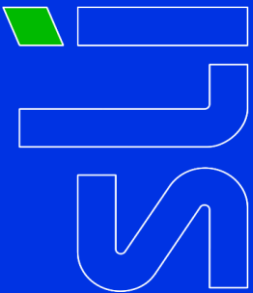




Developing policies for lagging regions - The Swedish experience

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Introduction

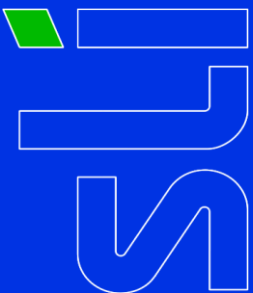
- Do the rural development programs present sufficient instruments to tackle the problems of lagging rural areas?

- Economic theory

- Actual measures

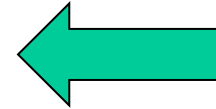


Perspective - the Swedish experience



Rural development

- **Environment** (negative and positive externalities related to agriculture)
- **Economic and social development** (economic growth, employment, service)



Objective: Rural areas are to be able to generate employment and growth by themselves, and not be dependent on state income transfers

Actors: Agricultural and non-agricultural entrepreneurs



Back to basics – the role of the state

1. Provide a basic framework for the economy

2. Interventions in the economy

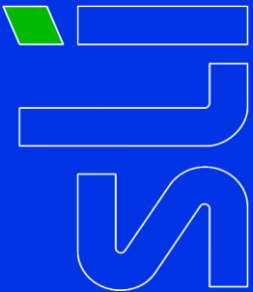
- **Economic efficiency** – market failures can hinder economic development in laggard regions

the size of the cake

- **Equity** – income distribution between citizens

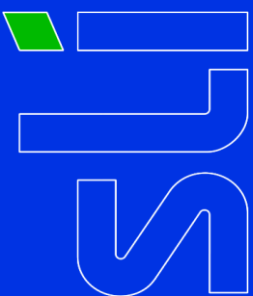
how to divide the cake

(do not spur self-sustained economic growth)



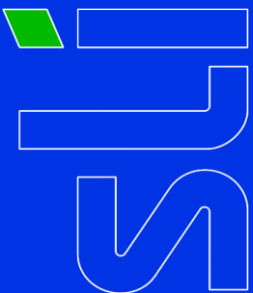
Laggard regions in Sweden

- 750 000 000 euro are spent yearly on rural and regional development in Sweden, but a long run impact on growth and employment is hard to find
- Consistent with findings in other EU-countries – regional inequities tend to increase over time despite the presence of regional and rural policies
- Why so?
 1. Is there a match between policies and problems?
 2. What can the government actually do?



The Swedish match between policies and problems

- Measures are not targeted to existing market failures
- Instead, many measures are in fact income transfers
- An appropriate distinction between specific rural/regional measures and general policy is not always made
- A strong agricultural focus can hinder needed diversification of the rural areas



Example: Project support

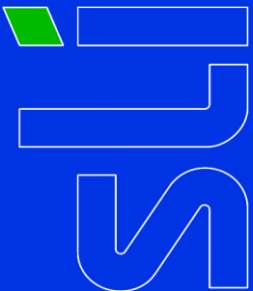
- Underlying assumption: Undersupply of credits in laggard areas + many good ideas

TRUE?

- Cannot create business / income transfer
- Problem specific to laggard areas?

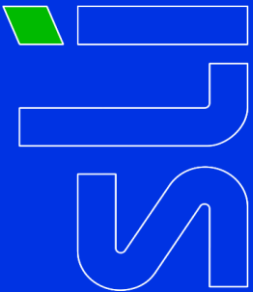
Crucial to solve credit markets problems for all entrepreneurs
(general policy)

- Negative potential side effects of specific measures: Distortions, crowding-out, administrative burden, difficult to “pick the winners”



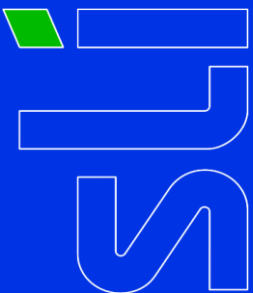
Example: Agricultural investment support

- Specific credit problem for farmers?
- Potential income transfer
- Agriculture alone cannot employ the rural population - more favorable conditions for agriculture makes it difficult for alternative businesses to develop
- Induces higher capital intensity – less employment



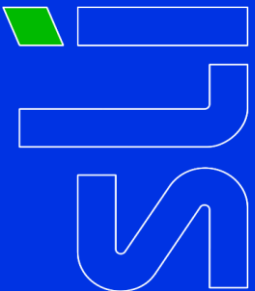
General policies versus rural development policies

- Rural problems are not necessarily best solved by rural policies
- Non-rural policies needed for rural policies to be sustainable



What can the state do?

- Strong economic forces at work - dispersion versus agglomeration
- Creates fast growing centers and a lagging periphery
- Not advisable to counteract the development – instead remove obstacles that hinder development in laggard regions

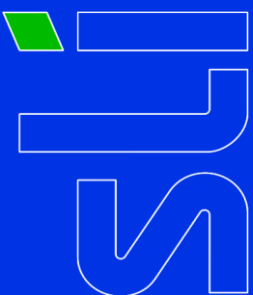


Potential market failures in rural areas

- Capital market failures
- Information failures
- Transaction costs
- External effects for immobile agents
- Imperfect competition
- Public goods and external effects

Lack of agglomeration advantages

Congestion in centre



Lessons from the Swedish experience

- The government cannot create rural growth and employment – only an environment conducive to growth
- Focus rural policy measures on market failures prominent to rural areas
- Address general problems that plague laggard areas with general solutions
- A strong policy bias towards agriculture can counteract a needed diversification of the rural economy

