Methodology of analysis - mutual relation between local economy, local structure and local policy

This section analyzes the transformation of regional economy and policy through examining the establishment of a regional government structure on an experimental basis in Sweden. Utilized here is the academic methodology of local finance in Japan focusing on the mutual relationship between local economy, local structure and local policy. This research methodology emerged and has primarily been used to analyze the sudden expansion of large urban area in the 1960s in Japan. Japanese government at the time, with the aim to promote a quick conversion toward heavy chemical industry, developed infrastructure including roads and industrial sites within large urban area to utilize big city and rural areas effectively resulting in a concentration of companies and a sudden inflow of population within large urban areas.

As a result, the population of municipalities within conurbation has increased three to five times within less than 10 years. These changes have brought about a transformation of local geographical structure from one with big cities and surrounding farm villages to one with big cities with a concentration of companies and suburban municipalities inhabited by people commuting to core city.

Change of local structure and local society

The rapid change of the local economy and local structure has brought about new local problems including air pollution, congestion of traffic and serious shortage of housing. At the same time, the people who moved into urban areas have faced not only lack of urban infrastructure including sewerage etc but also of public services including child care and so on. Mayors and local politicians argued at the time that services such as child care must be provided by each individual and they did not have the possibility to provide these as public services. But the transformation of the local society as a result of the increase in the population has brought about structural transformation of local society and politics and given birth to progressive mayors supported by inhabitants demanding welfare services in many municipalities.

These real world experiences have brought into existence an analytical method regarding the transformation of local economies. Important points of it are, keeping...
in mind basic trends of central government policies and with structural transformation of local economy as a backdrop, to understand the transformation of local structure including the siting of companies and housing, population composition and relation among local areas, and to grasp changes in the local society and problems that may follow from these changes.

Economic globalization and transformation of local structure

The regional experiment in Sweden can be seen as an attempt to change local governing systems by a centralistic state faced with economic globalization. The Swedish welfare state has been thought of as a kind of system pursuing economic development, securing of employment and rising standard of welfare by strengthening the competitiveness of business and the political control of commercial activity. This system warrants reexamination given the situation in which government is faced with an outflow of capital on the one hand and the inability, resulting from economic globalization, of finance policy solutions to control companies on the other hand.

The strategy of the Swedish government faced with change has been to promote inward investment through affiliation to EU, deregulation of in- and outward investment, and raising attractiveness of local areas for investment. These conversions of policy followed the transformation of the economy and local structure.

The first major transformation relates to the progress of globalization of Swedish economy. On the one hand, multi-national corporations in Sweden invested world wide early on before going ahead with enlargement and outward investment and employment abroad after 1990. On the other hand, Sweden’s foreign owned companies, many of which resulted from mergers with or acquisition of existing Swedish companies, have come to occupy more than 30 percent of investment for research and development and just less than 50 percent of export from Sweden. This situation makes estimation of the dysfunction of direct control to big business by government realistic.

The second aspect of the transformation relates to the impact of globalization of the local economy and industry. Government policies to raise the attractiveness of local areas for investment through the provision of infrastructure and research and educational institutions has provided the necessary preconditions for local areas to strengthen their direct connection with European and global economy.

The third aspect of the transformation relates to the economy and structure of the local area. Globalization of local economies, or circumstances in which each local area has been part of global economic competition, have caused some part of existing local industry to disappear and economic activities to become concentrated in major economic areas. Consequently, these central economic areas have witnessed an economic revitalization by utilizing economic resources in a wide area including the surrounding rural area. It is important that the concentration of
Reflection on Regionalization in Sweden

Economic activities within a regional area is conditioned by infrastructure and research institutions provided by central government.

In short, “the local area” is growing in importance in economic and industrial policy in Sweden. Characteristics of these changes can be summarized in two points.

First is the trend toward an “open system” in which each area, seeking the possibility of development, strengthens its direct connection with Europe and the world rather than solely with domestic actors.

Second is the trend toward regional economic, social and political convergence among municipalities and collaboration among economic actors within regional or sub-regional areas. This paper will understand these processes as “geographical regionalization”.

These changes as a whole suggest that the transformation of the geo-economical structure of the nation as a whole toward an “open system with several cores,” in which the main regions are directly connected with the world economy. That the process is progressing under the presumption of a strong central government makes it possible to understand it as a path dependent conversion from a centralistic system. These changes can be seen as the fundamental backdrop against which we can reexamine local governing systems, which necessitate a move toward multi-level governance.

Keeping this in mind, we will examine below state and characteristics of the transformation of Västra Götaland.

