Dealing with rural-urban economic welfare challenges in the Nordic countries – a theory-based overview

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Abstract
Geography has played an important part in creating the Nordic welfare states. This article discusses how the urban-rural dimension has been dealt with in the context of developing economic welfare. Four different policy interventions are presented: exogeneous shocks, buy out, palliative treatment and endogenous growth through innovation. Of these, the latter prevails in contemporary policy discussions. The application of policy measures varies substantially between the Nordic countries. We have different Nordic models rather than a single model. While in the aftermath of World War II economic development and welfare arguments combined to justify geographical centralisation, the present climate concerns seem to align with economic interests to form a new wave of centralisation, though on different geographical scales. It remains to be seen whether this tendency is politically sustainable or not. If it is, we face a new geography of welfare along the rural-urban axis.

Keywords
Nordic welfare, geography, regional policies

Introduction
The Nordic countries long attracted interest for how they mediate conflicting interests to create societies that are wealthy and innovative while being able to keep social and geographical inequalities to a comparatively low level. Since the first crisis for the welfare state era at the end of the 1960s (Bevir, 2011), these countries have managed to adapt their welfare state systems to challenges from an increasingly liberalist world order. As this epoque is now seemingly being called into question by renationalisation and protectionism, the Nordic societies continue to be role models for coping with the future (Johnsen et al., 2018; Partanen, 2016).

This article intends to give an overview of the geographical aspects of the Nordic economic welfare models, with specific attention to the rural-urban dimension, and to present a theoretical framework for understanding the various patterns and strategies observed across and within the Nordic countries. It departs from the fact that regional policies cannot easily be separated from welfare policies, as regional policies have increasingly ceased to exist as a separate policy field to become part of various sector policies. The geographic dimensions of these sector policies are so varied from one country to the other that no comprehensive, quantitative comparison at the Nordic level is at hand. Judging from qualitative,
historical analyses, (classical) regional policy is thought to have (had) its foremost stronghold in Norway and to have been least articulated in Denmark (Hansen, 1972; Lindqvist, 2010). The article ends with a discussion of the viability of the present tendencies toward further geographic and social imbalances in the Nordic societies.

Nordic sparsity
Specific for the Nordic countries, except for Denmark, is their sparse populations (Głöersen, 2013), offering a relative population density that roughly amounts to one tenth of the core West European countries. But this sparsity is not uniform. Generally, the population density increases southwards, near coasts, and with proximity to a major city. At the same time, a minor and relatively dwindling part of the population inhabits vast areas that tend to be northern, inland, and far from a major urban centre. To add to this, this settlement pattern bears immense symbolic importance for the national identity in all the Nordic countries (Knudsen, 2018a). The sparse distribution of population is hence a source of intra-national political attention, even in Denmark (Lorentzen, 2012; Winther & Svendsen, 2012).

As such, the sparsity phenomenon merits its own classification in the EU structural policy system. This was one of the claims made by Finland, Norway and Sweden in their negotiations with the EU prior to the 1995 access of Finland and Sweden (Méndez et al., 2006). It was also the negative sentiment towards the solidity of these measures alongside other periphery-driven arguments that made the Norwegian referendum turn out to reject EU membership in 1994 (Sejerstad, 2014). Hence, the political agendas concerning welfare and regional policies are both national and European. To complicate matters, these agendas are intertwined since EU legislation applies to the Nordic EU members (Denmark, Finland and Sweden) and to the non-members (Iceland and Norway) alike. The non-members comply with the EU regulations through the mechanisms of the EEA agreement. However, structural funds aimed at regional development and cohesion cannot be accessed by the EEA-affiliated states. Iceland and Norway, it can be argued, therefore have a stronger national grip on the design of their regional policies.

