

OECD Territorial Reviews: Stockholm

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Introduction

Stockholm is one of the most successful metropolitan regions in the OECD. Throughout the 1990s, the region experienced consistent and impressive growth, drawing on its role as the national capital, its research and development strengths, concentration of advanced business, logistical and financial services, and specialisation in high growth, high-tech sectors, notably ICT. Stockholm also stands out for its high quality of life, as is evident in its strong public health performance, high educational attainment and low poverty levels. In terms of these and other socio-economic indicators, Stockholm ranks among the best in the world.

Yet, this position should not be taken for granted. While there is no crisis on the horizon, there are a number of weaknesses that could undermine the region's competitiveness in the long run. These include the apparent lack of new high-growth firms to stimulate the regional innovation system, challenges in the labour market, especially with regard to the integration of immigrants, housing shortages and a transport network that has failed to keep pace with growth in the region.

While a number of these issues are related to the national policy framework, local and regional actors have a key role in improving the enabling environment. In other words, Stockholm's capacity to sustain its strong international position will be largely determined by how well it can mobilise public, private and community resources around common objectives. The current regionalisation process could well provide an opportunity to better the governance framework. However, any reform would be effective only with a strong political leadership and active involvement from the business sector. Such reforms are clearly a choice that Stockholm cannot take alone, but that Sweden needs to take as part of a national strategy.

This Policy Brief looks at some of these challenges and the possible solutions put forward in a new *OECD Territorial Review of Stockholm*. ■

What is the Stockholm metropolitan region?

With a total population of 1.94 million inhabitants, the Stockholm metropolitan region, as defined by the labour market area covering Stockholm and Uppsala counties, is the leading region in Sweden. In 2003, it was home to 21.5% of the Swedish population, up from 19.6% in 1990. Its share in national gross domestic product (GDP) has been even higher. In 2003, it stood at 29.1%, an increase from 26.9% in 1990. The Stockholm metropolitan region is also the major location of multinationals nationwide – Sweden ranks 9th among OECD countries in terms of inward cumulative foreign direct investment (FDI) flows over 1990-2003 – and hosts most of Sweden's research and development (R&D) skills, universities and research centres. With a higher level of labour productivity, employment rate and activity rate than in the rest of Sweden, Stockholm's GDP per capita surpassed the national average by 35% in 2002, suggesting the existence of significant economies of agglomeration.

At the international or European scale, Stockholm is commonly perceived as an intermediate urban centre. A new concept has emerged within the local political and economic spheres that further integration at a wider regional level, the Stockholm Mälars region, will endow Sweden with the larger-scale metropolitan city that is required to compete effectively at the international level. The Stockholm Mälars region is larger than the Stockholm labour market area, as it includes three other counties: Södermanland, Örebro and Västmanland. With 2.97 million inhabitants, or one third of the total Swedish population and near to 40% of Sweden's GDP, the Stockholm Mälars region would hold promise for higher productivity gains and a stronger position within the Baltic Sea Area. Current trends in commuting flows and localisation of economic activities suggest increasing inter-linkages between firms as well as between firms and universities/research institutions within the region. Strategic political decisions, especially through public goods with investment in such fields as transport infrastructure, will be a determining factor in accelerating the integration process and shaping a functional polycentric region. ■