Structural transformation in Gothenburg and Västra-Götaland

Transformation of local industry

The regions of Skåne and Västra Götaland, which represent an experiment in Sweden’s government structure, are in the process of region wide structural changes caused by the conversion of industrial structure, by economic globalization and especially by the economic crisis of the early 1990s, which represented somewhat of a turning point. This process has been, side by side with a decline of existing industry, accompanied by a concentration of companies seeking to establish a connection with actors in Europe and globally. From the point of regional geographical structure, there are changes in relations among areas within regions, including the process toward concentration of economic activities into central areas and expansion of activity of central area toward surrounding area. It is interesting that these transformations have been conditioned by developing education and research institutions and infrastructures including roads provided by central government to raise attractiveness for investment, as important factors.

Västra Götaland, the area surrounding the city of Gothenburg, in the wake of the restructuring of industry in the latter half of 1970s and the economic crisis in the early 1990s, is now in the process of conversion and advancement of industrial
structure through strengthening its connection with global economic activity. The characteristics of an enlarging economy in Gothenburg, which has big companies in the automobile, pharmaceutical and IT industries, are that concentration of companies is growing side by side with an increase in foreign owned companies, though mainly as a result of mergers and acquisitions of existing companies. These changes have resulted from the policy to promote inward investment through the provision of infrastructure and investment in research and education.

On the other hand, Business Region Gothenburg (BRG) established and founded by Gothenburg and surrounding municipalities is now making an effort to establish cluster formations and networking among companies including newly established ones. These factors have resulted in an accumulation of industry in Gothenburg with some mutual relations among, a circumstance which has resulted from a combination of the accumulation of manufacturing companies shaped historically in Gothenburg, the characteristics of the industries in Gothenburg (centered around the production of consumer goods), and the urban policy of Gothenburg and the region, which emphasizes the promotion of culture. This process has caused an increase of commuters from surrounding municipalities to Gothenburg, resulting in conurbation.

In the local economy of Västra Götaland as a whole, many local industries have stagnated or been forced to scale down as a result of global competition and/or the previous industrial restructuring. On the other hand there is a concentration of the labor market to local core areas of economic activity including Borås and Trollhättan. As a result, the economic activity within the region is concentrated to the Greater Gothenburg area and some secondary core areas.

In general, the above mentioned transformations are bringing about changes in the local geo-economic structure in the region. It has been said so far that region wide connections among each area have not been strong, which resulted from historical developments as well as characteristics of modern industry of Sweden oriented to export from the beginning. Characteristic now is the formation of economic connections among each area mediated by infrastructure which has resulted from the fact that conversion of industrial structure in Gothenburg has made it most important to provide infrastructure connecting the port with major cities within Sweden. In addition, as a new trend resulting from betterment of transportation there can be witnessed an enlargement of the commuting area beyond Greater Gothenburg Region (GGR). These results make it realistic to expect the formation of a region wide unification, although within a delimited area.

“Employment securing World City” – its brightness and shadow
Characteristic of the policy of Gothenburg is to keep its position as a node within global economy through maintaining condition of the city as a whole as a field of economic activity through policies including establishment of education, research
Reflection on Regionalization in Sweden

and cultural institutions. The strategy can be grasped as an urban policy which has been integrated with the policy to secure employment - “Employment securing World City” in the era of economic globalization. This strategy, which is different from a “Global City” which seeks to be a global financial center, does not attach too much importance on finance and the stock market but rather emphasizes securing employment through raising the quality of the local labor market, has continuity with welfare state policy pursued historically in Sweden. On the other hand, the fact that the policy is based on the presumption of rapid restructuring of existing industry tends to create serious local problems, including miss matching within labor market.

Resulting from the concentration of companies, there is an inflow of young people and immigrants in Gothenburg on the one hand, and an increase of outflow of inhabitants including high income people to suburban communities on the other hand, which consequently results in an increase of population with rising number of in- and outflow.

This has resulted in segregation in Gothenburg with suburbs inhabited by high income people and other areas inhabited largely by immigrants and low income people. The fact that economic development in Gothenburg is followed by a concentration of an excellent labor force from the whole country will tend to strengthen this trend. It is obvious that these changes will bring about qualitative changes in the local society, making it necessary to consider diversification of local society for the municipality in executing its policy.

