

What Can the State Do for You? Relocation Allowances and Regional Subsidies in Postwar Sweden

ABSTRACT It has been suggested that Swedish policy during the early postwar period was strongly directed towards mobility increasing expenditures, most notably relocation allowances, aimed at moving labor from north to south. While this view has dominated the academic discussion on labor market policy there is little direct evidence. We make three claims. First, the relocation allowances have to be evaluated against the regional policy. Second, by doing so we show that the mobility oriented policy was predominant only for a short period of time. In the early 1970s there was a decisive shift towards a policy directed at stimulating employment in the north. Third, drawing on this we reevaluate the previous view on policy making in Sweden. Our analysis suggests that the Social Democratic government acted in a voter maximizing way. The relocation allowances were introduced at the behest of the Trade Union Confederation (LO). The regional subsidies were expanded when voter sentiment turned against the perceived depletion of rural regions. However, this strategy interacted with the political and institutional environment. The new election law in 1970 and political competition from the Center Party pushed the Social Democrats to shift their policies on regional subsidies.

Keywords: “Swedish model”, Subsidies, Relocation allowances, Regional policy, Postwar period, Economic history

1. Introduction

The aim of this article is to analyze how large policy shifts take place in historical context. Sweden is, in Peter Katzensteins terminology, a small state in world markets and throughout periods that have otherwise seen very different flavors of state interventionism Sweden has remained a free trader and openness to world markets has always been a binding restriction on policy choices.¹ As Katzenstein points out, a central pressure within the political system is then to create institutional structures that

compensate the losers of global trade and structural change while still retaining the productivity and wages compatible with international competitiveness. This tension has also been at the fore of the Swedish political debate. During the postwar period Sweden saw a crucial change from policies directed at increasing geographical mobility towards a program of regional subsidies aimed at conserving the regional population structure. The internationally proclaimed post-war ‘Swedish model’ has been seen as a compromise between labor, capital, and the state, and implied that state regulation of specific markets (finance, housing, transportation) should be combined with restructuring of the labor force through increased mobility towards the most productive sectors and regions. One important policy measure in this respect was the *relocation allowances* that Sweden pioneered in the 1950s, which has received much attention in the literature.² Starting in the late 1960s and increasingly from 1970 however, a shift to a policy of regional subsidies with the opposite objective of creating regional industrial nodal points in economically weak regions took place.³

By presenting new calculations of the amount of expenditures on these two policy programs we bring a new perspective on Swedish economic policy in the postwar period and the politic-economic drivers of this change in policy. The new calculation (shown Figure 1) shows that the amount spent on the regional subsidies soon ended up accounting for a larger proportion of public expenditures than the relocation allowances. The article takes as its starting point this change: How could it be that a policy of regional subsidies; aiming at redirecting investment and employment towards struggling and receding regions, was implemented during the golden age of the ‘Swedish model’; internationally proclaimed as a blueprint for mobility increasing policies? In the article we draw on institutional theory to analyze this major policy shift. By combining a historical-institutional perspective with voter maximizing theory we bring a new perspective on a formative moment in Swedish public policy.

Figure 1 here

To analyze the case of relocation allowances and regional subsidies in Sweden we draw on theoretical contributions within the field of political economy that highlights the importance of a longer historical perspective to understand how policies develop over time. The importance of analyzing economic actors in their specific

historical context is stressed by Geoffrey M. Hodgson, a fact that is underscored by Claudia Goldin & Gary Libecap and Streeck & Thelen who show that the making of economic policy is indeed not simply a result of rational interests, as has been argued by the rational choice school, but instead it is influenced by pre-existing institutions interacting with different interest groups.⁴ Moreover, as policy making – which for example Ronald Johnson & Gary Libecap reminds us of – is strongly characterized by contracting in a world of uncertainty it is likely that high transaction costs will tend to enforce path dependent behavior, a fact that Anne Krueger has expanded on by also showing how policy programs tend to start a life of their own once initiated.⁵ In addition to applying this longer historical perspective, we also want to highlight the process by which policies, once initiated tend to live on. Ronald Johnson & Gary Libecap and Avinash Dixit & John Lodoregran has analyzed this from the perspective of political transaction costs, uncertainty and information distortion.⁶ As Avinash Dixit stresses, the ultimate effect of most political expenditure decisions are not easily observable – making it much harder for coalitions to do away with policies that contrast with their specific interest.⁷

Drawing on these insights we argue that the driving force behind the policy shift was the way that voter-maximizing behavior of the Social Democratic government interacted with the changes in the political arena.⁸ The impetus for the relocation allowances was the encompassing nature of the Trade Union Confederation (Landsorganisationen; LO), a key ally of the Social Democratic government, and the need to retain export competitiveness through low inflation. The regional subsidies were later introduced as a response to declining support in rural regions for the Social Democrats and the electoral competition from the Center Party. We suggest that the longer historical perspective is necessary to understand how such important policy changes take place, as opposed to only using more narrow rational choice models of voter maximization.

The potential real effect of the shift in policy cannot be assessed simply by looking at employment numbers however. Therefore we also conduct a shift-share analysis where we decompose the change in employment in the affected counties into the part due to national employment trends, the part due to the sectorial composition and the employment change that can be attributed to a “regional shift” towards these counties. We interpret the size of this last component as the possible impact of regional policy and find that the “regional shift” accounted for a large part of the positive

employment change in these counties after 1970. By using this method, we have been able to further understand the implicit relation between subsidies, and shifting employment patterns on a regional level.

Throughout the paper we will refer to the two geographical areas called the Forest counties and the Norrland counties. Their geographical position within Sweden is shown in Figure 2. The Norrland counties refer to the four northernmost counties. Together with the three counties of Värmland, Kopparberg and Gävleborg they are commonly grouped into the larger region called the Forest counties. These seven counties share characteristics in that they are sparsely populated, historically dependent on agriculture and heavy industry and with exception of the cities along the coast they lack good access to markets. However, the southernmost parts of Värmland, Kopparberg and Gävleborg have an industrial structure more similar to the southern part of Sweden so while the communities in the northern and inland part of these counties are very similar to the Norrland counties, they also encompass more urban and industrial places. Thus, when the regional subsidies were introduced in 1965 it was only companies in the northern part of these three counties that was eligible for support while in the Norrland counties all parts were included.

Figure 2 here

The rest of the article is organized in the following way. In section two we present the Swedish postwar context and the background to the implementation of the relocation allowances and the regional subsidies. In section three we conduct the shift-share analysis. In section four we analyze the policy shift from an historical institutional perspective before conclusions follow in section five.

2. Relocation allowances and regional subsidies; Sweden in the postwar period and policy formation

The Social Democrats won the government in 1932 and after an interlude during the Second World War, when a unity government had been in power; the party once again

formed a majority government in 1944, a position that they would not lose until 1976. The Second World War also brought increases in state intervention through price regulations and planning. The postwar political scene was therefore dominated by a debate over the 'Postwar programme' proposed by the Social Democrats on the future of economic planning. The program argued for state economic planning and a larger role for the government in the economy through the nationalization of selected industries such as insurance. As a result of the unexpected emergence of rapid economic growth after the war the question of selective state intervention, in the form of direct subsidies to companies and nationalization of industries, was put off the agenda during the 1950s. Government intervention instead focused on general policies such as subsidies to research and development with the aim of increasing economic growth and by directing investments to the construction sector through regulations of the credit market.⁹ The postwar compromise that emerged could therefore be defined as one where companies were not to be directly influenced by state intervention but indirectly structured through the enactment of general policies aimed at increasing economic growth and efficiency.¹⁰

During the early postwar period all the Forest counties experienced out-migration. However, employment still grew but at a lower pace than in southern Sweden. In the 1960s this out-migration became worse yet and was now combined with absolute employment losses. As indicated in Figure 3, which shows an index with 1960 as the base year, employment in the Forest counties decreased by almost ten percent between 1960 and 1970. This trend was reversed after 1970 however, and especially between 1970 and 1980 when employment in the forest counties grew faster than in the rest of the country.

Figure 3 here

In the following section we turn to the fierce debate that surrounded the implementation of these two policies.