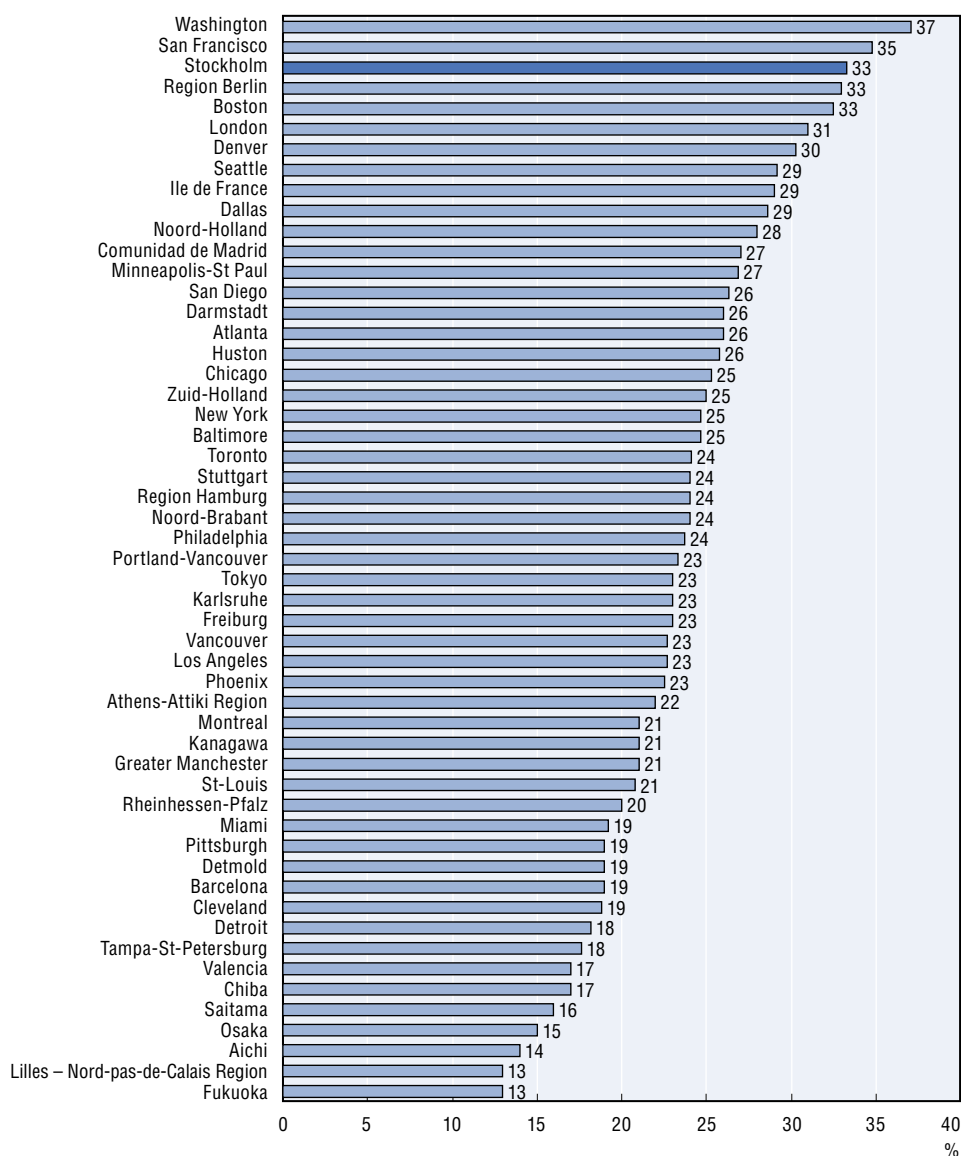
How does Stockholm perform internationally?

Internationally, Stockholm remains a strongly competitive region. Stockholm County ranks 25th among the 66 OECD metropolitan regions with 2 million inhabitants or more. Stockholm's position is particularly strong within the European Union area as it ranks 6th out of 28 metropolitan regions. This good performance is explained by a high employment rate and a large labour force. More significantly, output growth has been fuelled by a remarkable surge in productivity levels since the mid-1990s. Over the period 1994-2005, labour productivity in Sweden has averaged 2.5%, the second highest in the OECD.

A main driver of Stockholm's economic growth has been its capacity to generate innovation, especially in high-tech sectors. It ranks as one of the top regions both for high-tech patents intensity and for applications thanks to strong skills in science and technology (about one third of all employees with tertiary education have qualifications in science and technology disciplines) and a well-developed science system of universities and research institutions (Figure 1 and 2). Stockholm's science system benefits from significant R&D spending, reaping the bulk of Sweden's spending in this field. Among OECD countries, Sweden ranks highest for the ratio of R&D expenditures to GDP and investment in knowledge, ranking second for the number of researchers.

