
“Rotary Capitalism”, Third Way
or Networking Bureaucracy?
Swedish Partnerships for Growth

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Abstract

Since 1998, Sweden has pursued a policy of regional partnerships for growth. All relevant public and private actors (agencies, companies, universities, unions, business organizations etc) have cooperated on a regional basis to support local economic development. The policy is based on a cluster-model, where increased cooperation is thought to bring about stronger economic growth. A central aspect of this policy is to get various national agencies more coordinated and more open to the needs of business. It forces policy segments to cooperate geographically and adds economic growth to the aims of the welfare state.

The paper describes the new policy and identifies the issues of the debate. Official and other motives are discussed. Actual and potential objections are raised. The policy is put within two contexts, the economic context of supporting economic growth and the public administration context of designing efficient governance.

The paper sketches how an evaluation of the policy could be carried out. It would track processes, outputs and outcomes. Comparisons can be made among the 21 different regions and with various national and EU policies, most important of which is the comparison with the EU Structural Funds. Tentative conclusions are given and possible alternative policy measures are discussed.

1. Public-private partnerships for regional development

1.1 An international trend of new governance

A partnership is a kind of governance arrangement where several actors work together to achieve common goals. Such governing partnerships have been practiced within the public sector and together with private actors, in many countries, in many policy areas and in various forms. With several partners, the partnership is a kind of network arrangement.

Well-known examples are the partnerships that have been introduced under the programs of the European Union's structural funds. Partnerships have also been a major tool for regional development in Britain. It is part of much discussed programs such as "the third way" and "devolution", where the latter is a kind of decentralization of power from central government to local actors working in cooperation. The same is the case with the Swedish partnerships.

Various kinds of partnerships have been practiced before these examples. In the US, this was practiced for example by the rural development councils. More informal forms of cooperation have been in place for a longer time, even in connection with the development of Silicon Valley.

1.2 Swedish partnerships for growth

The Swedish partnerships were introduced by the government in 1998. They were enacted in 2000 after two rounds of negotiations among the potential partners within the regions and between the regional partnerships and the central government. The partnerships could be described as a "coming together" of relevant regional actors with no legal status or powers delegated to the partnership itself. All decisions are to be carried out by the individual members under their separate jurisdictions; i.e. decisions are morally rather than legally binding on the individual partners.

Originally, the partnership agreements were made for three years (2000-2002), but were prolonged to cover 2003, when new agreements are negotiated. The new set of agreements will be effective 2004-2007 and are based on slightly revised guidelines, introduced by the government in 2001.

The partnerships are formed within what is nowadays referred to as the regional administrative level in Sweden, formally described as the 21 counties. They typically have a population of around 250.000 people, though the three largest counties have about half the Swedish population of about nine million. Many of the counties, especially in the north, are sparsely populated and have long been the focus of various strategies for regional development.

In addition to the partnerships, about half of the counties have formed various kinds of regional development bodies, either elected by the people or appointed by the (elected) local communities. These regional representative bodies were given the role of partnership coordinator in the four counties where they were established before 2000. This year, five new counties have established similar bodies which will take over the coordinator role from 2004.

The rest of the partnerships are coordinated by the "county boards", which are also regional development agencies, but part of the national government with a mission to (roughly) coordinate planning on a regional level and control that local communities abide by the law in various policy areas. Their identity is vague and their chairmen are more often seen as

spokespersons for the region than for the national government. An interesting question is of course how these differences in the coordinator role affects the partnerships.

The members of the regional partnerships vary. Often there is a smaller partnership of “important” actors and a larger partnership of all interested parties. Typically, the smaller group would be the coordinator, a group of national agencies (or rather their regional branches), some major companies and some organizations representing business and labor. The agencies in the partnerships are involved in either small business development or labor market development. The universities are also involved, since most of them are legally public agencies.

All of the relevant agencies (including universities) have been instructed by the government to participate. However, the government has also given a major restriction; that all agencies participate within standard regulation and standard budgets. This means that it is up to them to decide to what extent they will participate.

A fundamental issue from the perspective of public administration is whether the partnerships actually are a new geographical (regional) way of cutting policy, or if the various sectors or policy segments (“silos”) are still in control. A number of tools are in place to control the sectors, from performance targets to sector-based ministries and committees of parliament, which means that new regional ambitions don’t necessarily take priority.