2.1. *The active labor market policy and its critics*

Two factors that would lead to a unique Swedish policy became increasingly apparent during the 1950s. The first of these was the importance of international trade, which grew as the reconstructing nations started to enter world markets. The second was the central position that LO had achieved by this time. Unemployment fell to record low in the early postwar years and the inflationary pressure on wages and prices grew. This made trade union economists Gösta Rehn and Rudolf Meidner doubtful about the prospects of wage restraint as a way to maintain low inflation and export competitiveness. By merit of its large size and the affiliation to the ruling party, LO had to come up with a way to balance the interest of its members with that of the economy as whole. The resulting ‘Rehn-Meidner’-plan had three pillars: First, centralized wage negotiations between LO and the Employers Association (Svenska arbetsgivarföreningen: SAF) should be used to facilitate a rational wage structure with ‘equal pay for equal work’, independent of the geographical location of the worker or the ability to pay by the individual firm. Second, a tight fiscal policy should insure that inflationary pressures were mitigated. Third, workers that were released in receding regions and unproductive firms should be relocated to expansive regions and industries through state expenditure on relocation allowances.¹¹

In an article titled “The new labor market policy”, Gösta Rehn in 1959 presented the thinking. The objective of this labor market policy was according to Rehn to:

“[H]elp those who are located in areas with insufficient demand for labor, to move to other areas.”¹² He adds; “At the same time it constitutes a means against inflation by facilitating production increases in exactly those areas of shortage that in every instance is the center for the inflationary tendencies.”¹³

This thinking was not exclusive to the labor movement. During the 1950s inflation was one of the most pressing issues widely debated within both politics and academia. The failure of fiscal and monetary policy to stave off inflationary tendencies reduced the confidence in classical Keynesian demand management. A case in point is the publication “Recipes against inflation – Six professors have the word” published by the Finance ministry in 1957. In his chapter of the book, economics professor Bent Hansen presents ideas similar to those presented by the LO economists. He writes:

“If full employment with minimal unemployment is to be combined with the absence of wage drift a very active labor market policy that in every conceivable way

facilitates the movement of labor from company to company, industry to industry and from place to place should be necessary."¹⁴

The policy stance from LO saw its final codification with the publication of the report to the LO-congress in 1961 titled "Coordinated industrial policy" (Samordnad näringspolitik). The report is a very important document since it fleshes out the view of LO on the connection between different policies to the overarching objective of securing full employment and fast economic growth. The way to do this, according to the report, is by increasing the mobility of the factors of production.¹⁵

While the main features of the Rehn-Meidner plan had been presented already in 1951 two factors worked against its implantation as government policy. The first thing was the fact that the Social Democratic finance minister at the time, Per Edvin Sköld, was strongly opposed to an expansion of active labor market programs. The second was the coalition government that the Social democrats had entered into together with the Farmers Party (later renamed the Center Party) in 1951. The Farmers party had been the driving force in the committee that had advocated a reduction of the active labor market policy in the early 1950s.

By the late 1950s however, the thinking of the LO-economist was eventually accepted by the Social Democratic government. This was made possible by two developments. First, Sköld had been replaced as finance minister by Gunnar Sträng, who was much more open to the ideas of Rehn and Meidner. Second and most importantly, by 1957 the Social Democrats had dissolved the coalition government with the Farmers party and were now governing on their own. During the recession of 1957-58 active labor market policy was used as the main policy tool to combat unemployment.¹⁶

A testament of the extent to which this thinking now influenced government policy can be found in the conclusions from the parliamentary committee that in 1955 was given the task to work out the principles for economic stabilization policy and in 1961 gave their final report. They write: "*In a full employment society an active labor market policy, with the aim to achieve higher and constantly maintained labor mobility is one of the most important tools of economic policy*"¹⁷

When relocation allowances was introduced on a large scale in 1959 they were mainly directed at moving workers from the Forest counties to the expanding industries in the southern part of the country. This is also evident in Figure 4, which shows the number of payments of relocation allowances to people moving from one of the Forest

counties and to people from other parts of the country respectively. From 1963, the first year when we can regionally disaggregate the data, a large majority, over 80 percent, of the allowances went to out-migration from one of the Forest counties. This was true even though they only represented 23 percent of the whole Swedish population in 1963. The peak in the number of relocation allowances took place in 1969 with almost 29 thousand, of which 21 thousand went to the Forest counties. Therefore, in 1969 as much as 1 percent of the whole population in the forest counties received a relocation allowance. However, after 1970, there was a shift away from the Forest counties as the number of allowances to people in these counties decreased while they increased in the rest of Sweden.

Figure 4 here

The expansion of the new labor market policy in the late 1950s and early 1960s also coincided with increased emigration and population decreases in the Forest counties. The Center Party (previously the Farmers Party) had as one of its main talking points that the new government policy was responsible for these population decreases and they instead advocated an active localization policy with subsidies to firms that expanded production in the areas that experienced outmigration. In the party's weekly newspaper "Swedish politics" (Svensk politik) such views were often voiced both in editorials and in individual opinion pieces. One editorial from September 1961 argues that localization policy has been put on a "starvation diet". Instead, it argues, the *"thinking of the so called LO-theorizers [referring to Rehn and Meidner] seems to have completely dominated."*¹⁸ In 1962 the then member of parliament Thorbjörn Fälldin, who in 1971 would become leader of the Center Party and in 1976 the first bourgeois prime minister in postwar period, wrote an opinion piece in the newspaper. He argued that the government had gone further than to just ignore the alarming employment situation in the Forest counties; through political and economic measures they had accelerated this development.¹⁹

A guest appearance by the AMS bureau chief Curt Canarp at a Center Party conference in 1962 serves as a case in point of the Center Party's stance. In his talk Canarp stated that: *"We have a new philosophy about the labor market policy"* and that

*“[t]he central goal of labor market policy is to facilitate mobility, to give everybody work and get people to rapidly adapt to demand.”*²⁰ This statement was strongly criticized by the attendees at the conference. The article describes how in a series of contributions the speakers voiced the opinion that the mobility enhancing policies had received too much of the government’s attention while localization policy had been disregarded.²¹

2.2. The introduction of localization policy

In 1959 representatives in parliament for both the Social Democrats and the Center Party submitted motions on localization policy that resulted in the appointment of a parliamentary committee. The direct impetus for the committee was the abolishment of the building regulation that had previously been possible to use as an instrument of localization policy. The committee was given the task of investigating and making proposals for the future organization of localization policy. The committee presented their report to parliament in 1963. The ideas in the proposal were influenced by the international discussion at the time. The report presented to parliament included a section on existing policies in the other Nordic countries, the UK, the Netherlands, Belgium, France, Western Germany and the United States. The committee also made personal visits to Norway, the UK and the Netherlands. The importance of international influences is also evident in both earlier and later discussions of regional policy. According to Kent Eliasson proponents for greater regional intervention in the early postwar period was often referring to the UK, which had been a forerunner with the introduction of regional policy during the interwar period.²² Martin Eriksson and Lars Westin have likewise shown how policy ideas from the European Free Trade Association were diffused into Swedish regional policy.²³

The committee’s proposal included the introduction of regional subsidies during a five-year trial period from 1965 to 1970. In the final government proposal this basic arrangement was kept intact, but it deemphasized some aspects of the committee’s proposal. The government proposal stated for example that localization policy would only be considered if stimulation of labor mobility had not secured full employment. Ingemar Elander characterizes the parliamentary debate in the following way.²⁴ Both parties were in agreement that the policy had to confine to sound business considerations, but they disagreed on the amount of support that this allowed for.

