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National institutions, regional outcomes. The political economy of post-war Swedish regional policy

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ABSTRACT

One debate within the varieties of capitalism approach deals with the significance of institutions below the national level. On the basis of a case study of the loan guarantee system, this article deals with the interaction between institutions and regional actors in Sweden during the formation of post-war regional development policy. We conclude that regional economic problems have been addressed through adaptation of national institutions. From an actor perspective, these results correspond with the revised VoC framework which emphasises that state institutions provide both a framework for business activities and a means for pursuing them.

KEYWORDS
Sweden; varieties of capitalism; regional policy; institutional analysis

Introduction

Since its breakthrough, the Varieties of Capitalism (VoC) literature has primarily had a national perspective as it has demonstrated that successful national political economies are composed of complementary institutional systems. These institutional systems can be broadly classified into two distinct types of market economy: liberal market economies (LMEs) and coordinated market economies (CMEs). In LMEs, resources in the political economy are allocated overwhelmingly through arms-length market exchange. In CMEs, market exchanges are supplemented at many critical points by processes of institutional coordination among stakeholders. Such institutional systems are considered to be path-dependent and create self-reinforcing feedback loops that push development in the respective political economies along familiar paths and make departures from traditional practices very difficult (Hall & Soskice, 2001; Hancké et al., 2007a; Herrigel & Zeitlin, 2010; Sluyterman, 2014).

One debate which has emerged out of the VoC literature is to which extent such national elements also structure production at the local or regional level and how this leaves room for regional diversities and specificities (Ebner, 2016). In this respect, the Nordic countries represent an interesting case. From the latter part of the 1930s, the Nordic countries developed strong features of a CME as defined in the VoC literature (Fellman et al., 2008). However, one traditional feature in the Nordic countries is that the intermediate level of government is weak as the unitary state and the municipal level have been favoured in the Nordic welfare

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system (Torfing et al., 2015). Hörnström (2013, p. 427) notes that the political and administrative system in the Nordic countries is often described as an hourglass, with a wide base representing the strong municipalities, a wide top representing the strong state level and a narrow 'waist' in between that represents the relatively weak regional level. In this respect, institutional coordination primarily occurred on the national level and the local level as the state transferred power as a mean to carry out the goals of the welfare state (Sellers & Lidström, 2007, p. 610).

This description raises questions regarding the formation of regional support policies during the post-war period. As noted by Scott (2000, pp. 485–486), the long post-war boom in North America and Western Europe brought with it a great expansion of Fordist mass-production industry and the emergence of modern consumer society. However, these features were also accompanied by complex and deepening systems of spatial disparities. At the same time, Keynesian and welfare-statist policies were also expanding as a mean for the government to correct imbalances. Altogether, this meant that cities and regions throughout the developing world were changing and growing in ways which launched hitherto unknown questions onto the agendas of academics and policy-makers.

Given the weak intermediate level, one challenge which emerged was how institutions should be designed to target regional problems. This spatial approach to institutions is an issue which has been subject to considerable debate in the VoC literature. One elaboration of the VoC concept has suggested a 'regional varieties of capitalism' approach (cf. Ebner, 2016) This tradition builds strongly on economic geography and emphasises the importance of adding the subnational level into the analysis. It suggests that firms face several different layers of institutions and these may differ depending on firm size, sectors and geographical location (Allen, 2004; Peck & Theodore, 2007; Rafiqui, 2010).

From an historical perspective, one problem with this approach is that it is difficult to align with the general image of post-war regional policy as a top-down framework (cf. Bachtler & Yuill, 2001). Regional policy, then, would tend to structure regional actors and constrain their agency. This rather primitive view might however be qualified by the historical institutional approach originally put forth in the VoC concept by Hall and Soskice (2001). While this approach acknowledges the role of national institutions in a top-down perspective, it moves away from a view of such institutions purely as factors that constrain actors towards one that sees them also as resources. Any strategy adopted by a firm or other stakeholder is likely to be conditioned by a number of institutions, which simultaneously provides opportunities for particular types of action (Hall & Thelen, 2008).