Lastly, what the partnerships have done, is to make an agreement – the regional growth agreement – where they have agreed on a SWOT-analysis of the region and a set of projects to be carried out jointly or individually by the partners. The agreement is morally rather than legally binding, since no authority is transferred to the partnerships. They have no legal status and can not be part of other legally binding actions.

It is no surprise that there are great differences between the regions in what kinds of activities they have decided on and in what sources of funding they use. Most, but not all, are involved in one or more of the EU-programs, though only one region decided to implement both national and EU policy through the same partnership. In other regions there are very similar partnerships dealing with each of these.

The partnerships were never given a clear duty to govern the regional projects in the sense of monitoring performance and making adjustments in activities and priorities. National policy documents pointed out the need for the regions to follow-up and evaluate the effects of the activities within the partnerships. It was furthermore argued that it was enough for the national level to keep track of the processes taking place. The national agencies monitor their projects in line with their standard procedures, related to their own performance targets.

1.3 The purpose of the paper

The purpose of this paper is to identify the fundamental issues that are raised by this policy and to discuss ways to evaluate the partnerships, i.e. to test the issues of the fundamental debate. This is intended as a background to an evaluation scheduled for the Fall of 2003, with a focus on what the partnerships themselves have done in the area of follow-up and evaluation.

The next chapter describes the new policy and identifies the issues of the debate. Official and other motives are discussed. Actual and potential objections are raised. The policy is put within two contexts, the economic context of supporting economic growth and the public administration context of designing efficient governance.

The final chapter sketches how an evaluation of the policy could be carried out. It would track processes, outputs and outcomes. Comparisons can be made among the 21 different regions and with various national and EU policies, most important of which is the comparison with the EU Structural Funds. Tentative conclusions are given and possible alternative policy measures are discussed.

2. The issues of the debate

In this chapter I want to make an inventory of actual and potential arguments in the debate about the new policy. This is done first by looking at motives and objections, then by looking at the contexts of the economy and public administration.

2.1 Motives for the partnerships

Regional development policy has always been under debate, criticized for not meeting its targets. Basically, the ambition to support primarily the northern counties, when people are moving to the southern urban areas, has not managed to bring new hope to these areas. In 1995 an opportunity for changing policies was given when Sweden joined the European Union. The structural funds and their partnership arrangements were seen by many people as a promising alternative, a “new start” in regional development policy. In the background, there was also a need to set up institutions to match the EU programs to receive its funding.

The government bill in the Spring of 1998 pointed at two major reasons for the new policy of regional integration and networking within partnerships. One reason was a new way of looking at the economy, underlining the importance of clusters. The other reason was the need to coordinate public agencies and make them more focused on the needs of companies.

The new view of the economy is presented in the government bill as a background to the partnerships. The concept of clusters is often associated with the activities of two particular agencies and seen as a later development of policy. However, if one reads the government bill, the general model is already there, claiming that companies need to cooperate to develop. It is pointed out that trust (social capital) is needed to reduce uncertainties in the economy. It is implied that clustering in new areas is what will bring new jobs and wealth to the regions.

The other motive relates to the structuring of the public agencies and can be seen as a more narrow ambition. Even if one does not believe in clustering, it can be a reasonable ambition to make the administration more efficient. The set-up of agencies is a primary responsibility of the national government, while economic development is more indirect and vague. Hence, many later documents are mainly concerned with how far coordination among agencies and cooperation with industry has come. Both concepts imply networking and a break-up of the policy sectors (education, labor market, social welfare etc) in favor of a regional focus.

In the bill, the government made an ambitious calculation of available funding. However, it turned out that almost all funding was already given to the various agencies. Hence, the new policy was part of the Swedish tradition over the last decade to deregulate and decentralize as an alternative to increased funding from the center. Cynics also say that the new policy is a way to take control over funding given to the very powerful labor market board, AMV. Part

of their regional funds have been used to finance development projects – because small shares of AMV funding are big in the context of regional development – and this could be a way to force the AMV to do more. A major, unresolved issue is the tension between the partnerships and the labor market board as a dominant actor of a policy sector.

2.2 Objections

There is an international debate, primarily among economic geographers over the clustering concept and the value of local links. It has been pointed out that global links to suppliers and R&D in other parts of the world may be very important. Even though patterns may be different in various industries, there is much evidence that local links is not enough.

