator system, but this fact may be
counter-acted by the periphery oriented schemes. In Finland, most of non-demographic indicators are periphery oriented both for the general and the sector based transfer schemes (Mønnesland 2002). Partly as an effect of the regional policy programs and partly due to the Nordic tradition of equalizing welfare programs, the living standard in the Nordic periphery is not especially low, though the remoteness makes the need of a policy permanent. Remote regions and rural areas are different regional concepts. The regional policy of Norway is directed towards remoteness, but in the remote regions you will find both rural and urban areas (Mønnesland 2001). Combined with the interest in the growth pole approach, in which resources are targeted in the main urban centers in these regions, makes the urban areas in remote regions the real winners. (Bachtler and Yuill 2001)

**Effects of Structural Funds and EU accession on regional policy and the regional level**

Both Sweden and Finland joined the EU in 1995. Because of their very low population density in rural areas and the harsh climate, rural Sweden and Finland differ from other rural areas of the EU. To take into account these new issues in EU regional policy, a new structural fund applying to peripheral areas with extremely low population density was established. This has changed the policies from the preservation of regional balance to ones with the development of ‘unique’ characteristics of each region and the setup of a self-generated development process. Norway, although not a member of the EU (and consequently not a recipient of the structural funds), is following a similar direction in its regional policy (Foss et al 2000). The Structural Funds have also been seen as an opportunity to cut back on their own domestic regional policy commitments (Armstrong and Taylor 2000).

Another change with the expansion of the EU is that the difference between top-down unitary states and bottom-up approach of federal states has become blurred. In some EU federal states the national government has taken a larger role, while unitary states have decentralized some responsibility to regional authorities. The main impact of these trends is that the regional level has been strengthened (or sometimes even created) at the loss of the state, while the role of the local level has not changed significantly (Bachtler and Yuill 2001). The level that organizes most of these policies in Finland, Sweden and Norway is the regional level, which will be the focus in the next section.
The role of the regional level

The reorganization of the regional administration has been extensively discussed in the three countries, and there have been reforms of territorial public administration, experiments in selected regions, and governmental reviews. The countries differ in the degree that they rely on a large number of local administrations or a limited set of regions or a combination of the two. There is little consensus on the need for regions, how many there should be in relation to population, and what their optimal tasks should be (Aalbu 2000).

Nordic municipalities play a central role in the provision of welfare services (education, social welfare, health care etc.). The municipalities collect taxes and are responsible for land use in their areas. In Norway, the directly elected county councils are responsible for spatial planning and regional policies. In Sweden the county councils are service producers, but are not responsible for spatial development as regional policy is the responsibility of the central government-- the county administrative boards. In Finland responsibilities for regional planning lies with the Regional Councils, which are associations of the municipalities (Foss et al 2000). The general trend is a change in the vertical separation of powers. Big government is shrinking at the central levels, and expanding at the regional and local levels (Micheletti 2000).

Within these systems there is a competition between top-down and bottom-up systems. In Norway it is between the county councils and the state regional offices; in Sweden it is between the county councils and the county administration boards, and finally, in Finland it is between the State district offices and the regional councils. The role of the local offices is in these cases secondary to the state’s offices but the situation is perhaps not permanent (Bachtler and Yuill 2001).

Governments’ abilities to control and command are being challenged by horizontal and vertical separation of powers, regionalization and globalization, decentralization and devolution, and involvement of nongovernmental units in the policy steering process (i.e. Governance). The development in many countries is towards governance, which by using its strict definition, decreases the importance and size of government in many regions. Privatization of the public services also adds to this trend and is seen as an
important alternative to making welfare service more efficient and reflective of what
citizens want/need. (Micheletti 2000)

The role of the regional level - Finland

Previously, the regional economic development in Finland has been the responsibility of
a series of state regional agencies which acted rather independently in relation to local
government. The overall pattern of development in central-local relations is one where
the county administrations increasingly perform administrative functions of
coordination, analysis and support, whereas service provision is the domain of
municipalities (Baldersheim and Ståhlberg 2002).

Since the 1990s, rural municipalities have had wider opportunities to practice
independent, resource based local development policies, but their financial resources
have diminished due to decline in state subsidies. Therefore they have few resources to
put these opportunities into practice (Kahila, 1999).