Furthermore, he argues, they saw the policies in different sequences. While the Social Democrats only considered localization policy when the mobility increasing measures had failed, the Center Party wanted localization to be the first option for regions with declining employment. By the time the bill was presented both parties had crystalized their view and was now in even greater conflict.²⁵

LO was however, not surprisingly, very critical of the new proposal. In “Coordinated industrial policy” LO had argued that there existed a contradiction between localization policy and the goal of achieving fast growth.²⁶ According to LO, the only kind of localization policy that should be pursued was that which “*encourages a concentration of business to the most expansive parts of the country.*”²⁷ The report also ascribes a very small role for such a policy: “*The main focus of societies effort in relation to localization policy should then like today [1961] be restricted to an advisory, informatory and investigative role.*”²⁸ LO argued that economic policy had to be based on a national rather than a regional perspective, and that a localization policy aimed at diffusing economic activity would serve as a serious impediment to national competitiveness.²⁹ Another critical opinion piece was written by Assar Lindbeck, at the time a Social Democratic economist working for the finance ministry. In the article, which was organized as a critical review of the proposals from the Localization committee, he argued that the money spent on localization would be more effective if used to stimulate labor mobility. He wrote:

“If the 800 millions crowns that the Localization committee during a five year period wants to use for localization policy instead would be used to stimulate mobility on the labor market, the effectiveness of the mobility promoting labor market policy would increase considerably! (Lindbeck, 1963, p. 50)”

His proposal was instead to “*as far a possible solve the unemployment problems in Norrland by out-migration of labor. (Lindbeck, 1963, p. 50).*” This shows that at the time the critique of the new localization policy was strong within the labor movement and also within the Social Democratic party. However, at the same time the Center Party attacked the Social Democrats for their association with the LO-economists and for the focus on active labor market policies. Several Social Democratic representatives from the Forrest counties also joined in in this critique. During the later half of the 1960s the trend of out-migration from the Forrest counties only increased and the critique against the governments policy strengthened further.

A testament to the debate at the time is the 1967 article by the head of AMS, Bertil Olsson, titled “The mobility of the labor force must be accepted”. He was a staunch supporter for the focus on labor mobility in labor market policy. He wrote that:

*“During the last year we have had a lively debate about employment security. We cannot escape the fact that in recent time employment security has been perceived as implying a guarantee of employment at the location where one currently lives necessary.”*³⁰ And continues by declaring:

*“Today, this philosophy of employment security is a serious impediment to the labor mobility that is necessary in our country. [...] Today we have several concrete examples of this new form of security – often underpinned by more or less confirmed promises from influential places of new industries and support to dilapidated businesses – that has reduced mobility and created higher unemployment than necessary.”*³¹

In the meantime, the critique within the Social Democratic party against the labor market policies that AMS defended grew stronger. In 1966 the Social Democrats had suffered large losses in the municipal elections of that year, not least to the Center Party in municipalities in northern Sweden. This was taken as a sign that the current policy stance had to be reevaluated. When the party held a congress in 1967 the main issue being addressed was how these losses could be regained in the 1970 elections. Representatives from the Forrest counties submitted motions on regional policy and they were very critical of the strong emphasis on labor mobility in the party program. However, at this time the party held steady to its position. The congress in 1968 went on in a similar way. In the part that dealt with industrial policy the program simply concluded that *“the goal of the localization policy is the same as that for the other parts of the industrial policy: to promote an effective use of capital and labor and in this way fast economic progress.”*³²

Things changed at the congress in 1969 however. For the first time demands for a total overhaul of the previous policy was put forward. The Social Democratic group in the parliament had already in May (the congress was held in September/October) put forward an eleven-point program on regional policy, which also formed the basis for proposal by the party executive board at the congress.

Figure 5 shows how the payment of subsidies started to increase shortly after the start of the five-year trial period in 1965.³³ The policy allowed firms in the Forest counties to apply for subsidies and both new and existing firms were eligible for support. The large majority of the subsidies also went to firms in these counties. The

payment of subsidies peaked in the first half of the 1970s after the program of subsidies had been permanented and expanded in 1970.

Figure 5 here

2.3. *Shifting policy; the “Sweden-plan”*

At the congress in 1969 Olof Palme was elected as the new leader of the Social Democratic party. This marked not only a change in personnel, but was also seen as an opportunity to depart from some of the policies associated with the old leadership. One such area was regional policy. A policy change had been indicated already in 1970 when the trial period of the program for regional subsidies drew to a close but was continued and expanded considerably. The big shakeup came however in 1972 when the big government bill (prop 1972:111), popularly called the “Sweden-plan” (Sverigeplanen), was presented to parliament. The vast document includes a foreword by the Prime Minister, something very unusual at the time, as well as factual summaries, programs for the individual counties and a collection of existing and promised reforms on regional policy. The bill signaled a clear policy shift with population frames for each of the counties and a clear ambition to keep population movements within the counties.³⁴ The event was highly publicized, not least through the interview with Olof Palme done by the Social Democratic journalist Macke Nilsson who had previously been one of the strongest internal critics of the government’s mobility policies. In the interview, which was published in the book “Conversation with Olof Palme“ (Samtal med Olof Palme), the Prime Minister distanced himself from the previous policies by stating that: “[I] willingly admit that we [the Social Democratic party] in the 1950s thought we lived in a sort of harmony economy. We did not feel the consequences for people”³⁵ The policy change was clearly signaled: “We want to make clear that we have decided [...] to get a fairer distribution of employment opportunities and settlement in this country.”³⁶

The Center Party responded in a motion to parliament (Mot. 1972:1812). In the motion they acknowledged that some improvements had been made:

“Against the background of the previous orientation of the governments policy several things in the bill can be noted as significant corrections and improvements, that deserve good reviews.”³⁷

Throughout the document the Center Party tries to besmirch the Social Democrats for their previous policy decisions. For example, they write:

“Around 1960 the government started to focus more and more on so called geographical mobility policy or migration policy. It concentrated on moving labor from the areas with employment shortfalls to above all the metropolitan areas.”³⁸

And:

“Against the background of the large regional imbalances and a growing public opinion for a strengthening of localization policy [...] a certain reinforcement of the localization policy was decided in 1970. But a change in the balance between the mobility policy [flyttlasspolitiken] and the localization policy did not take place.”³⁹

The Center Party also went further than the government in the proposed policy. They gave absolute population frames (the government bill had given ranges for the population frames) and stated that the counties that had experienced population losses during the 1960s should be able to regain these losses during the 1970s. The proposition also proposed a substantial expansion of the regional subsidies.⁴⁰

In the election of 1970 the Social Democrats had gone from 50,14 percent of the popular vote to 45,34 and now had to rule with passive support from the Communist party as they had done before 1968. The Center Party had instead gained strongly going from 15,71 percent to 19,91 which meant that they were now the largest opposition party. This continued in the next election of 1973 when the Social Democrats lost a further 1,78 percentage points and were now at 43,56 percent. The Socialist block was now only marginally larger than the three Bourgeois parties together. Large changes also took place on the opposition side. The Center Party won another 5,19 percentage points and was now at 25,10 percent of the vote while the Peoples Party (Folkpartiet), which had previously been the dominant opposition party, lost 6,79 percentage points.

Then, in the election of 1976 the Bourgeois parties eventually won a majority of the votes for the first time since 1932 and were now able to form a government with the leader of the Center Party, Thorbjörn Fälldin, as prime minister. The election manifesto presented before the election had proposed an expansion of localization policy and one of the party's main talking points was the call for a “decentralized society”. According

to the manifesto this could only be achieved through an expansion of regional policy that guaranteed an equal access throughout the country to employment as well as social, commercial and cultural service.⁴¹

The Social Democratic election program before the election was almost completely dominated by the question of localization policy and consisted of a presentation of all the policies that the government had implemented. While the Center Party ascribed the concentration of population in southern Sweden to the policies of the government, the Social Democrats instead blamed private enterprise. They wrote:

“The private profit motif has driven forward a concentration of employment and population to certain parts of southern and central Sweden. Together the citizens have had to intervene through state and municipal efforts to counteract the concentration.”⁴²

And that:

“Our policies have meant that employment in manufacturing and the public sector has increased in the Forest counties. The downward population trend has reversed. We know that we are on the right path.”⁴³

The question of localization policy and the regional distribution of employment and population was clearly one of the main decisive political issues in the election and the two parties put a very high weight on it. The Social Democrats tried to confront the critique from the Center Party. Very telling is the fact that in the 1976 Social Democratic election manifesto there was not even a mention of labor market policy, the focus was fully on localization policy.