Against this background, this article examines the emergence of the state loan guarantee system in Sweden as an analysis of the relation between regional actors and regional policy within a CME. In this respect, we will elucidate the emergence of the institutions within Swedish regional policy and how they interacted with regional stakeholders. Because the loan guarantee system was the first regional development programme, we have been able to follow this formation over a relatively long time period (1945–1959). These results will then be analysed in relation to other cases from our previous research on relations between regional interest groups and the state during important projects and processes within post-war Swedish regional economic history.

In this study, the main intermediate level we deal with is the county (*län*), which historically has been the basis for the regional analysis in Sweden. In each county, there is a county administrative board (*länsstyrelse*). This is a central government agency with responsibility for the general State administration at the county level and should not be confused with the directly elected county council (*landsting*), whose main task has been health and medical care.

The article builds on published as well as unpublished source material from three decision-making processes concerning the loan guarantee system. As Swedish political decision-making processes follow a number of fixed steps, the ambition has been to study the documentation from these steps sequentially. In this respect, the starting point for the research process has been the archives from the committees (*kommittéarkiv*) material in the Swedish National Archive (SNA). These archives contain all documentation produced during the work of the committees tasked with the development of the loan guarantee system and thereby includes substantial amounts of unpublished material. On the basis of this archive material, the published committee report (the *SOU*) has been studied in combination with the archive of the cabinet meeting documents (the *konseljakt*). The cabinet meeting documents, which also are deposited in the SNA, include all the documents, published or unpublished, that were used to prepare and draft the government bills related to the loan guarantee system. For our study, these sources have been particularly valuable to determine the relevance and impact of the committee work. As the cabinet meeting documents include material from regional actors (for instance chambers of commerce, artisanal organisations and regional business associations), which the government has asked to comment on the committee reports, we have been able to determine that the views of the committees were representative of those of the concerned regional actors since they have commented extensively on arguments and proposals. During the final research phase, parliamentary material such as the government bills and parliamentary records have been reviewed.

Small business funding and the regulation of the post-war financial system

In 1945, the Social Democratic government appointed a commission to deal with the expansion of the state's role in the financial system (SOU 1949:13, 1949). This brought the problems of small businesses in the credit market to the fore. Historians of state banking such as Carnevali (2005), Verdier (2000), and Godley and Ross (1996) have summarised why small firms have encountered problems with their funding and why government intervention became necessary to deal with the problem. One key explanation departs from the fact that a functioning credit market is dependent on specialised intermediaries who can allocate credit. As in any market, the crucial function of financial intermediaries is to be able to respond to information. The problem in the credit market is that important information is extremely costly to acquire and process. Acquiring and processing relevant information in the credit market may lead to high transaction costs for each credit. To deal with this issue, banks often choose to simplify their control of a presumptive borrower's creditworthiness by introducing formalised controls which are based on set criteria. Such criteria often include the contents of the business plan, the borrowers' expected rate of return and past performance. Often, small businesses have problems in complying with such fixed criteria. For instance, while small businesses often have securities, banks may on formal grounds consider them too diverse and scattered. Often, the need for credit is also based on forward-looking business plans which involves such changes in relation to the past that past performance is an ambiguous concept. Altogether, this means that small businesses tend to become disadvantaged in relation to other borrowers. They may therefore be denied loans or must pay a high interest rate as a risk premium.

The emerging interest in small business funding resulted in two main changes. Firstly, there was an ambition from both the government and the commercial banks to create a regulation standard for small business credits. After 10 years of preparation, the Banking Act of 1955 included strictly regulated provisions which allowed the commercial banks to offer short-term credits as well as unsecured debts (debts without underlying security) to small businesses (Larsson, 1998, p. 153–156; SOU 1949:13, 1949; SOU 1952:2, 1952).

Secondly, small business credit expanded as a policy domain. This process was based on a comprehensive discussion on the role of the small business sector in the economy as a whole. For instance, several government commissions acknowledged that the expansion of large industrial firms since the latter part of the Nineteenth Century had not resulted in a corresponding decline of the small businesses. On the contrary, both the number of employees and the level of production in such firms had expanded. The government recognised that small businesses were natural arenas for entrepreneurs, and that many Swedish firms had emerged out of such circumstances. Small business could be important drivers of industrial development and renewal. They were a counterweight to monopoly tendencies and thereby important for the free competition in the economy (SOU 1946:22, 1946, p. 7; SOU 1959:7, 1959, p. 35). Small businesses were also important actors in the economy as subcontractors to larger firms (SOU 1959:7, 1959, p. 36). However, the key argument was related to employment. Here, the government recognised the importance of small businesses for the livelihood of large parts of the population through some estimates. It was estimated that in 1940, there existed 125,000 small businesses which employed one million people (SOU 1946:40, 1946, p. 13).