The rural/urban transition
Theoretically, there are two opposite perspectives on the geographical framing of welfare development, both with important political consequences. The first, and the one that prevails, is that increased economic performance, and its concomitant distribution as welfare, presupposes geographical concentration. The logic behind this position is twofold. Firstly, occupational succession from agrarian and fishery-based economies to industrial and service economies entails a concentration of the work force. While an agrarian economy is by nature rural, the industrial and service economies are urban. Secondly, the establishment of modern infrastructure with an advanced system for welfare provision relies on the blessings of economies of scale, meaning that the more concentrated the targeted population is located, the more favourable the trade-off between costs and benefits will be.

The above assumptions arrive in two versions: one advocating that market mechanisms, properly institutionalised, will ensure the best conceivable distribution of wealth and welfare; the other arguing that rational planning outpaces market mechanisms to reach these

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1. European Economic Area
ends. As a reaction to the market economy collapses of the interwar period, the latter perspective was readily grasped by politicians and scholars from the mid-1930s, especially in its Keynesian wrapping. One of its most important advocates was the economist Ragnar Frisch. Frisch’s views of the virtues of planning led him to ordain a strict, mathematically based regime of national planning and resource allocation (Sæther & Eriksen, 2014). When put into political practice in Norway in the late 1940s, the rigour of it even impressed and shocked the Swedish prime minister, Tage Erlander (Erlander, 2001, p. 177).

The Nordic solution to the choice of how to go forward has been to blend the alternatives in a mixed economic system in which the state had an upper hand in planning the economy while the private sector was co-opted by the state planning system. At the same time, a municipal system of public welfare provision from below, rooted in a tradition of local self-empowerment (Hanssen, 2005; Kildal & Kuhnle 2005), was stimulated by the state and connected with it to ensure a legitimate system for welfare distribution. This brought about a model with a strong state and strong municipalities that came to be identified as the Nordic model (Amable, 2003; Haveri, 2015), or more aptly as a variety of Nordic models (Allardt, 1975; Mjøset, 2011).

The second perspective on welfare development is to contest the traditional economic logics and to point to the degradation of living conditions accompanying economic modernisation. While many theorists maintain that these instances of degradation are preliminary, and will be overcome by spread effects (Gaile, 1980), their contesters claim that the social and geographical inequalities arising with modernisation are inherent to the market economic system.

The main theorist behind this last position is Karl Polanyi, who, in his account of the British transformation from an agrarian to a modern society, pointed to how the ascendancy of Britain to become the richest of all nations entailed the necessary social exclusion of large segments of the population (Polanyi, 1944). The rural peripheries were hit by the backwash effects of modernisation rather than the promised spread effects. Backwash effectively destroyed traditional rural livelihood and drove large segments of population into unprecedented misery as they formed the urban proletariat of the rapidly growing industrial centres.

Polanyi’s analyses, supplemented with studies of peasant economy in the tradition following the Russian scholar Alexander Chayanov, formed an important basis for a competing view on economic development, inspiring such scholars as Ottar Brox and Johan Galtung. Brox (1966, 1984) argued that the new state-led planning regimes set in motion in Norway in the post-war economic restructuring led to more misery than welfare at the country’s periphery, exemplified by the case of Northern Norway. Brox’s analysis was novel as it contested the reformist position put forward by the geographer Axel Sømme on rural poverty, and the need to remedy it, as presented in the seminal pamphlet En norsk treårspan [A Norwegian Three-Year Plan] (Colbjørnsen & Sømme, 1933). The latter came to form the baseline for the debate on Norwegian economic and welfare policies for decades. Echoing this debate, Aase & Dale (1978) proposed a model of trade-off between types of welfare qualities. While the rural context offers resource-based goods for free, or at a low cost, as well as social stability and nature-based experiences, the urban context will tend to offer a better provision of public and market-based services and amenities.

Galtung (1971) lifted the Broxian critique to the global scale when he presented a general model of inequality as a necessary constituent of modernisation. Relative deprivation would always be the fate of large sections of society and a source of conflicts and tensions, internationally as well as intra-nationally. The backdrop to his structural theory of imperial-
ism has recently become reformulated by Thomas Piketty (2013), who argues that while the international inequalities in economic distribution have decreased substantially over the last decades, the opposite has been the case for the intra-national development of the OECD realm. Further on, I will refer to this tradition of analyses as the PBGP (Polanyi, Brox, Galtung, Piketty) position.