As we saw in section three there was also a distinctive policy shift in the early 1970s. The payout of regional subsidies expanded rapidly while the number of relocation allowances to the Forest counties decreased. The question remains what the consequences of this policy shift in fact were. This is the issue we turn to in the following section.

3. Shift-share analysis

Did the policy shift in the 1970s have real consequences? In order to make clear what factors led to a stop in the outflow of emigrants and the resurgence of employment growth in the Forest counties in the 1970s we use a shift-share methodology. The method makes it possible to decompose the change in employment between two years for a given region into three components; first, the part due to national employment

trends, second, the part caused by national employment trends in the sectors that the region specializes in, and finally, the part left which is due to a regional shift in employment that cannot be explained by national and sectoral trends.⁴⁴ This makes it for example possible to uncover how much of the development in the Forest counties that was a consequence of its reliance on agriculture and heavy industry. Further it helps us to discover the role of regional policy at different points in time. Since the residual or “regional shift”-component shows how much employment increased or decreased after accounting for national and sectoral trends, it gives insights to the role of regional policy and if the policy affected positively or negatively on employment growth. An alternative method to analyze changes in regional employment could also have been used. Regression analysis would have allowed us to do hypotheses testing. However, given the limitation of data accessibility we have chosen not to use a regression analysis. Because it rest on an accounting framework rather than statistical inference, the shift-share method was chosen since we believe it is robust even when there is not a large number of observations. Accounting framework in this context means that the components of employment change is decomposed. By construction the different components together necessarily adds up to the total employment change. That being said, the results of a shift-share are not conclusive but suggestive of the actual forces affecting regional employment growth.

The dataset that we use for the shift-share analysis is built using data for counties from each Swedish Population and Housing Census (Folk- och bostadsräkningen) between 1965 and 1985 and data from the Swedish Industrial Statistics (SOS Industri). The Population Census was conducted every five years giving us five data points; 1965, 1970, 1975, 1980 and 1985. The obvious advantage of using these data is that they cover the whole population and is not based on a sample. However, since they are only given every five years we are not able to perform a dynamic shift-share that decomposed changes for every year. Instead we are limited to analyzing changes for five-year intervals. The Census data source gives information on employment at the one-digit sector level. To ensure consistency over time, we have divided employment into Agriculture and ancillaries, Manufacturing and handicrafts, Building and construction, Circulation, Transport and communications and Private reproductive services, government services, real estate, other services and unspecified activities. The Manufacturing sector has been further disaggregated to the two-digit subsector level

using the regional breakdown of employment in the Swedish Industrial Statistics. This makes it possible to more thoroughly examine the role of manufacturing on a regional level. This is important in relation to the regional subsidies since they were predominantly directed to the manufacturing sector.

Throughout, we conduct the analysis for the Forest counties and the subset of Norrland counties respectively. We do this because while all of the municipalities in the Norrland counties were eligible for support, companies in only some of the municipalities in the other three Forest counties could apply for subsidies. Since the dataset refers to the county level this might obscure some of the processes we study when only parts of the included counties were possibly affected by the policy changes.

Our empirical hypothesis can be stated in the following way. If regional policy was successful in promoting employment in the Forest counties there should be a positive “regional shift” in these counties that coincides well with the timing and sectoral composition of the regional subsidies. Broadly speaking, we should therefore see a positive shift in the “regional shift”-component after 1970 and especially between 1970 and 1980. We also expect this shift to be especially pronounced in the manufacturing sector since most of the subsidies were directed towards this sector. Even if we cannot conclude that the “regional shift”-component is not affected by other factors than the regional subsidies, we believe that from a policy maker’s perspective this must have been important. In the eyes of the policy maker the main interest is not what finally caused the shift, but whether there was a positive trend to show potential voters.

The shift-share analysis is made in the following way. The basic equation for the change in employment between two time periods can be described as:

$$\Delta e_i = e_{i,t} - e_{i,t-1} = NS_i + IM_i + RS_i$$

Where Δe_i denotes the change in employment in the regional industry i between time period t and $t - 1$. This change is then decomposed into three components; NS which is the “national shift”-, IM the “industrial mix”- and RS the “regional shift”-component respectively.

The “national shift”-component is calculated in the following way:

$$NS_i = e_{i,t-1} * \frac{E_t - E_{t-1}}{E_{t-1}}$$

Where $e_{i,t-1}$ denotes employment in regional industry i in time period $t - 1$ and E_t and E_{t-1} national employment in period t and $t - 1$ respectively. Therefore, to calculate this “national shift”-component regional employment in industry i is multiplied by the growth in national employment.

In the second step, the “Industry mix”-component is calculated in the following way:

$$IM_i = e_{i,t-1} * \left(\frac{E_{i,t} - E_{i,t-1}}{E_{i,t-1}} - \frac{E_t - E_{t-1}}{E_{t-1}} \right)$$

Where E_i denotes national employment in industry i . To calculate the “industry mix”-component regional employment in industry i is multiplied by the growth in national employment in industry i less total national employment growth.

Finally, the “regional shift”-component is calculated in the following way:

$$RS_i = e_{i,t-1} * \left(\frac{e_{i,t} - e_{i,t-1}}{e_{i,t-1}} - \frac{E_{i,t} - E_{i,t-1}}{E_{i,t-1}} \right)$$

Hence this component is calculated by multiplying employment in regional industry i by the growth of employment in regional industry i less the national growth in industry i .

To arrive at the total effect of each *component* on total employment growth in the chosen region the values of each specific component for every industry is added together.

Starting off, .

Figure 6 shows the result of the calculation for the Forest counties and all sectors. The first thing to notice is the overall employment pattern. Between 1965 and 1970 the Forest counties lost almost 50 000 jobs. This transforms however to positive growth in the 1970s and 1980s, just as we saw in Figure 3 earlier. The second thing to notice is that the industrial mix has played a negative role in terms of employment growth in all time periods. About 5 thousand less jobs can be attributed to the industry

mix in each time period. This means that the industrial transformation overall had little or negative impact on the regional employment growth during the period studied. The effect of national employment trends varies a lot between time periods. While being slightly negative between 1965 and 1970 it becomes positive in the early 1970s and even more strongly so between 1975 and 1985.

Looking finally at the regional shift we can see a very interesting pattern. While the shift is negative in the 1960s it becomes positive after 1970 and contributes to the positive employment trend in the Forest counties during the 1970s. This suggests that we can observe a shift in the early 1970s that led to the creation of employment in these counties. This development went beyond what would be expected solely from national employment trends and the existing industrial structure.

If we instead restrict our attention to the Norrland counties we see the same trends as for the Forest counties as a whole. However, the “industrial mix“-component is slightly smaller and the “regional shift” component bigger. The regional shift was especially large between 1970 and 1975, adding over 15 thousand jobs.

Figure 6 here

A closer look at the manufacturing sector can be made by summing up for each component the effect for the two-digit industries making up the manufacturing sector. The results are given in Figure 7. A similar pattern as that for all sectors presented in .

Figure 6 is visible. However, the industrial mix shows a stronger negative effect on manufacturing employment than for total employment, which highlights the reliance of heavy industry in the Forest counties. This is especially true after 1975 as these industries struggled during the economic crisis at the time. A positive change in the “regional shift“-component after 1970 is once again visible, especially prominent in the Norrland counties. Between 1970 and 1975 the “regional shift“-component accounts for the addition of over ten thousand manufacturing jobs in the Norrland counties.

Figure 7 here

How does this evidence conform to the pattern of regional subsidies? To give an indication of this we have calculated the amount of regional subsidies received by the Forest counties and the Norrland counties for each of the four time periods that we used in the shift-share. We have also divided these between subsidies given to the manufacturing sector and subsidies to other activities. This is shown in Figure 8.

First, there was a general increase in subsidies after 1970, which was also seen previously in Figure 5. What is also evident is that most of this increase was related to subsidies directed towards manufacturing. This is especially true for the Norrland counties where the regional subsidies to the regions manufacturing sector almost doubled, increasing by over 3 billion (in 2012 crowns).