In sum, the transformation of the local structure in Västra Götaland can be characterized as follows. First, as a region broadly defined, there has been a phenomena of curtailment of existing local industry on the one hand and concentration of economic and social activity and labor market to the big city and secondary core areas on the other hand. Second, with the concentration of investments in urban areas, there has been progress toward an enlargement of the urban area and changes of geographical structure including enlargement of the commuting area and of the suburban area. Third, the larger urban area has on the one hand seen a concentration of high-tech industries and on the other hand become the focus of various urban problems following the structural change of local economy.

These trends indicate the fact that global economic competition easily results in increase in disparities in development among areas. At the same time, characteristics of finance of big cities which on the one hand apt to have social problems and on the other hand have to depend wholly on taxes on inhabitants to finance its policy to maintain the urban environment, suggest that difficulty of finance in economic downturn may be realistic. These facts show the necessity of regional government with a region-wide policy and function for some kind of resource redistribution to respond to economic and social unification and disparity among areas.
Progress of “Geographical regionalization”

Characteristics of Swedish local governing system
One of the characteristics of local governing systems in Sweden shows itself clearly in the fact that the authority of the government at the regional level is rather a matter of ambiguity. The system can be characterized in the following way, assuming that each part of domestic economy is mutually interrelated. First, while municipalities have large populations and financial power and are playing an important role as the provider of public utilities, the central government has the authority on almost all policies of industry and employment and strong authority toward the municipality. Second, there exists some ambiguity regarding authority within the county level. In reality, the old counties have no such status as local government with general authority.

Centralistic system as such could be said to be an efficient system for promoting a conversion of industrial structure to be competitive and encourage investment by big companies through authority and policy of central government.

This system has had problems, however. Firstly, it has brought about ambiguity of authority at the regional level including division of labor between the county administrative boards and the county councils, and yielded local demands to establish local self-government on the regional level. Problems following the ambiguity of authority have become clear with the increasing needs to coordinate policies within the regions, following the expansion of social/economical activities and the related local development policy of the central government to increase attractiveness for investment. These ambiguities in the division of labor and resulting problems of coordination have forced the government to reexamine its regional policy.

Secondly, in order to maintain a high level of quality in service provision, the central government has been forced to grant local governments greater discretion.

Change towards “Open system with Plural cores”
In order to consider the mechanisms by which economic globalization influences local governing systems, we may examine the following factors.

Firstly, regionalization as a structure to mobilize region-wide resources, different from regional government, is now in progress. The background of this trend is the necessity to utilize comprehensibly resources within a region, including its infrastructure, educational institutions, housing and so on to induce investment under global economic competition. Private-public partnership may come into play as a means of managing and providing these resources. Paying attention to this phenomenon will be useful to analyze the background of the transformation of local development policy of the government, the activities of actors within region and the mutual relation between these.

Secondly, influences brought about by the regional policy of the EU and a European wide network of major cities. It is clear that the regional policy of the EU has
not only directly triggered the regional experiment in Sweden but also influenced thereafter the strategy of the central and local governments that seek to induce investment and to establish connections with European wide actors.

Keeping these in mind, the process surrounding the regional experiment can be grasped as follows. The impact of economic globalization has, through the increased importance of mobilizing regional resources, made a reexamination of the government’s regional policy unavoidable. At the same time, the fact that the EU stimulated the establishment of regional units of local government, has triggered the regional experiment. However, this has not brought into existence a region government as a permanent institution. On the other hand, it has been obvious that activities on the local area, for example raising attractiveness for investment and activating local economy, call for participation and network of a wide range of organizations including local government, business actors and so on. As a result, the government has chosen regionalization as network formation within the regional area rather than decentralization through the establishment of a regional government. The background of this regional experiment lies in the influence of EU policy, and while this policy is not directly connected to regional institutionalization, there has been a direction in the policy that has intended regionalization.

On the other side, the influence of economic globalization and the conversion of policy to emphasize local attractiveness for investment have brought into existence a qualitative transformation within the region. The characteristics of these processes are, from the point of mutual relation between municipalities within the region and the geo-economic/social structural transformation, the fact that, although with some tensions, unification within region is now proceeding. This paper will understand these processes as “geographical regionalization”, which can be characterized as follows.

Firstly, each regional area, seeking the possibility of development, has gone in a direction to deepen its direct connection with economic and institutional actors abroad including EU. In other words, the tendency is to move toward an open system within which each area is expanding its direct connection with Europe and the world rather than domestic actors. These factors as a whole make it realistic to estimate transformation toward an “open system with plural cores” within which main regions connect directly with the world economy.