**Political responses**

I suggest that the political responses to the problem of economic transition, seeking a path between mainstream market or planning-based paradigms and the critique as described in the PBGP tradition, can be fourfold:

a. To compensate the degradation of the periphery by introducing new activities through external shocks (exogenous growth)
b. To accept geographical imbalances by compensating them economically (buy-out)
c. To introduce non-productive transfers (palliative treatment)
d. To foster the entrepreneurial spirit (endogenous growth and innovation)

In systemic terms, A and D could be argued to represent intra-paradigmatic responses, showing the ability of the economies to counter geographical and social imbalances when needed. In contrast, B and C could be argued to be the acknowledgement of the PBGP analysis of inherent fallacies in the economies in question, and that these fallacies can only be remedied by compensating them. When giving practical examples, one should of course be aware that actual cases can fit into several of the above categories.

**External shocks**

A favoured recipe for procuring wealth and welfare in lagging regions is to opt for the influx of investments and establishments from abroad, from private capital in better endowed national regions, or from the state. The industrial history of the Nordic countries offers several cases in this respect (Fellman et al., 2008). The resource-based nature of this industrialisation often meant that new places and entire regions were drawn into the era of modernity, rapidly transforming their social structure. Often, this type of industrialisation created isolated points of modernisation with limited geographical impact and preconditions for future growth. This is exemplified by the typical company towns, of which many in due time would require public support to be brought out of economic and technological lock-in, and to remedy ecological sins of their past, as most saliently exemplified by the Swedish region of Bergslagen (Angelstam et al., 2013). In other cases, industrialisation gave rise to new hot spots for sustained national growth. One such case is the transformation of Tampere from a traditional multi-industrial company town to a city spearheading Finnish entry into the knowledge economy (Sotarauta & Suvinen, 2018). Most often, economic transformations took the middle road between these two extremes (Arnasson & Wittrock, 2012; Mjøset, 2011.).

The theory behind the external shock recipe, was formulated by the economist Gunnar Myrdal (1957). Myrdal argued that externally induced changes could kick-start economic growth to create the necessary foundation for cumulative processes of growth and well-being. Myrdal’s external shock soon became a remedy in the toolkit of post-war regional development policies, and it still is. A good example is the present co-development of
hydro-electric power plants and aluminium smelters in Iceland, resembling similar under-
takings in Norway half a century earlier. The big difference is that environmental concerns
nowadays play a more salient role (OECD, 2014).

A special variety of the external shock model in post-war Nordic strategies has been to
use it as a blueprint for the location of public institutions into new regions. The geographic
expansion of higher education offers an illustrative case (Hedin, 2009). The blessings from
such strategies are threefold: Former peripheries get access to modern services; their wage
and welfare levels are heightened; and finally, such institutions will hopefully spur innova-
tions and economic growth (Arbo, 2019). A related strategy is to relocate public institu-
tions, or parts of these, from the capital to alternative sites where they can contribute to fur-
ther development of the region(s) in question (Sætren, 2016).

**Buy-out**

Geographical imbalances take on different forms. In countries like Denmark and Iceland,
the capital regions’ share of the relative population is higher than in the Fenno-Scandic
countries with their larger surface areas. In Iceland, the capital region accounts for about 60
per cent of the national population. This secures the Reykjavik region a certain demo-
graphic scale for its economy, but on the flip side it makes the scope for development and
viability more precarious in the rest of the country, presenting a case for political compen-
sation (Kokorsch & Benediktsson, 2018; Nilsson, 2013)

In Denmark, characterised by its denser population pattern, national physical planning
of the continental type has a long tradition (Galland, 2012). This instrument has specifically
been used to manage the opportunities and problems of geographical imbalances. Some of
these models became important points of reference in the Nordic planning discourse, such
as the Copenhagen finger plan, the great H-road plan connecting Jutland and Zealand, and
the star-city development plan for balancing the urban-rural integration nationwide.