Figure 8 here

We interpret the result from the shift-share in conjunction with the pattern of regional subsidies as an indication that the change in policy had a positive effect on employment in the Forest counties and the Norrland counties in the early 1970s. The shift-share analysis showed that there was a change to a positive employment trend in the 1970s. This change was not simply due to national employment trends and sectoral composition. A large part of the increase can be attributed to a positive “regional shift” in these counties. In the context of the shift-share it is important to note that this type of analysis does not tell us anything about the effect on national economic competitiveness of the regional policies, only that they seem to have been effective in shifting employment within the country. The belief from the architects of the active labor market policy was that subsidizing declining regions in this way would lead to an inefficient allocation of productive resources and to lower international competitiveness then would otherwise have been the case. Their fears also seemed to be validated by later evaluations of the policies of the 1970s. A government report published in 1981 argued that the policy of subsidizing companies in certain regions had prevented necessary structural change and forced the international division of labor to become suboptimal.⁴⁵

4. Explaining the policy shift

A useful starting point for discussing the implementation of the relocation allowances and the regional subsidies is to understand them as rational reactions to the structural setting. In our view, the implementation of the relocation allowances can only be understood if we consider the situation the central leadership of LO was in during the 1950s. In Mancur Olson's typology, LO was a textbook case of an *encompassing* organization.⁴⁶ Encompassing meaning that an organization is sufficiently large that its decisions affect the whole economy. LO organized a majority of all blue-collar workers and the centralization within the organization was far-reaching. Hence the decisions it took, both positive and negative, would affect the whole economy and therefore feedback on the welfare of its members. The reason for LO to engage in an encompassing strategy were further enhanced by its alliance with the governing party. Jonas Pontusson claims that it was this inclusion of the labor movement in the policy process that induced it to adopt such a positive stance towards structural change in the first place.⁴⁷ The solution to this dilemma was the Rehn-Meidner plan. Inflation was to be kept down, not by wage restraint but through mobility of labor to those firms and industries that could compete on global markets. The organizational structures needed to implement this policy were set up through a corporatist state agency; the AMS and realized from the late 1950s. The Social Democratic government saw this as a way to cater to the central leadership of the LO, who was in dire need to solve its own organizational dilemma. There was no way that the LO leadership could pursue wage restraint without losing members. On the other hand it would be blamed for the runaway inflation that would result from not doing so. The relocation allowances were thus used as a policy instrument in order to adhere to the 'Rehn-Meidner'-plan.

The regional subsidies on the other hand were pushed on by firms and workers in regions with declining employment and that had lost out from this restructuring of the labor force. The introduction of regional subsidies in the 1960s was the result of rank-and-file demands from party members and voters in the Forest counties and fueled by the electoral competition from the Center Party. As we saw in our review of the political debate at the time the Center Party had been against the 'Rehn-Meidner'-plan from the beginning and had been the main proponent of regional subsidies in parliament. The party also made large electoral gains throughout the 1960s and 1970s. The Social Democratic leadership took this as a sign that change was needed. During the party congress in 1969, and most clearly with the government proposition in 1972, the stance

on regional subsidies changed dramatically. The affiliation with the Rehn-Meidner plan became increasingly burdensome, and the introduction of subsidies to the regions that labor was previously meant to move from, was perceived as the only way to keep electoral support. Several changes also took place that increased both the possibility and the necessity to pay more attention to local opinions calling for localization policy. After the constitutional change in 1970 the distribution of legislative power changed much faster. Before the reform the second chamber had held elections every four years and in the first chamber only every eight years. With the new constitution there was only one chamber with elections every three years. This in combination with the close election results after 1970 made the possible defection of a single member of any party very important to achieve majority. This increased the opportunity for members of parliament to see more directly to their local interest and the national parties had to adjust their policies so that no single member would be unable to defend the governments decision in their home region. In addition, in the new law, election to parliament and to the municipal council took place on the same day. This increased the pressure on national policy makers to cater to the local opinion, especially if the local election was close.⁴⁸

The result from our shift-share analysis also suggests that this policy change might have had real consequences. During the 1970s the fortunes of the Forest counties was reversed and the employment decline of the 1960s was turned to employment growth above the national average. The shift-share also showed that this was largely the result of a “regional-shift” of employment towards the Forest counties and especially the Norrland counties. This fact suggests that the regional subsidies alongside other policies introduced in the early 1970s directed at conserving the regional population structure was successful. This went completely against the ideas behind the Rehn-Meidner plan and the relocation allowances. When they were introduced their objective was to support in the movement of workers from the Forest counties to southern Sweden.

The policy shift was thus clearly a rational reaction to the change in voter sentiment. However, to understand why the shift took place only gradually and why it took the form it did we have to consider how the voter maximizing strategy interacted with existing institutions and political structures. This interaction worked to produce path dependency in decision-making and allowed policies to shift only gradually. From a strictly rational perspective, it would certainly have been logical for the Social

Democrats to change their policies even earlier than they actually did. The Rehn-Meidner plan had very non-defined winners. The country as a whole would benefit from stronger economic growth and lower inflation. The losers from the policy however were obvious and they became increasingly vocal. Against this background, it is not surprising that the policy would be challenged. The decisive factor in our account was the electoral competition from the Center Party. The support for the mobility focused labor market policies was shared between the Social Democrats and the Bourgeois parties besides the Center Party. Before the late 1960s the Center Party had remained fairly small and it was only at this time that they emerged as the main opposition party to the Social Democratic government. Thus, by the late 1960s the Social Democrats for the first time faced a credible contender in the formulation of regional policy. Within the existing political structures it therefore took time for the opposition against the labor market policies to materialize and organize.

In line with Avinash Dixit and Gary Libecap, information distortion and the impossibility to foresee the effect of different policies therefore contributed to the slow change in the policy stance.⁴⁹ The voter maximizing behavior did not take place in an institutional vacuum but was clearly structured through the way that the political arena was setup. Before the constitutional reform in 1970 the need to adhere to local opinion had been much smaller. Places facing employment losses in the short run could only influence national politics by affecting who represented them in the national parliament. The national parties on the other hand had little reason to make notice of these demands for simple electoral reasons. During the 1960s the main way for regions with declining employment to influence national policies was therefore to try to change the policy stance of the national parties. This is also what happened. Throughout the late 1960s representatives from the Forest counties tried to influence the policies of the Social Democratic party during the party congresses. However, as long as the critique was confined to internal affairs the party had very little reason to take this into consideration in their election strategy. In parliament there was a sound majority for the existing policies and the electoral system did not necessitate any changes in order to adhere to local opinions.

After 1970 the context for Social Democratic voter maximization changed fundamentally. As argued earlier the new electoral law made the temptation of catering to local opinions much stronger. Had the proportional party representation stayed intact, this might have had a much smaller effect on localization policy however.

The fact that the Center Party emerged as the main opposition party on the Bourgeois side effectively wiped out the consensus that had existed on labor market policy between the Social Democrats and the Bourgeois opposition. The way that the Social Democrats adapted to this new situation resulted in a shift away from the policy of relocation allowances that had aimed to aid in the movement of workers from the Forest counties to southern Sweden and to a policy of regional subsidies with the opposite objective, to create employment in the Forest counties.

5. Conclusions

In this article we have studied a central policy shift in historical context. By analyzing the introduction of relocation allowances and regional subsidies in Sweden we have shown that a perspective that takes rational behavior as a starting point but also stresses the historical processes by which this behavior is structured can bring new insights to policy implementation. The results presented in this article suggest that the behavior from the Social Democratic Party was indeed rational and voter maximizing, but that this behavior was strongly influenced by the institutional context.