Business-government relations in a planned economy scenario

In June of 1945, a commission on the future of the small business sector was appointed by Bertil Ohlin as minister of trade in the war-time coalition government. Ohlin at the time had been a Liberal MP since 1938 and leader of the Liberal party since 1944. Ohlin's intention had been for a government commission to make a general review of the policy areas of importance to promote small business (Ohlin, 1945).

In practice, however, the small business commission appears to have been increasingly dominated by the ideas of economic planning which were advocated by some influential Social Democrats. In 1944, the Commission for post-war economic planning was set up, chaired by economist Gunnar Myrdal, who later became minister of trade in the Social Democratic government which was appointed on July 31, 1945. Myrdal warned of a major post-war depression, and to counter this depression, the government had to intervene and shore up the economy. The trade-off was simple: either high unemployment or some form of planned economy. For Myrdal, this meant that various government interventions must be co-ordinated into uniform systems of government regulations in a planned economy (Magnusson, 2000, p. 201).

All artisans and small industrial firms in the country should be able to enjoy the advantages of state support. In this respect, the government favoured a decentralised loan system.

It wanted to create bodies with own responsibilities to make decisions on issues delegated to them. However, it was admitted that this was related to the fulfilment of a number of complex conditions. The credit agency needed to include experts on the technical, administrative and economic issues which small industrial firms were confronted with. At the same time, it was also necessary to include representatives with sufficient knowledge about local/regional firms and their markets. Nevertheless, the local body should also represent not only the interest of local business interest, but also the public interest of the area where it was located (SOU 1946:22, 1946, pp. 8–9).

This could be achieved by creating regional councils with corporatist representation which would be organised according a nationally conform manner. The government planned to create 13 regional councils which each would be allocated its own district (SOU 1946:22, 1946, pp. 24–25). Each such council should have equal representation with four members representing private interest and four members representing the public interest. Furthermore, the public interest would be represented by the chairperson, appointed by the government, one representative from the county board and two representatives from the county council. The private interest, in turn, would be represented by two members from the regional chamber of commerce and two members from the artisan and small industry association (SOU 1946:22, 1946, p. 26).

However, this proposal never was realised. This may largely be explained by the increased resistance towards economic planning from business interests (the so called *Planhushållningsmotståndet*) which emerged during the latter part of the 1940s (Appelqvist, 2014, p. 42–44). In this respect, Stenlås (1998) has described how an elite group among business leaders who mobilised support against the ideas of economic planning. This culminated with the 1948 general election, which the Social Democrats won after a campaign characterised by strong ideological differences regarding the Social Democratic position on economic planning and the public/private divide.

In practice, business rejected the idea of participating in semi-public or public bodies where their primary role would be to provide the state with information. As business refused to provide such information, it would be impossible to build any functional alliance between public and private in such bodies (Benner, 1997, p. 89). While the Myrdal Commission on post-war economic planning was dismantled in 1946, there is no doubt that its impact on small business policy was negative. When it continued its inquiry into the design of a small business credit system, the Ministry of Trade decided that it needed to search for other options (Government bill 1/1950, 1950 appendix 12, 1950, pp. 91–92).

During this process, two ensuing developments would influence the process. In the debate on the report, the Swedish Savings Banks Association (*Svenska sparbanksföreningen*) noted that one way of increasing the supply of credits to small businesses would be to introduce loan guarantees provided by the state (Svenska Sparbanksföreningen, 1954). In 1949, the Ministry of Trade presented an initial proposal for a loan guarantee system based on co-operation with the regional business associations. In this respect, the Minister of Trade also noted that any further development of a loan guarantee system would be connected to the spatial and industrial policies which were emerging. The government was developing a cohesion policy to counter regional imbalances, which meant that important institutions were being designed (Government bill 1/1950, 1950, appendix 12, p. 92).