While these models still have a strong mental grip on planners and politicians, more lib-
eralist policy regimes and reforms balancing local and regional centralisation with quests
for devolution, along with demands for stronger regional adaption to international compet-
itiveness, have altered the agendas. To this should be added the perceived failure of the clas-
sical planning regimes to secure a balanced country, often exemplified by the metaphor of the
*rotten banana*, referring to the north-western arc of Jutland (Winther & Svendsen,
2012). Hence, the revised Danish governmental buy-out strategy can be characterised as
dualistic, attempting to combine regionally based *self-regulatory spatial planning* with a
strengthened national grip on transport infrastructure for future integration and growth,
domestically as well as across the sound to Sweden (Olesen & Richardson, 2012).

A radical example of buy-out is given by the Swedish case of centralising for welfare. From
the mid-1950s, Sweden desperately lacked workers to man its growing industries. A strong
influx of foreign jobseekers did not suffice to meet the demand. One of the deliberate turns of
the government, advocated by such influential trade union economists as Rudolf Meidner and
Gösta Rehn, was then to alleviate the labour shortage by the indirect measure of demanding
higher wages. This brought the wage level to such heights that much of the weaker manufac-
turing firms in peripheral Sweden were forced to close. Hence, a poverty problem was dealt
with, and manpower freed to leave for the industrial belts of southern Sweden. At the same
time, the agricultural sector went through a rapid phase of rationalisation. The combined
effect of these processes was strengthened economic performance at the price of a drastic
thinning out of the rural population, especially in the interior North (Harrison, 2007:285–
To follow up, by the mid-1970s the municipal structure had already been restructured to match a perceived need for rational welfare distribution (Andersson, 1993).

The Finnish story is different. Following a late ascendance to full independence and national stability, Finland had to catch up with the other Nordic countries on its road to prosperity and welfare (Allardt, 1975). This implied modernisation through centralisation, but while Sweden started to thin out its rural population soon after the war, Finland promoted rural expansion to settle refugees from its former territories ceded to the Soviet Union. And while Sweden experienced strong immigration, Finland experienced a complementary emigration.

The Finnish efforts at regional development were strictly led by the state making use of municipalities and grouping of municipalities in a two-tier administrative system. The national need for security was paired with a strong concern for industrial modernisation and a fine-grained geographical system for welfare distribution. The Finnish model, in a unique way, combined central political control with a sensibility for local legitimacy (Virkkala, 2002). A culture evolved in which local political and economic elites were able to manoeuvre, anticipating later ideals about local mobilisation and governance to create strong regional bases for export-led and industrially diversified urban centres in various part of the country (Sotarauta & Suvinen, 2018).

These dialectics between the national and local level for development purposes disposed of national programme-based policy schemes unto which local partnerships could apply for support if able to demonstrate local capacity to foster global excellence. Finland thus became a European role model for successful local and regional development when the Porterian idea of diverse regional specialisation merged with the fad for governance and network arrangements to become an international paradigm for creating future wealth and welfare (Castells & Himanen, 2013; Sotarauta & Bruun, 2002).

But this apparent success may have been temporary. Finland now plans to abandon its two-tier system in favour of a traditional Nordic system of three democratically elected political levels (CoR, 2019). There are different explanations offered for this. It can be understood as an overdue adaption to a normal European system, as the acknowledgement of the former two-tier system no longer being cost-efficient, or an admission of it not being sufficiently democratic (Kettunen & Kungla, 2005).

Over the years, the intra-Nordic roles have also shifted. From copying Swedish reforms in the first post-war era, the institutional imprints have more and more taken the form of a fan of different Nordic models than of one, core Nordic model (Mjøset, 2011). This development became especially apparent following the structural crisis of the 1970s and the Swedish devaluation in 1982. In the following decades, the Nordic countries have also swayed markedly in a liberalist direction. This has meant introducing more market solutions to their welfare systems, a trait that has come to change them typologically (Schneider & Paunescu, 2012), and lowered the expectations for costly buy-out strategies.