Innovation and productivity have taken place in a number of competitive clusters, including information and communications technology (ICT), biopharmaceuticals, financial and business services, transport and logistics, and analytical instruments clusters. Among these clusters, the ICT cluster stands out as a leader in the global marketplace. Strongly driven by the anchor company Ericsson, this cluster has been able to overcome the bursting of the high-tech bubble at the end of the 1990s and to diversify with a wide range of products and services. A key aspect of the cluster is Kista Science Park which concentrates some 30 000 employees and around 700 companies. The Stockholm cluster model is generally based on a dominant firm (or a few firms such as Ericsson, ABB and AstraZeneca) which induces limited domestic competition inside individual clusters. ■

Figure 1.
PERCENTAGE OF LABOUR FORCE WITH A TERTIARY EDUCATION (2001)



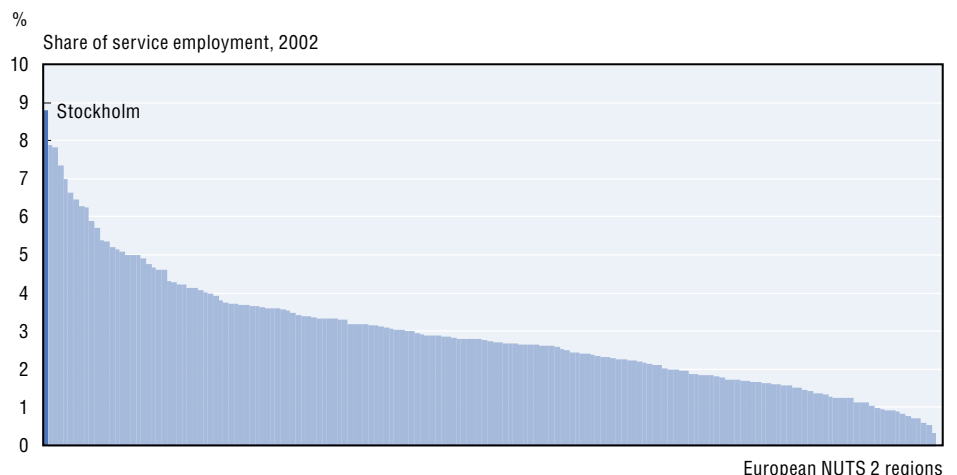
Source: OECD Territorial Database.

What are the main challenges faced by the Stockholm region?

Stockholm requires new sources of growth from its innovation system. A main challenge is that many multinationals have been increasingly outsourcing some R&D and operational functions in Asian and Eastern European countries. Stockholm lacks the new fast-growing firms that are necessary for providing knowledge-intensive business services to existing large firms, but also for producing breakthrough and radical innovation. The university-dominated Swedish research system has been successful in supporting innovation in large R&D intensive companies but has been less efficient in supporting innovation through start-ups, in SMEs, as well as in the advanced service sectors, and in the public sector. Flexible rules and a more favourable regulatory and tax environment for entrepreneurship and new firm creation are critical for technology innovation and commercialisation. A particular emphasis should be put on further integrating small and medium-sized firms in collaboration mechanisms between research institutions, private sector and government. Finally, the regional focus of Swedish innovation policy needs to be further strengthened and adapted to a large metropolitan region like Stockholm.

A number of obstacles to a well-functioning labour market might also challenge Stockholm’s competitive position. In 2003, Stockholm ranked respectively 10th and 13th out of the 66 OECD metropolitan regions for activity rate and employment rate. This good performance reflects, to a large extent, favourable macroeconomic conditions after a deep recession in the early 1990s. The outlook remains uncertain, however, as Sweden is confronted with the challenge to maintain its welfare system under the pressure of an ageing population. In particular, it has to address the late entry of young people into the labour market, the impact of sickness benefits on the number of hours worked and the difficulties for immigrants to access employment. The latter issue is a particular challenge for the Stockholm region which has a higher share of foreign-born population than the national average (18% in 2003 against 12% for Sweden as a whole). Migration into Stockholm has been the main driver of recent positive demographic trends and is likely to increase in the future. Insufficient skills are just one of the key factors explaining the difficulties certain immigrant groups have in integrating into the labour market as even skilled immigrants find it difficult to integrate economic