The emergence of national institutions for social and economic cohesion

In 1942, the Agriculture Commission of 1942 (*1942 års jordbruksutredning*) was appointed to elaborate the future goals for Swedish agriculture. In its report, published in 1946, the Commission envisioned a restructuring of agriculture production by proposing that small unviable farms ought to be shut down or taken over by financially strong farming units. The ambition was to create a structure of farms large enough to fully provide an income for the farming household. The emphasis on production scale and technology would also enable and promote the shift of labour from a relatively less productive agricultural sector to a more productive industrial sector where labour resources could be used more efficiently. This meant that abundant labour was expected to leave the rural areas in favour of the industrialised parts of Sweden (Flygare & Isacson, 2011; Gulbrandsen, 1957, p. 182; SOU 1946:42, 1946, pp. 16–17).

The government had an ambition to control the migration patterns resulting from the new agricultural policy. In this respect, it wanted to limit the migration to the bigger cities as this would result in congestion effects, housing shortages and other bottlenecks. Instead, it was desirable if part of the abundant labour force settled in existing countryside agglomerations (*tätorter*) where the government would expand public services such as housing, health care and infrastructure (SOU 1946:40, 1946, pp. 32–33). In this respect, it is important to note that while the government during the 1950s wanted the population to migrate and disperse according to a certain pattern, it was reluctant to introduce direct measures and instruments to control the location of economic activity in this direction (Government bill 127/1952, pp. 14–15). In this respect, support to existing small businesses appear to have been viewed as a functional compromise as many such firms already were located in the countryside. If these firms could be modernised through investments, they could employ at least some of the abundant agricultural labour and become one foundation in the new settlement structure after the agricultural reform.

There were also other state measures which affected rural and countryside firms in this direction. Schön (2012, pp. 225–26) notes that small business had been able to benefit from the developments during the inter-war period such as the intensified electrification and use of motor vehicles. Through improved electricity and transport networks, smaller towns and entities could more easily compete as economies of scale in various sectors played a lesser role than previously. Access to the electricity grid and small motors allowed small businesses, particularly in the rural areas, as well as crafts and cottage industries, to mechanise to an unprecedented extent. Motor vehicles permitted a more flexible flow of input goods to production and finished goods to the market.

Related to the above, the Social Democrats also viewed small business from an industrial policy perspective. This was related to the fact that large businesses were governed by the so called 'solidaristic wage policy', defined as equal pay for equal work across firms and industries, regardless of productivity and profit developments. This was combined with an active labour market policy that could quickly move those who became unemployed, as a consequence of the solidaristic wage policy and the restrictive demand policy, towards new employment. The goal was to eliminate low-productivity firms and industries, and move labour into firms with high productivity, thus improving economic growth as well as paying a higher wage rate (Henrekson et al., 1996).

By contrast, the Social Democratic government noted that small business in general were less vulnerable to such effects which made them an important employment alternative in cases when firms or sectors were affected negatively by the solidaristic wage policy (Government bill 210/1954, 1954). This position was shared by the Labour Market Administration. If they were able to invest, small businesses would become even more stable in this respect. They would thereby function as one of the measures which would absorb the transformation waves in situations when local labour markets were affected by economic change (Arbetsmarknadsstyrelsen, 1954).

Industrial rationalisation in a small business context

Integrated into the cohesion policies was a notion of the relation between employment resilience on one hand and industrial competitiveness and business dynamics on the micro level on the other hand which the Social Democrats had developed since the 1930s. This work aimed at introducing regulations which could influence the structure of industry, industrial rationalisation as well as regional and industrial sector policies. As for rationalisation, it was concluded that even if such measures could lead to unemployment and related social problems, it was also an important means for increasing the competitiveness of industry. The political background to these policy initiatives was the introduction of a new foundation in economic policy: to maximise the utilisation of the economy's resources. Policies were oriented towards structuring the pre-dominantly private economy, influencing the composition of industries, the corporate sizes and the regional location patterns, thereby maximising the efficiency of private enterprise. In this respect, it was an efficient economic structure rather than private ownership in itself that was seen as the cause of unemployment and economic crises. The state should therefore be more active within an unchanged ownership structure of the economy (Benner, 1997, pp. 81–82).