There is also evidence that not all local environments are supportive of economic development. It seems that urban areas with a large concentration of companies of different kinds are more creative than clusters of companies in specific industries. Recent work indicates that there are interesting differences among urban areas, where those with a tolerant population (measured in terms of bohemians and homosexuals) are more creative than others. In other words, too much social capital (homogeneity) stifles creativity.

The implications for Sweden are that regions need to be bigger and more open to the world. Rather than setting up universities in all regions, it may be wise to import R&D.

Two more fundamental objections can be raised against the policies. One is that cooperation in partnerships is inferior to the experimentation that entrepreneurs do in a market. The risk of the partnerships is that only established interests are represented, making it a kind of “Rotary capitalism”, named after the influential organization with that name. The new radical entrepreneurs are by definition not members of Rotary.

In the background, there is a fundamental debate on whether the economy needs experimentation or cooperation. It needs both, with social capital as a prerequisite for the establishment of new business agreements. The problem is rather how to mix these and make sure that one does not become the enemy of the other. Specifically, the risk of the partnerships is that they focus on more of the same rather than to upgrade the regional economy into something new.

Another objection is that public and private may lose their distinctiveness. While cooperation for common purposes is good, there may also be a need for different roles. It has long been pointed out that there is a risk that companies become addicted to subsidies and lose their competitive edge. What I want to add is the risk that the agencies lose their Weberian ideals, after Max Weber, who has given a famous description of bureaucracy. It is one thing to criticize public agencies for being overly bureaucratic, another to get rid of all kinds of impartial bureaucracy. If agencies work together with companies they may lose their disinterested impartiality and get rid of their judicial norms. In the worst case, the agencies may end up in corruption and low trust.

2.3 The economic issues

Put differently, the partnerships are new solutions to issues of economic development and issues of public administration. It is therefore relevant to spell out the context where the partnerships should be discussed and compared to other alternatives.

The partnerships are part of a clustering policy that aims at bringing coordination to policy and to the economy. The uncoordinated economy faces the risk of getting stuck in a dead-end,

a “lock-in” of unproductive and outdated production. While this argument has been around for a long time, pointing to declining areas, a new argument says that there is a risk of new clusters not being developed. It is argued that there is a need for a helping hand from the government to support new clusters. Many authors have made a point about finding a role between the pure market and the old fashioned policy of supporting national champions (“picking the winners”). The new role is described with the government as an “animateur”, involved in “associative and collaborative governance”, helping the market to cooperate better.

While this strategy seems more reasonable, more proof is needed that there actually are market failures. Where is the demarcation line to separate “market failures” from situations where not enough actors are interested? If the market is not where new ideas are tested, then how can they be tested? There may also be “animateurs” within the market, in the form of investors, seeing opportunities in developing connections between companies. This role may be fulfilled by “business angels” or the banks. Hence, more fundamental policy issue may be why these aren’t doing their job (or why “we” think they don’t).

Apart from coordination, there is also a need for market dynamics and appropriate incentives in the economy. Both are complex results of various regulations and behavior. The point is that regulation by the government in a large number of fields create a situation which is either dynamic or not and where incentives are given for individuals to do productive things or not. Hence, there is a case for looking at the unintended effects of individual regulations.

A large number of suggestions for deregulation have been given in the Swedish debate, raising the issue whether this is a “government” failure, where well organized interests (particularly the unions) have managed to get regulations that are favorable to them and then block changes in favor of small business start-ups. There have been a number of deregulations in Sweden, the most important of which was related to capital and the currency. Still, it is generally agreed that the tax system discourages investments in small businesses and that the social welfare system makes it a higher risk to be self-employed than elsewhere, where a number of benefits are legal rights.

Finally, a third area of growth policy is the field of investments in infrastructure, where it is argued that governments should invest in physical infrastructure such as transportation as well as in intellectual infrastructure such as education and research. These investments are seen by some as an alternative to coordination; if only the government provides higher education, the individuals should bear the responsibility of trying out new companies. No matter which, there are a number of follow-up questions about the design of these policies of investments.

2.4 The public administration issues

The other context where the partnerships should be discussed is the issue of public administration, how to design efficient government. Over the last decade, various changes have been made to save money and prepare to face financial restrictions with an aging population. In the 90’s, unemployment reached peak levels and severe cut-backs were made in the local communities, where the welfare services are produced. Last year, the prime minister pointed out two complex problems that need greater attention, the integration of immigrants into Swedish society and the galloping costs of health-related problems. In both cases, there are hints that the old structures are unable to handle more complex problems. There is a debate about “silos” (policy sectors) being too narrow, where different agencies put the blame on each other.