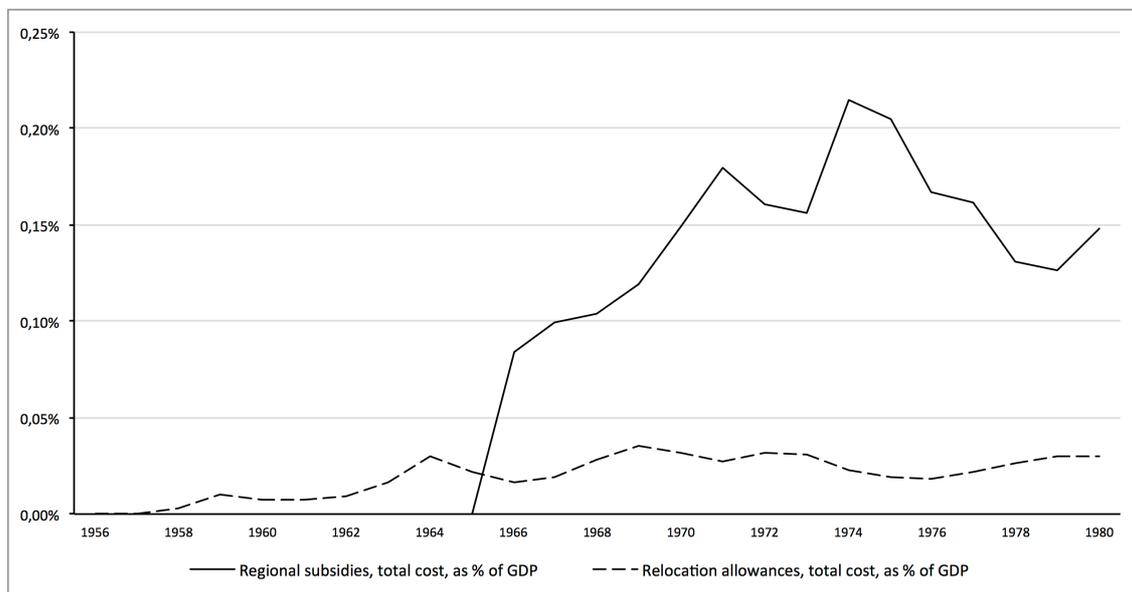
In this article we have shown three things. First, the content of state intervention in Sweden during the postwar period was much less clear-cut than previously thought. Instead of being the blueprint of mobility inducing labor market policy that it has often been portrayed as, regional subsidies was introduced in the late 1960s, and expanded after 1970, that worked in the opposite direction. Also, the pattern of state subsidies that becomes clear from our new calculations requires a new understanding of the drivers of these policy programs.

Second, we have shown that in the short run a voter maximization approach might add to our understanding, but we would also emphasize the importance to include the way that the institutional environment structures this behavior. The pattern of policy is therefore best understood by applying a longer historical perspective, where we have emphasized the importance of combining economic and political factors in understanding such policy shifts.

Finally, we have contributed to earlier research through a quantitative study of the allocation of the two policies and by analyzing the regional patterns of employment. The results suggest that the actual patterns of employment growth in Swedish regions showed a clear sign of a change in the early 1970s. From a phase of employment losses

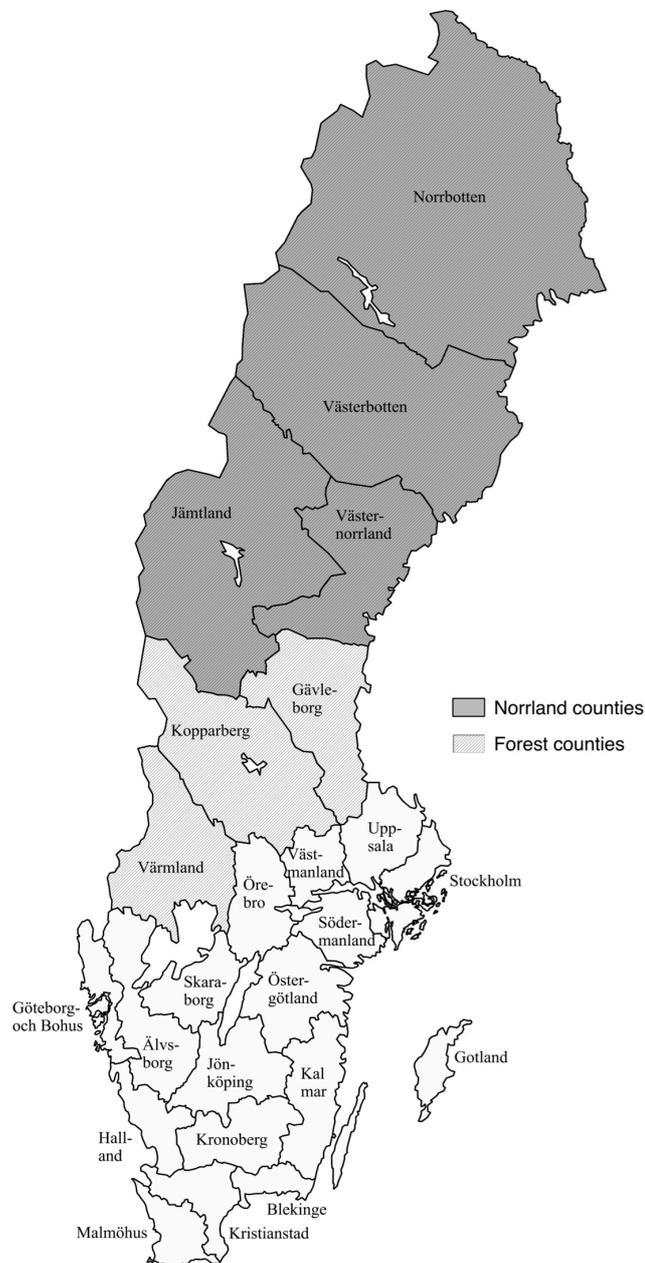
and out-migration to the southern regions of Sweden, fortunes shifted and employment grew faster in the Forest counties than in the rest of the country. Our analysis showed that this was not the consequence of a favorable industrial structure. Instead this was caused by a “regional shift” in employment towards these counties. At the same time, the importance of regional subsidies to these same Forest counties increased dramatically.

Figure 1: Public expenditure on relocation allowances and regional subsidies as percentage of GDP.



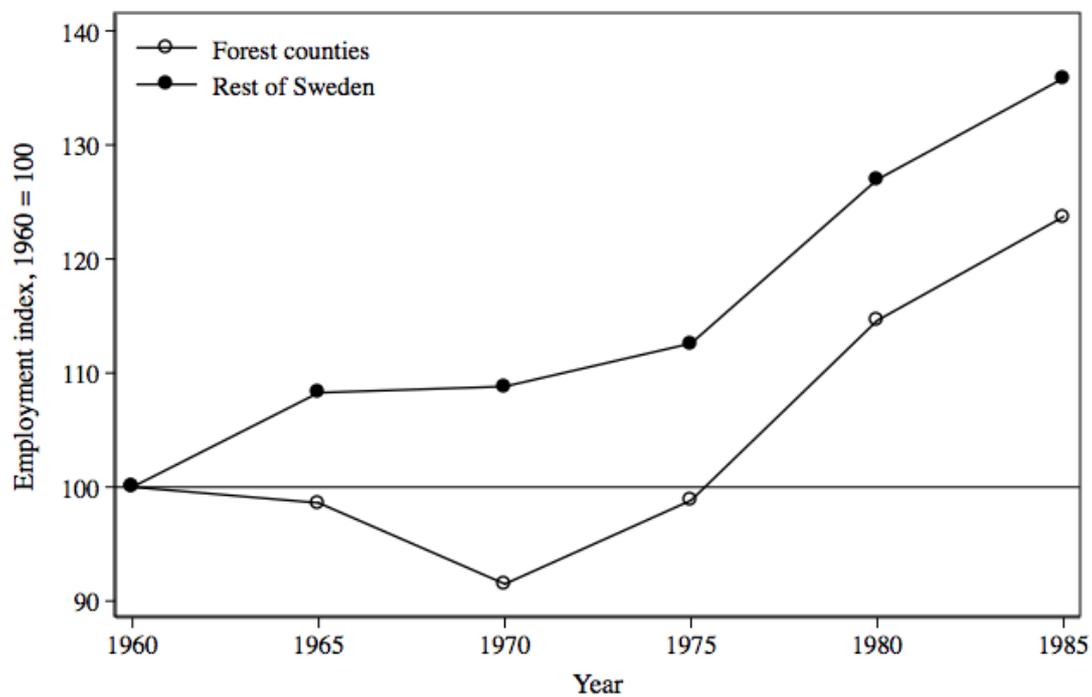
Source: Relocation allowances; Axelsson, Löfgren & Nilsson (1979). Regional subsidies, total cost; calculated from the STINS-database provided the Swedish Agency for Economic and Regional Growth (NUTEK). Figures for budget years has been converted to calendar years.