Within the small business sector, a government commission noted in 1946 that small industrial businesses had a large potential for rationalisations. Several small industrial businesses had successfully introduced modern industrial organisation and working methods such as tempo work and piece rates. This had put their profitability in parity with large industrial businesses. However, the commission also noted that many owners and managers within small industrial businesses were reluctant to make this shift. Instead, they continued to rely on traditional artisanal skills and methods of their trades. Areas in need of such improvement were physical and material such as work planning, working methods, machinery, site conditions, and logistics. They also included areas such as accounting and sales and marketing (SOU 1946:40, 1946, pp. 41–42).

However, the primary area was related to mechanisation and the introduction of modern technology (cf. De Geer, 1978, p. 34). In this respect, workshop conditions were closely scrutinised by government experts. They noted that one key aspect of the rationalisation process was the modernisation, expansion and construction of workshops. Nevertheless, the workshops of many industrial firms did not meet modern technological standards, which prevented a rational configuration of their equipment. It was therefore considered necessary to rationalise workshop conditions (SOU 1946:40, 1946, pp. 51–53). During the 1950s, the government continued to emphasise the need for rationalisation measures within small business. In 1959, a government commission on small business finance noted that as technological progress had increased, the need for the necessary capital to make such investments had also increased (SOU 1959:7, 1959, p. 41).

Business-government relations in the 1954 loan guarantee system

In 1954, the loan guarantee system was finally introduced. The rationale behind the system was that loan guarantee recipients would expand their production by investing in machinery and buildings, and that this investment would increase local employment. To obtain a loan guarantee, the applicant would submit the loan guarantee application to the regional business association (*företagarförening*) in his or her home county. This business association would thereafter process the individual applications and make an initial assessment. If the application passed that stage, it was passed on to a state agency which made the final decision which once again involved the regional business association to which the state delegated to underwrite the loan. The successful applicant could then take out the loan in a profit-based commercial financial institution (usually their regular bank) and use it for the intended purpose (Government bill 210/1954, 1954).

After a transition period (1954–1956) when loan guarantee applications were handled by the Ministry of Trade, the government delegated this task to the Royal Board of Trade (*Kungliga Kommerskollegium*) in 1957. The Royal Board of Trade had been established in 1651 and would remain the main state agency for industrial policy until 1973. During the Twentieth Century, the Royal Board of Trade had administered several programmes aimed at promoting small business and handicrafts and was the nexus between overall government policy on one hand and individual traders and industrialists on the other hand (Gerentz, 1951, pp. 362–363).

In the preparation of the loan guarantee system, the importance of a thorough state control had been emphasised by the Ministry of Trade. The implementation of such control, however, was characterised by some ambiguities. There did not exist any plans to create a dedicated state agency for loan guarantees. Instead, it was assumed that existing agencies or ministries would deal with such issues. However, this would mean a delegation of decision-making power to the regional business associations. Even if the credit assessment by the regional business associations was assumed to be one efficient way of dealing with risk, it was assumed that loan guarantee applications would be assessed in tandem with the County Labour Board (*Länsarbetsnämnden*). As the County Labour Board was responsible for coordinating national policy and regional employment, it had a strong position in determining if applicants complied with the established goals within the labour market policy, especially since it exercised the location control of new investments (Widell et al., 1954, pp. 26–27).

These principles were later reiterated and clarified in discussions undertaken by the review commission for small business finance, which submitted its report in 1959. It emphasised that the loan guarantee system was an instrument for achieving goals related to national institutions such as labour market policy and/or cohesion policy. It was therefore vital that the system was organised in a way which created the best conditions for implementing such policies. Even if non-state actors such as the regional business associations were suitable for assessing loan applications, policy-related consequences and impact should always be in the foreground. Inevitable, this meant that the state must be given the ultimate discretion regarding loan decisions (Utredningen angående översyn av det statliga kreditstödet åt hantverk och industri, 1957a, 1957b).