Palliative treatment

Transfers are important parts of the Nordic welfare systems. However, it is a striking observation that Nordic regional policy documents tend to downplay their innovative impact on increasing peripherality, implying that regional development policies to succeed presuppose geographic scale and initial concentration of resources (Suorsa, 2017). Alternatively, innovative practices can be reformulated to ways of enhancing quality of life in rural communities, more than as means to spur economic take-off (Aarsæther, 2004).
Nordic policy makers traditionally distinguish between broad and narrow regional policies (Hedström & Littke, 2011), but the implication from this bifurcation varies from country to country. Norway and Iceland tend to pursue a development aspect for both, while Denmark, Finland and Sweden to a larger extent make a distinction between regions with potential for development and those without such potential. The latter should then be offered palliative policies for sustaining welfare to pursue a decent living in remote places for as long as needed, but with limited investment for future habitation. Neubauer et al. (2007, p. 61–62) suggest the impact of the EU to explain this intra-Nordic split in policy formations.

In some cases, systematic euthanasia would be ordained for difficult localities. Isolated coastal and island communities, with no prospect of being connected to larger labour market in the immediate post-WWII Norway, were accorded economic support to become abandoned. Ironically, some of these places have recently been revitalised, with Nyksund in Lofoten as the most prominent case, making them part of a new era for global tourism in search of the authenticity of a peripheral way of living (Swensen & Haupt, 2010).

The long-term effects of the thinning out of rural population poses challenges to welfare and well-being. Especially in parts of the northern inland of Sweden, demographic vulnerability in combination with long distances make everyday welfare services difficult to man and perform. Thus, entire municipalities could be classified as being below the threshold of sustainability for coping with the future (Wang et al., 2019). In Norway, with its more dispersed geographical growth pattern, the response has shifted from euthanasia to the pursuit of policies for economic development even in the most marginal of localities after an early 21st century interlude of experimenting with soft policies for mere local thriving (Knudsen, 2018b).

**Endogenous growth and innovation**

The three response categories – A, B and C – to the geographical welfare challenges have all come under various types of pressure. The reasons for this boil down to a mix of structural, financial and ideological objections to their pursuit (Bevir, 2011). The last remedy to save the Nordic and other Western societies from experiencing the PBGP analyses turning into prophecies is, then, response D, innovation. Endogenous or network-based innovation is then the prescribed way ahead. In this tradition, Nordic societies are understood as containing sufficient human, economic and technological capital to outpace competing nations in wealth creation (Sandberg, 1982). A shift away from traditional regional development policies is further argued by evaluations of the initial Nordic gains from the EU structural funds having been close to zero (ITPS, 2004). As the role of institutions has come to be more strongly discussed as a factor embedding economic performances and distribution (North, 1994; Rodriguez-Pose, 2013), classical arguments in favour of endogenously grown firms, or industries connected to uniquely regional resources and institutional set-ups, are being revitalised (Jacobs, 1984; Piore & Sabel, 1984; Porter, 1990).

This way of thinking has spurred a global paradigm of innovation. Hence, in the EU, any region wanting to access the Union’s structural funds must qualify by performing a Smart Specialization (RIS3) analysis (Foray, 2015), displaying its capabilities and scopes. At the same time, states and regions become aware of their national (NIS) and regional (RIS) innovation systems, and how to develop them further (Asheim et al., 2019; Lundvall, 2007). This innovation paradigm unfolds in a landscape of unequal prerequisites. Some regions are well endowed, having *thick* innovation systems, while others experience the misfortune of hav-
ing thin innovation systems (Parilli et al., 2016). In this respect, the innovation turn, in regional policy terms, brings us back to where we started: How can we legitimately secure the distribution of welfare in a context of uneven wealth creation? This question resonates the over-arching but difficult task of reaping from the successes of the competitive advantages of the few to create social cohesion for the many. The unevenness of innovation can easily turn into unevenness in welfare, geographically and sociologically.