This Spring, a commission was put in place to suggest new ways of allocating responsibility for the welfare state among central and local government. The chairman has indicated that he will look into the sharing of responsibility among the various policy segments as well. It is generally believed that the commission will be an arena for the political parties to find new arrangements that most of them can agree on. In this perspective, the role of regions may be one of the issues dealt with.

One new concept – introduced as part of “electronic government” – is that of a network bureaucracy, where cooperation is an alternative to making organizational change. Regional development policy can even be seen as an area where this networking has reached quite far. One of the national agencies was given the task of describing and coordinating policies in 16 subareas, involving a large number of other agencies and other actors.

There is almost no debate on networking, since there is little popular attention to this phenomenon. However, it is obvious that the role of the public servants will change, when more of the job will be carried out in projects with civil servants from other agencies. Whereas traditional bureaucracy is set up to deal with subordinate citizens, networking means making deals with colleagues in other agencies, playing games over funding and other issues.

Another effect may be that civil servants become more of generalists, which has some advantages, but may mean that they will be less competent (less of specialists). This is close to saying that they will be less independent and more open to the demands of political leadership, which is also of a mixed blessing.

Networking may also be a problem from a democratic point of view. In a democracy, policy makers should be accountable to the public. If more policy is made jointly and by civil servants, there may be a democratic deficit of the kind that the EU is accused of. This may be even more so if private actors are part of the networks, such as they are in the regional partnerships.

From a governance perspective, the partnerships can be seen as a trade-off, where the government (through its agencies) gain more capacity to affect the economy, while giving up some autonomy. It has been argued that the Swedish state is strong in the social welfare but weak in industrial policy compared to countries such as Germany and Japan. The Swedish welfare model is very much an agreement between big business and labor on good conditions for big business in return for general welfare rights for all citizens. In international comparison, the Swedish government has abstained from trying to control the development of industry.

The new policy is not just a third way between state and market, but also a new form of corporatism. Previously, various organizations sat on the boards of the large agencies controlling various sectors. Now, companies and organizations are involved in the implementation of national policies on a regional level.

3. Evaluating the partnerships

After going over the issues that the partnerships raise, the next question is how the new policy can be tested. I outline how this evaluation could be set up by looking at three foci and possible comparisons. I list tentative conclusions and possible alternative policy tools.

3.1. Can the policy be tested?

The important question is whether the new policy works, at least better than the alternatives, (the old policy and other alternatives). What these alternatives could be is an important question which I will come back to at the end.

The effects of a policy are measured as the direct outputs (activities) of the partnerships and as the subsequent outcomes, the greater societal effects that the outputs bring about. In both cases it is important to explain and understand how the effects were produced. The outputs are often explained in terms of processes and the regulations (institutions) within which these processes develop. In the case of outcomes, the trick is to isolate the effects of the outputs in relation to all other possible intermediary factors.

The desired outputs of the partnerships are the SWOT-analyses and the subsequent agreements on projects to carry out. This means that one can study the contents of the SWOT's and the agreements, as well as the spending patterns made up of the projects. An important aspect is the measures taken to control and monitor the development of the projects and the partnerships themselves. This is a small issue that can be looked at separately.¹

Put more generally, one is interested in changes in attitudes and behavior among the participants. An important aspect is how trust is developed (or not). More specifically, one would want to know if new working methods are developed within the partnerships and whether these bring synergies; efficiency gains.

The desired outcomes are more long-term and more difficult to measure. The stated objectives of the policy is to get more jobs and more growth. This should be accomplished through the development of old and new companies, making investments and employing more people (or possibly employing fewer, but in more competitive niches). Breaking down the general goal of economic growth into finer steps will encounter such conflicting interpretation of long-term and short-term intermediary goals.

It is here that clusters are thought to help companies in an efficient way, making use of local synergies. It is also believed that government intervention can speed up the development of the clusters. It needs to be spelled out what kind of means are available and how they could produce the desired outcome. For example, the agencies that support the unemployed and those on long-term sick-leave could be more efficient in helping people back to work in new areas, but this is most likely secondary to supporting the founding of new or expanding companies. The example indicates the complexity of the issues involved and the perhaps unrealistic expectations of what the agencies can actually do to support companies.