This created a system where decisions were made hierarchically, and firms were monitored and coordinated by bureaucrats in order to provide a solution to the problem of information asymmetry generally associated with credit allocation. Bureaucratic coordination was designed to economise on communication expense and reduce uncertainty (Verdier, 2000, p. 291). However, the system also implied an interaction between actors on the national and regional level. Sjögren and Jungerhem (1996, p. 31) conclude that in Sweden the state has been able to create an information system for screening, monitoring and enforcing loan contracts by building up national and regional networks of organisations. Even if allocation of credit occurred in a hierarchical structure, it was still dependent on information from networks on the local and regional level (cf. Hull & Hjern, 1982).

National institutions and regional strategies – an analysis

One important feature of the Social Democrats' post-war economic policy was the recognition that structural transformation also could result in spatial social and economic imbalances. This would require additional policy measures beyond the general growth-enhancing efforts within macroeconomic policy. Foreman-Peck and Federico (1999) note that such industrial polices may consist of either measures in support of industries in decline ('helping the losers') or stimulating promising, emerging activities ('picking the winners'). In this respect, it is important to recognise that during the 1940s and 1950s, the Swedish Social Democrats did not consider compensatory measures towards 'losers' such as subsidies or grants to be a sustainable solution to uphold a policy of full employment. Instead, the government favoured an investment policy directed towards those firms who were willing to expand and take on more employment. Since investment in machinery and buildings generally means more employment opportunities in a Fordist production structure, the Social Democrats wanted to identify such firms as 'winners' in the economy.

In our examined case, we note that by linking allocation of credit to the government's intentions as they were manifested within the contemporary national institutions for spatial cohesion, the government created a framework with distinct incentives for firms who were willing to invest and thereby conform to the goals and ambitions of the government. Here, it may be argued that the investment policy for small businesses was based on the same foundation as the investment policy for big business as it was regulated within the corporate tax system (Eriksson, 2014). In this respect, Steinmo (2003, p. 214) describes capital formation during the post-war period as a bargain between the state on one hand and business on the other hand which meant that if businesses invested in places, times or activities that the government determined, taxes would be lower. If business owners chose to ignore those incentives, they would pay higher taxes. Applied to the loan guarantee system, this meant that firms which did not adjust to policy goals could be denied credits, despite having other positive characteristics (less suitable candidates who were deemed not competent enough or had similar deficiencies were of course also denied credits).

In a wider perspective, it might be argued that this way of approaching regional problems by linking goals within national institutions to the strategies and ambitions of regional actors became an institutionalised method within post-war regional policy. In the following, we will illustrate how one such pattern developed. During the post-war period, the economic and social situation in the four northernmost counties, the so-called *Norrland* region, became a target for regional policy. The basic problem was that in *Norrland*, a process of non-agrarian pull away of labour resulted in a large interregional migration in the decades following the Second World War. The opportunities of getting employment in the non-agrarian sector improved through a shortage of labour in the industrialised southern parts of Sweden, which resulted in a large-scale migration from the northern periphery (Bäcklund, 1988).

The state initially responded to this situation by appointing the so-called *Norrland* Commission which was in session during 1944–1949 (SOU 1949:1, 1949). The emergence of a specific regional policy towards Norrland led to a forceful political mobilisation from the regional political and social elite in northern Sweden. These elite consisted of three major groups. The first group consisted of ministers and members of parliament from the region. The second group comprised regional state officials such as governors and officials in regional administrative bodies such as the county councils. These two groups had their major arena in the political system. The local and regional industrialists and major owners of natural resources established the third group. It did not act in parliament, but rather through other lobby organisations and by coordinating-meetings by industrialists and politicians (Andersson-Skog, 2001).

Over time, the interaction between the state and these actors over the future of *Norrland* intensified and gave rise to a distinct pattern of business-government relations. The most important issues in the debate on Norrland was transport problems and the expansion of higher education (Sörlin, 1988). For the sake of focussing on business-government relations, we will not deal with the expansion of higher education in this article, although the interaction between the state and interest groups during decision-making processes in this field followed the same pattern as in the transport sector (cf. Carlbom, 1965).