Figure 2: Map of Swedish counties showing the location of the Forest counties and the Norrland counties.



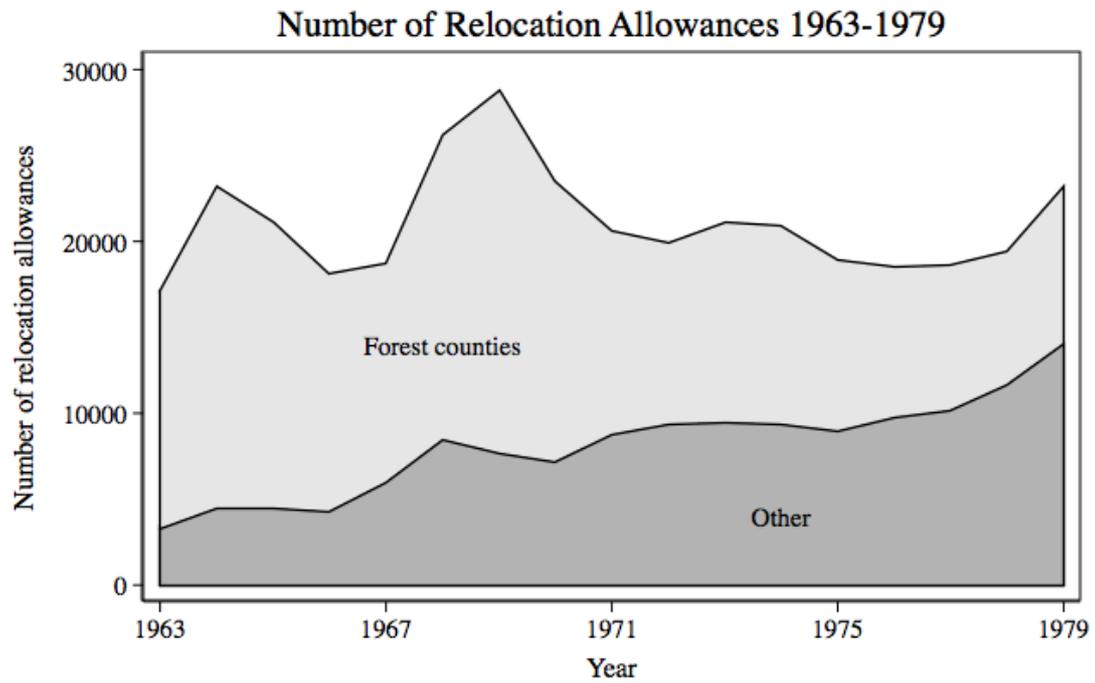
Note: Own map created using GIS software. The map shows the Swedish counties as they existed until 1997 when Malmöhus- and Kristianstad county was merged to form Skåne county. In 1998 the new county of Västergötland was also created through a merger of Göteborg- and Bohus-, Älvsborg- and Skarborg county.

Figure 3: Employment index for the Forest counties and the for the rest of Sweden, 1960=100



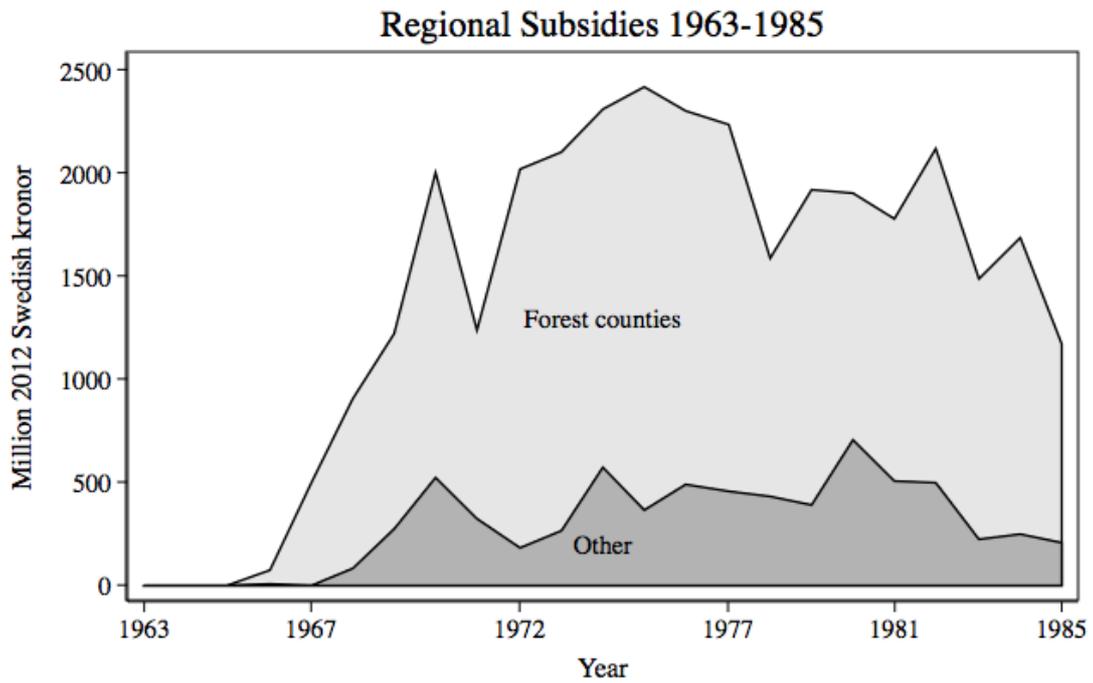
Source: Authors calculation from the Swedish Population and Housing Census (Folk- och bostadsräkningen) of 1960, 1965, 1970, 1975, 1980 and 1985.

Figure 4: Number of Relocation Allowances, 1963-1979.



Source: Authors calculation from AMS *Persons Granted Starting Allowance 1963-1979*..

Figure 5: Payment of Regional Subsidies, 1963-1985.



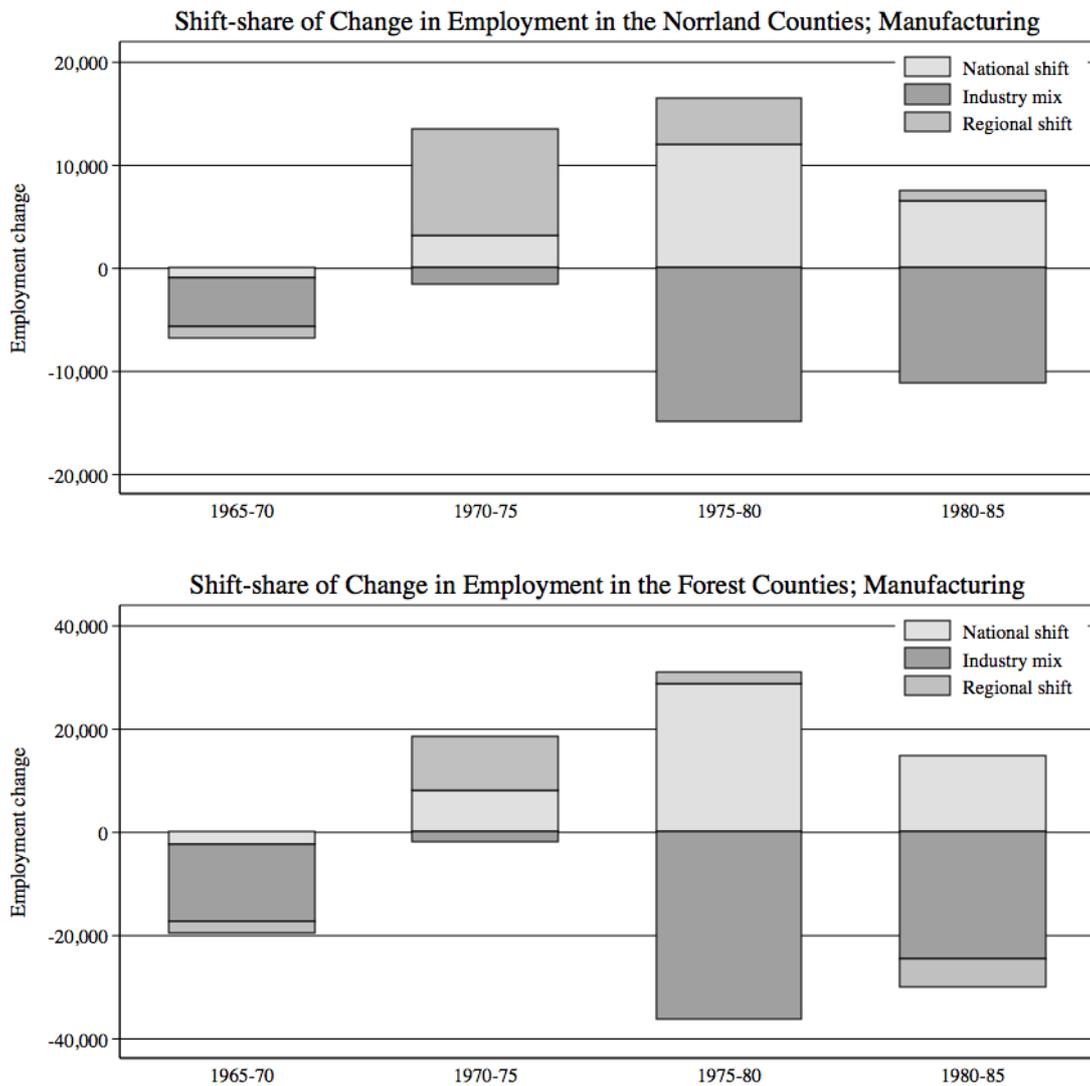
Source: Authors calculation from STINS database provided by the Swedish Agency for Economic and Regional Growth (NUTEK).