In addition to outputs and outcomes, processes should be studied. They are the key to understanding why partnerships develop the way they do. Processes are about the development of action over time. This perspective highlights drivers and barriers.

3.2 Comparisons

A comparative method is suitable to evaluation. In this case, there is both the opportunity of a national and an international comparison.

First of all, the multitude of partnerships and regions provides an opportunity for comparison. The 21 regions differ in a number of aspects, where some of the more relevant are likely to be

¹ This is the evaluation planned to be carried out this Fall; an inventory and analysis of what the partnerships themselves have done in the areas of follow-up and evaluation. Have they known enough to be in control?

their economies (industries, the size and number of companies etc), their governance structures, the role of EU-programs (size and degree of integration) and their ambitions in monitoring and control.

International comparisons could be made with similar policies pursued in Britain and other countries. The EU structural funds will also be an important comparison since there is a lot of international experiences and an international debate on policies and on the evaluation of these programs.

3.3 Tentative conclusions

There is already a debate on the partnerships, where tentative conclusions are stated. These can be interpreted as hypotheses to be tested. While some argue that this would prematurely restrict the study, one could also argue that the “public wisdom” gives hints on what to study and is itself an important object to refute or support.

Based on a few official reports and a few conversations, the following hypotheses can be stated in the form of tentative conclusions from an evaluation:

- there are some new cooperation and projects in the regions due to the new partnership arrangements,
- there are some changes in attitude among public agencies, making them more able to support regional businesses,
- there are some positive effects on the regional economies as a consequence of the former point, but it is too early to give a more balanced judgement (one counter-hypothesis is that effects should already be measurable, if there are any),
- on the negative side, there is much disappointment among regional actors, that almost no new funding was given and that the agencies still work primarily within their sectors,
- some partnerships have accomplished much more than others, which is mainly due to skilful policy entrepreneurs making partnerships work as intended,
- a barrier for the development of the partnerships is that the regions are in conflict with sectors that are still very much alive,
- barriers for the development of the economy are the previously mentioned disincentives, that self-employment is unattractive and that investment in SME's is discouraged

These tentative conclusions imply the general conclusion that the policy may be better than previous policies but that it may not be good enough. This in turn implies that for the policy to work, the regions should be fewer and the partnerships should be stronger.

3.4 Alternatives to the partnerships

Lastly, the partnerships should be put into perspective by comparing them to possible alternatives. This can bring out what is particular about the partnerships and it can give a greater understanding of the field where they are operative. There are other tools that can be used to affect all or parts of the same policy goals.

One alternative is to “go all the way” with the partnerships, to abolish all agencies organized in sectors and only use the regions as tools for policy. To avoid sectors altogether, the ministries would have to be organized for each region, incorporating all sector-related issues within them.

An opposite alternative is to abolish the regions and go back to sectors as an organizing principle. Alternatively, one could have a national perspective on partnerships and how to support

clusters. This would be to highlight national innovation systems and guide their development from the center. This is what one agency does, working in cooperation with other agencies to support the regions.

A national perspective would most likely support the growth of the major urban areas, which would be the already growing areas where the major universities are. The case for such a policy has been made in terms of global competitiveness.

If R&D is seen as a centerpiece of economic development, one should compare the partnerships to other arrangements intended to make industry adopt new knowledge. One such example is the IUC-program, where industrial cooperative development centers are supported. Their function is similar to the much admired German "Fraunhofer" institutes, where companies and researchers work together in fields of applied knowledge.

Lastly, another alternative, mentioned before, is to deregulate and hope that the market would solve some of the problems. This seems reasonable in a country where SME's are under a heavy regulatory burden. Especially venture capital and business angels would seem to be missing in comparison with the US. In a wider comparison, one would have to add the role played by owners and banks in other countries. Traditionally Sweden has had groups of companies structured around major banks, such as the Wallenberg group, where responsibility for developing new opportunities lay with the owners. One of the Swedish and international debates is whether the managers of various pension funds are willing and able to play a role in the restructuring of business. This is an issue that goes far beyond the regional partnerships, but it is a relevant comparison if one wants to raise the fundamental question if policy makers are addressing the right issues when they want to make Swedish business globally competitive.