A major issue in the history of Finnish regional policy has been the question of the
relationship between efficiency and equity. Finnish regional policy has sought to involve
both of these aspects. Priority has depended on the current national economic condition
(Tervo 1985). When economic conditions are good, measures are intended to reduce
regional disparities, while on the other hand, the efficiency is emphasized in periods of
depression (Tervo 2005).

In Finland the responsibility for specialized medical care is located with the hospital
districts, which are federations of municipalities owned and financed by the
municipalities. Experiences from the Kainuu experiment, where the province has taken
over a major part of the responsibility for production of services, is currently in process.
The objective of the experiment in Kainuu, conducted during the years 2005 to 2012,
has been to gain experience of how the province's increased autonomy effects the
development of the provision of basic services, citizen participation, and the relationship
between the province and the state (Jäntti et al 2010). The preliminary results show that
neither the content nor the service network have declined remarkably, while it still
manages to restrain costs better than in other parts of Finland. The provision of service
and cooperation between the municipalities and province has been shown to work fairly
well. However, the project has not been able to enhance the regional development, and
the residents are unhappy with the decision-making within the province. Jäntti et al
(2010) argues that the model is particularly suitable for the service provision in regions that struggle with an ageing and declining population.

**The role of the regional level - Norway**

Local government and the municipalities have become an important instrument of Norwegian regional and rural policy (Bachtler and Yuill 2001). The county councils perform the more important functions with regard to regional economic development, and have played an increasingly important role in regional and rural development, along with the task of developing infrastructure in a broad sense – including education, competence building and business development (Foss et al, 2000). Since January 2002, the county councils are no longer responsible for hospitals, and the current trend is to strengthen the role of national and regional state agencies (Baldersheim and Ståhlberg 2002).

**The role of the regional level - Sweden**

As in Finland, regional economic development has largely been entrusted to state regional agencies. In two cases, several county councils have fused to become larger regions, in the process of taking over the regional development previously performed by the prefects (Baldersheim and Ståhlberg 2002).

The overall trend is towards central-regional partnerships in policy-making while the local and regional levels are taking over functions of implementation. The actual move towards partnership is most evident in Sweden, while Finland moves towards bottom-up inputs in decision-making, whereas the situation in Norway is in flux. Norway used to be top in terms of decentralization of regional development instruments. While the county councils are in danger of being dismantled, they have at the same time received more influence for regional development as previously described (Baldersheim and Ståhlberg 2002).

The increasing incidence of governance, especially with regard to financial and regional development issues, indicates responses to external pressures primarily from European integration. The changes are most obvious in Finland and Sweden, while Norway, as expected, has adapted much less. Norway seems to be moving away from this, and instead uses a generous rich state (funded by oil) that takes over local and regional functions.
Concluding discussion

Overall one can say that Sweden and Finland’s regional policy aims and measures move towards matching the EU’s faster than Norway. The result of this process may be a widening gap between the countries with regard to the national regional policies, and perhaps creating differing preconditions for regional development in peripheral regions. Comparatively speaking, the pressure for adjusting central-local relations seems to have been greatest in Finland and Sweden, and least of all in Norway (Baldersheim and Ståhlberg 2002). The examination of the development of the regional management level in the Nordic countries shows it is still almost identical with tasks placed at a level which is greater than primary municipality, but smaller than the state. The political direction and funding of the tasks are increasingly differentiated. The extensive Nordic region research has not come to an answer to the questions about the similarity in the role profile, but it is the differences in mandate, size and funding that really matters— at least empirically (Sandberg 2009).

As the roles of the regional level are very different in Sweden, Norway and Finland, the municipalities also have different way to affect the politics on the national and international arena. With the weak regional level in Norway, and the basically nonexistent regional level in Finland, the Swedish municipalities have stronger regions to aid them. This comes with the price of a lower local autonomy in some issues. In all the Nordic countries there are unsolved questions regarding the elected regional level. The classical Nordic approach to the institutional arrangement of the regional level seems to be dissolving, and there is a rise of different models and understandings of how to best organize and develop regions. Future research should try to compare and analyze these models to see if they have different impacts in areas that are declining compared to prosperous ones in terms of their effect on democratic and economic values. The Kainuu experiment is a great test to see whether a change in the institutional arrangement can affect other parts of society, and might be an interesting case for rural as well as urban areas in other parts of the world.

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