Figure 2.
SHARE OF SERVICE EMPLOYMENT IN “HIGH-TECH” SERVICES



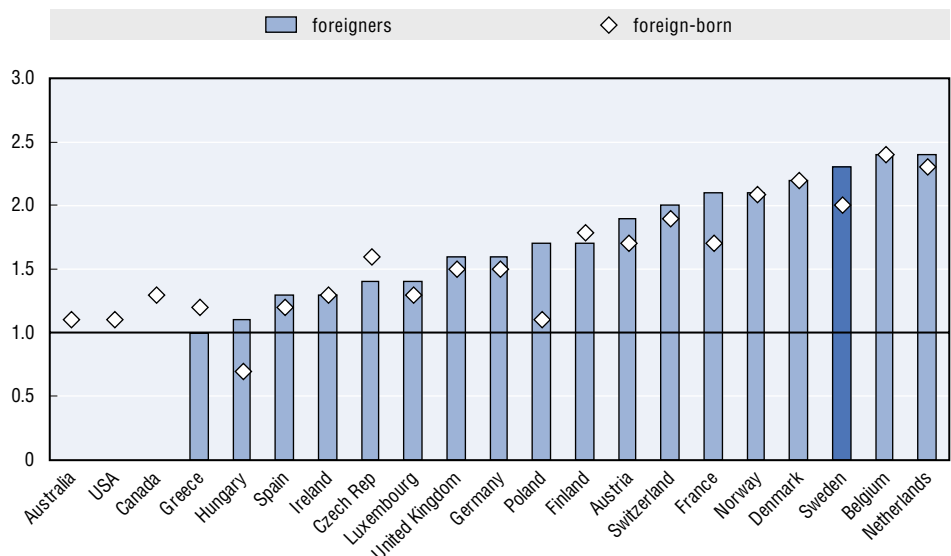
Note: 174 regions are covered in the graph.
Source: EUROSTAT (2005).

networks. Only 40% of foreign-born university graduates from non EU countries have a qualified job compared to 90% for native Swedes (see Figure 3).

Sweden has invested heavily in programmes aimed at integrating immigrants and is one of the only countries in the world where immigrants are entitled to social assistance immediately upon arrival. Yet, it has one of the highest rates in the OECD of unemployed foreigners relative to their share in the labour force. Sweden has increased protection against discrimination in employment and established a foreign diploma equivalency and validation board. It also launched the *Metropolitan Initiative* in 1998, a policy aimed at addressing the immigration integration issue from a holistic approach, using contractual tools, the Local Development Agreements (LDAs), to involve different actors in cross sector, intergovernmental co-operation alongside local residents. Efforts should also be made to address labour market integration from the demand side by further involving the business sector. Improvement appears to require a shift from a model of assistance and entitlement to one that recognises the social, cultural and economic value that comes from diversity as a major asset in the knowledge-based economy.

Finally housing provision and transport network capacity are a serious challenge for Stockholm as an attractive location for skills and business. Housing shortages have been reported in the Stockholm City centre, where about 100 000 people are on waiting lists, as well as in other parts of the Stockholm Mälars region. Consequently, Sweden ranks near the top of OECD countries on housing consumption as a percentage of income. The central government has an important role to play in providing stronger incentives for new housing construction both to private and local public entities as well as reviewing the operation and results of the rent-setting scheme. Similarly, insufficient transport infrastructure investments (Sweden ranks below the OECD average in this respect) have caused accessibility problems and congestion. Consequently, the more peripheral cities and labour markets in the Stockholm Mälars region often have a commuting time of one hour or more to the Stockholm city centre. Several projects are under way to improve the capacity of links and a congestion charge trial has been introduced

Figure 3.
HIGH RATE
OF UNEMPLOYED
FOREIGNERS RELATIVE
TO THEIR SHARE IN
THE LABOUR FORCE



Source: OECD

in the city of Stockholm. However, apart from the Arlanda Express Train connecting the airport to central Stockholm, there are no or few public- private partnerships for infrastructure development. ■

How to achieve a more coherent and integrated regional approach?