Additional trends

While the challenges discussed so far have spurred different types of responses, it is important to note that economic and demographic transitions never stop. However, coming to terms with the present often limits us to analyses starting with post- (Esping-Andersen, 1999). Looking at welfare from an urban/rural perspective, we can be more precise. While the innovation response has come to prevail, two underlying phenomena seem to have become important. The first is a tendency for the distinction between urban and rural to become blurred, described as various forms of rurbanisation. The second is the tendency to ordain increased and more condensed intra-regional urbanisation to secure environmental sustainability. In addition, the geographical optimum of welfare provision between central standards and decentralised adaptations seems to become more dependent on political priorities than on scientific analyses (Feltenius, 2007).

Rurbanisation may take the form of urban systems sprawling in space, either by the creation of suburban fringes surrounding towns and cities (Brueckner, 2000) or as the amalgamation of delimited urban centres into new types of functionally linked urban systems (Castells & Himanen, 2013). It may also take the form of urban values and practices seeping into rural areas. While suburbia initially had a positive value, offering new social groups a decent living away from congested and polluted industrial city centres, today it has become the target for anything that went wrong in late-modern society: from the erosion of social cohesion (Putnam, 2000) to the over-consumption of space (Næss, Næss & Strand, 2010). Still, however, its public health scoreboard is a fair one (Frumkin, 2002). With conurbations, the judgement is more complicated. Being understood as the polycentric framing of innovative and networking industries, they present themselves as the geographies of innovative clusters (Hilpert, 2013), in the Nordic setting best exemplified by the Medicon Valley life-science cluster stretching from Scania to Zealand (Moodystone et al., 2008). Even though they generate regional carbon footprints by their demand for intra- and inter-urban transport, they seem to avoid the kind of criticism that hits other types of extensive land-use through their image of catalysing smart and innovative economies.

While the ecological awareness of the 1970s and onwards idealised rural living and coincided with an interlude of general decentralisation (Illeris, 1990), the present climate concerns work in favour of the cities and of intra-regional urbanisation in the peripheries. The logic is that denser settlement patterns contribute to reduce ecological footprints (Næss, Næss & Strand, 2010). This joint effect of market forces and climate concerns gives rise to new geographic and social imbalances in the Nordic societies, primarily by driving the cost of living in some Nordic cities beyond the capacity of ordinary wage-earners, and at the same time putting increased pressure on urban qualities of living. This phenomenon, referred to as eco-spatiality, is already one of the strong drivers for increased welfare inequalities in the Nordic scene (Knudsen, 2018b).
Conclusion

Summing up, geography has played an important part in the forming of the Nordic welfare states. In this, the urban-rural dimension has been dealt with rather differently from one country to another, even though the theoretical roots from which to form policies are similar. It is remarkable that some of the preferred remedies of past policies, such as exogenous shocks and buy-out-strategies, play a lesser role today while innovation has come to be the preferred way to meet societal challenges.

While the economic and the welfare arguments combined in the aftermath of WWII to justify geographical centralisation, the present climate concerns seem to align with economic interests to form a new wave of centralisation, where the economic arguments apply to different geographical scales while the climate argument is restricted to promote intra-regional concentration. It remains to be seen whether this tendency is politically sustainable in the long run. If it is, we face a new geography of welfare along the rural-urban axis. In such a scenario, the need for buy-out strategies will decrease further as people see centralisation to be inevitable for the sake of our common future. Seen from the Nordic peripheries, this scenario should be judged as unsustainable if we want to keep it inhabited within the frames of functioning welfare societies. Narrowing in on the present fascination for innovation as the general answer to quests for societal renewal, we should be aware of its potentials as much as we should be sceptical about its ability to transform wealth creation into a landscape of equally distributed welfare. To judge from the past, a new debate on (re-)distribution may soon have to follow if we forget to take the lessons learnt from the PBGP literature seriously.

References