Figure 6: Shift-share of change in employment: all sectors, 1965-1985



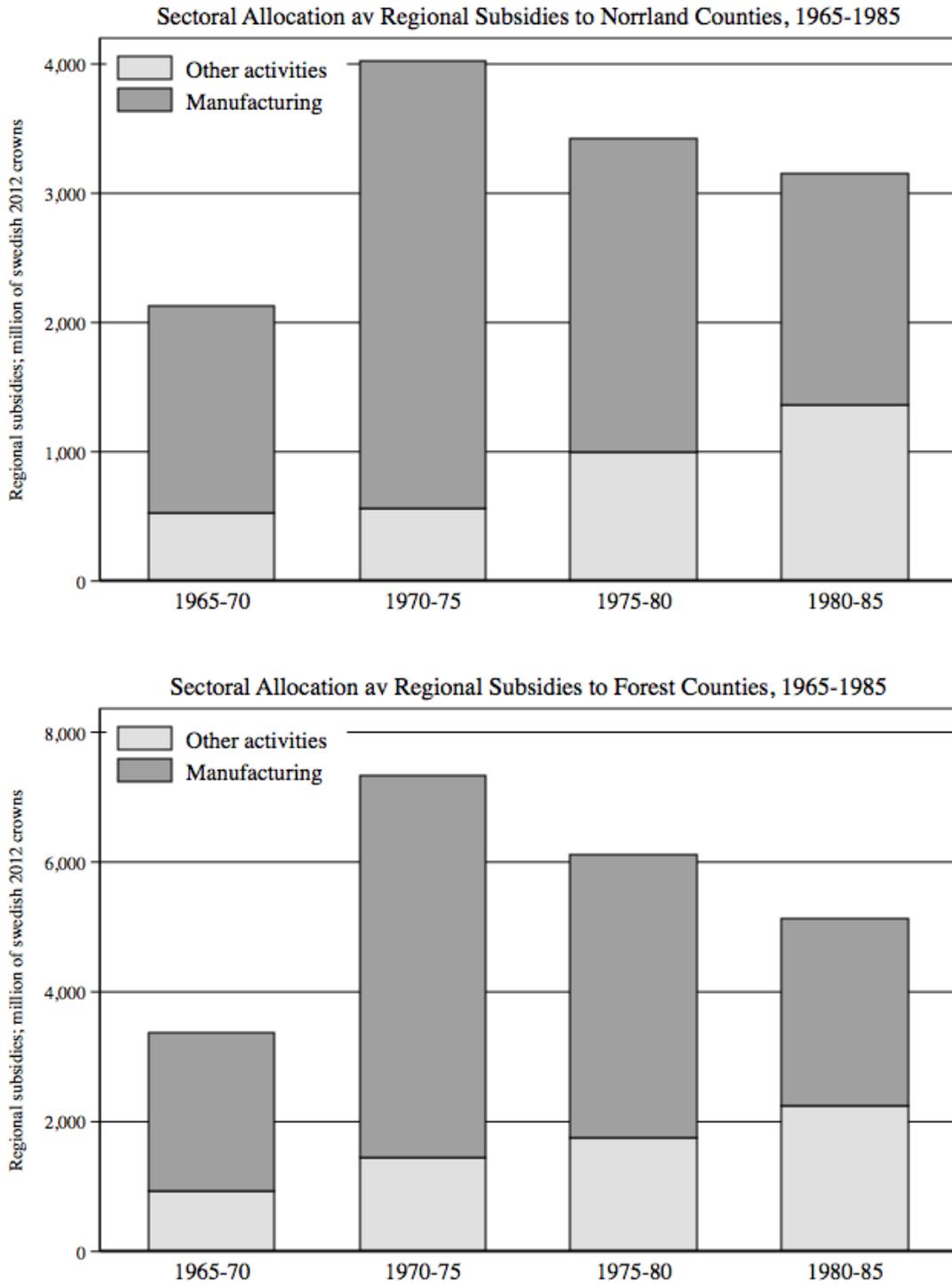
Source: Authors calculation from the Swedish Population and Housing Census (Folk- och bostadsräkningen) and Swedish Industrial Statistics (SOS Industri) of 1965, 1970, 1975, 1980 and 1985.

Figure 7: Shift-share of change in employment: manufacturing, 1965-1985



Source: Authors calculation from the Swedish Population and Housing Census (Folk- och bostadsräkningen) and Swedish Industrial Statistics (SOS Industri) of 1965, 1970, 1975, 1980 and 1985.

Figure 8: Sectoral allocation or regional subsidies, 1965-1985



Source: Authors calculation from STINS database provided by the Swedish Agency for Economic and Regional Growth (NUTEK).

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- ⁷ Dixit, *The Making of Economic Policy: A Transaction-Cost Perspective*.
- ⁸ In this context we refer to voter maximization in the sense of maximizing the number of votes for the own party and/or to maximize the likelihood of winning elections.
- ⁹ Bohlin, “Swedish Industrial Policy: From General Policies to Crisis Management, 1950-1980.”
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- ²⁰ As cited in Svensk politik, nov, 1962.
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- ²⁶ LO, *Samordnad Näringspolitik*, 154.
- ²⁷ Ibid., 151.
- ²⁸ Ibid., 151.
- ²⁹ Ibid., see especially p. 154-155.
- ³⁰ Olsson, “Arbetskraftens Rörlighet Måste Accepteras”, 268.
- ³¹ Ibid., 268.
- ³² As cited in Elander, “Det Nödvändiga Och Det Önskvärda : En Studie Av Socialdemokratisk Ideologi Och Regionalpolitik 1940-72”, 98.
- ³³ See also Petterssons (1999) discussion of a long run perspective on the regional subsidies with special attention to the transport aid.
- ³⁴ Ibid., 98.
- ³⁵ *Samtal Med Olof Palme: Det Gäller Våra Jobb Och Vår Miljö I Alla Delar Av Landet*, 21.
- ³⁶ Ibid., 23.
- ³⁷ Mot. 1972:1812, 9.
- ³⁸ Mot. 1972:1812, 3.
- ³⁹ Mot. 1972:1812, 3.
- ⁴⁰ See Mot. 1972:1812, 18-19.
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- ⁴² Swedish Social Democratic Party, “Election Manifesto of the Social Democrats.”
- ⁴³ Ibid.
- ⁴⁴ The analysis of these data was performed in Stata, version 12.

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