Secondly, each area is going in the direction of strengthening regional unification. There is a geographical transformation of the regional structure including an expansion of commuting areas centered around a core municipality and a change of the relationship among each local area toward one with a single core and peripheral areas. It’s going in the direction of strengthening social/economic unification among municipalities within regional or sub-regional areas.

Thirdly, with the expansion of social and economic activities, each municipality is going to lose its comprehensiveness as a place to work and also to live as a result of the shift within mutual relations among municipalities, the differentiation between
the core and peripheral municipalities, and the separation of employment areas and residential areas. This trend, as it makes cooperation among municipalities unavoidable, increases the necessity of regional and sub-regional policy.

On the whole, there is the trend, although with some tension, toward social and economic unification within the region and agreement among municipalities to demand from the central government the provision of infrastructure. In short, there is a tendency toward social/economic and political unification to establish regional government.

**Multi-level governance under “Open system with Plural cores”**

*Transformation of central and local government relation*

Globalization of the Swedish economy has brought about a fundamental necessity to reexamine the existing system which has been based on the assumption of some kind of unification of domestic economy, authority concentrated to the central government and limited authority to local governments.

First, the power of the central government to control economic activity in the country and local government through financial authority has been restricted. Investment by global companies has lost direct connection with domestic investment and increase of employment and global competition has brought about pressure to pull down tax rate resulting in a restriction on the financial power of government.

Second, there is growing importance of the governing system on the regional level following economic globalization, showing itself in the fact that the establishment of the structure, to mobilize region-wide resources including partnership with private companies has become an important factor in local development strategies.

The third needing reconsideration relates to the diversification of local society and problems. Globalization of local economy has brought about increasing disparities among local areas following to restructuring of industry and works, which with preceding factors including low income people, aging and so on has formed together complex local problems, necessitating policy that fit the local circumstances.

These transformations are forcing a fundamental revision of the existing system which, resulting from a concentration of authorities to the central government and presuming independent authority and financial power of municipalities, has created an ambiguous condition of region government politically and administratively.

These changes prompt a reexamination of the role and structure of multi-level governance when considering a reformation of local government. Multi-level governance here means the governing system which, including from central government to regions, municipalities and units of neighborhoods, can utilize roles and functions of the whole and each level, and utilize partnerships with the private sector and to carry out democracy.
Multi-level governance and region

One of the focal points to consider when analyzing the role of regional government is the relationship between the municipality and the regional government. Considering the role of regional government from the point of the municipalities, it is important to consider that region wide political unity is strengthening, premising strong power of central government or rather making it as main motivation to have advantageous compromise from government for each area. Resulting from the fact that each municipality is seeking to have investments, the role and authority of the central government in local development to provide infrastructure has grown stronger.

The role of regional government from the point of the municipalities in regard to development policy can be understood from three aspects. First is its pivotal role gathering powers within the region to raise negotiating power against the central government to demand the provision of infrastructure. Second is its role to coordinate interests among municipalities within the region through its power to plan infrastructure. Last is to support development of peripheral areas within the region. Needless to say, these are based on the trend toward economic/social unification within the regions, in other words geographical regionalization.

The role of each level of local government in multi-level governance must be examined with the following in mind. The first is policy and financing of large urban cities. The role and characteristic of big cities to make suitable arenas for economic activity through connecting industry, culture and environment, with high-tech research and education and the provision of an economic base has important meaning for the regional economy as a whole. At the same time it is necessary to enact policies to respond to local problems, when problems in big cities are becoming a focal point, which makes cooperation with local communities based on institutions of urban decentralization indispensable. And in the long run a re-examination of revenue source will be unavoidable.

A second consideration is the role of regional and sub-regional government. It is obvious that economic globalization accelerated economic disparities among local areas through declining of existing local industry. From the point of the regional level, it is impossible for the areas with some kind of disadvantages to consider the policy to attract investment domestic and abroad to secure employment as the only model. In this sense, the direction for future local development must be a combination of plural models. In that sense, the role of regional government is to overarch and support these models and give rise to growth and competitiveness.

Third is the role of central government to enact nation wide resource redistribution and to secure a national minimum. It is clear that an expansion of power of the local level is not simply in the direction of “dismantling the sovereign state”. Activities of regions presume strong power of the central government financially and institutionally, and it must be said that it is not a matter of dismantling the welfare state but reorganizing it. At the same time it must be pointed out that, with
the evidence of expanding economic disparity, the subject of insuring the general rights in the whole country on the one hand and the expansion of local authority on the other hand, becomes vital. It will necessitate the development of democratic institutions in the future.

References

Arthur Benz, etal (2000) *REGIONALISATION*, FRITZES