The business-government relations during decision-making on infrastructure projects in *Norrland* has been subject to several in-depth monographs, for instance Pettersson (1999), Andersson (2004), and Eriksson (2009). These cases are all based on the same type of problem background. Because *Norrland* has abundant natural resources such as forests and iron ore, its economy has increasingly been dominated by firms in the heavy manufacturing sectors. But since it has a peripheral location in relation to the export markets, industrialists have formed regional interest groups together with political actors and demanded that the government should compensate for at least part of the transport cost.

However, the degree of success for such regional interest groups was crucially linked to how well they formulated their arguments in relation to national institutions. Here, Eriksson (2009), dealing with the shipping sector, and Andersson (2004), dealing with the railway sector, show how regional interest groups have acted in relation to a combination of institutions at different administrative levels. The specific policy directed towards a given transport sector and the sectoral bureaucracy have influenced actors' strategies during the initial stages of decision-making processes. The final outcomes of a decision-making process have thereafter ultimately depended on how strongly the arguments brought forward by regional interest groups have corresponded to the general aims of economic policy. It was first when the state and regional interest groups were able to interact within this multiple institutional environment that decision-making processes have ended in tangible outcomes.

Summary and conclusion

As Sweden developed into a CME, it became apparent that the contemporary spatial imbalances and problems were so serious that some type of public intervention would be necessary. However, the intermediate administrative level, which governed the territory where spatial problems were appearing, did not have the necessary capacity to deal with them. Instead, it became an issue for the national government. In practice, the loan guarantee system studied in this paper became the first programme where the national institutions for a regional development policy as they had been devised by the government were applied on a given set of actors. Against the perspective of the institutional debate within the VoC tradition, we want to clarify that one of our findings is that even if we label them 'national' institutions, they were designed for actors and problems on the regional level. In this respect, there are clear sub-national dimensions within what would appear as an aggregate, macro model. Furthermore, we also highlight that in-depth studies based on primary sources strongly indicate that these institutions became a foundation for business-government relations between the state and regional firms.

Although this perspective differs from the institutional discussion within the regional varieties of capitalism discussion, it might still be argued that this is one version of the 'nuanced analysis of temporality *and spatiality* of capitalist development' called for by Peck and Theodore (2007, p. 760). As such, it represents an alternative which goes beyond the dichotomy of 'regional' (sub-national) and 'national' institutions. In the Swedish national context, where the intermediate level is relatively weak, it might be argued that the state has been perceived as too strong. With the rise during the 1960s of a regional policy based on the 'polarization' approach (cf. Myrdal, 1957), firms and related actors in depressed regions have been framed as constrained not only by the market, but also by the state as the intervening actor through regional policy programmes.

This argument ties in closely with the debate on the role of the state within the VoC tradition (Hancké et al., 2007b). While we observe that a radical expansion of the state was part of the emergence of Sweden as a CME, this does not mean that the state, as highlighted by Skocpol (1985), should be treated as an autonomous actor. By contrast, what we have highlighted in this article is that the design of national institutions allowed for regional actors with relatively strong agency, which in practice was needed to implement government policy. As argued by Hancké et al. (2007b, p. 27–28) in some forms of capitalism, the state is a central actor in the sense that it provides both a framework for business activities and a means for pursuing them. An awareness of this duality may be therefore crucial to understand why regional interest groups (or similar regional actors), over time, have been successful or failed in their attempts to influence the state.

While we acknowledge that the empirical cases covered in this article occurred in the specific economic-historical context of the post-war period, we also note that the method for implementation of regional policies which emerged during this period might be useful to consider within contemporary cohesion policy. For instance, with the Barca report (Barca, 2009), which analysed options for future EU cohesion policies, the governance challenges related to cohesion policy was once again brought to the fore. In this respect, it might be argued that while there in many cases is useful to reconsider the dichotomy of top down/bottom up as appropriate governance ideals. It has been recognised that some regions might have problems and actor/firm constellations which may benefit from the type of hybrid approach of national/regional interaction which we have highlighted in this article (cf. OECD, 2013, p. 20). From a policy perspective, the debate on the spatial application of the original VoC approach might benefit to be extended beyond its relevance for successful clusters and agglomerations in high-income regions. Instead, it may be used in novel and explorative approaches to deal with complex issues in regions which hitherto have been difficult to resolve through traditional analyses within regional science.

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