Sustaining and increasing Stockholm's competitive position requires better co-ordination of actions in such fields as economic development, infrastructure planning and housing, and a comprehensive long-term regional development strategy. Responsibilities for regional development strategy are under the County Administrative Boards which are branches of the central government at the regional level. In Stockholm County, this responsibility has been transferred to the elected county council. Its regional development plan (RUFSS) is probably the most advanced tool to foster a comprehensive development strategy as it attempts to integrate physical planning with economic development. However, it remains weak in terms of implementation due to municipalities' strong autonomy. Furthermore, while strategic plans developed at the county level have all express the will to increase mobility in the labour market, develop transportation networks and other infrastructures at the Stockholm Mälars region level, there is not yet a clear strategy and action plan agenda developed at this wider regional level.

Actually, the current governance structure in the Stockholm region is not well adapted to the tasks and challenges it faces. Created centuries ago, the counties' borders reflect neither the Stockholm labour market area covering two counties, nor the expanded Stockholm Mälars region covering five counties. The County Councils are elected bodies that can be thought of as another form of local government. Their responsibilities are mainly limited to healthcare (around 80% of the County Council's budget), and in some cases regional transportation and planning (as for Stockholm County). Municipalities are responsible for a large number of items and have extensive planning authority, while regional issues such as transport infrastructure, housing and labour market, clusters and private sector interests, require a broader focus than that of the current 36 municipalities that form the Stockholm labour market, or indeed the 65 municipalities within the Stockholm Mälars region. These issues cannot be dealt with efficiently at the county level as the County Councils have neither the resources nor the capacity.

Current initiatives for strategic development planning at the regional level lack formal structures and mandates for areas of co-operation. A hybrid solution could be envisaged to reflect the current development pattern of the Stockholm Mälars region. The search for an appropriate solution has to take into account the current context of regionalisation process in Sweden and the ongoing discussion of the Parliamentary Committee on Public Sector Responsibilities.

- On the one hand, experimental regionalisation in two regions, Skåne (two counties) and Västra Götland (three counties) could be envisaged in the Stockholm region. There, the new regions became self-governing bodies with a directly elected council and a president and were given responsibility for traditional county council tasks such as healthcare but also regional and economic development. Such experiments could be adapted in the Stockholm County taking into account the specifics of the metropolitan region. For instance, merging the two counties of Stockholm and Uppsala would better reflect the new functional labour market area. This option actually discussed at the Committee on Public Sector Responsibilities would be in line with a recent decision from the private sector to merge the two Chambers of Commerce of Stockholm and Uppsala.

- On the other hand, to pursue the integration process and better exploit existing linkages and potential for agglomeration economies, a lighter form of metropolitan governance could be established at the Stockholm Mälars region level, with the mandate to co-ordinate efforts for a common and shared vision for economic development and infrastructure planning. The current association of the *Council for the Stockholm Mälars Region*, a bottom-up approach involving local and regional leaders, could be reinforced for that purpose, eventually evolving towards a consortium or a Metropolitan Agency in charge of co-ordinating public infrastructures for the whole region.

Finally, further involvement of the private sector could be better achieved through the creation of a “Competitiveness Council” formally led by the region, county or municipal leader (depending on the responses that will be provided to changes in the metropolitan governance) and a leading business executive. This Council would give recommendations on an overarching economic strategy for the region, with inputs coming from a number of working groups focusing on specific clusters and cross-cutting issues. ■

What about the central government?

The central government has a key role to play in strengthening the competitiveness of its major metropolitan region. The current “Metropolitan initiative” is just a neighbourhood action plan whose funding has not been secured as of 2006. It is also too early to assess whether the new regional development policy, prioritising regional growth over redistribution, will effectively sustain the Stockholm region’s competitiveness. Its main implementation tools, which also critically lack adequate financial incentives, are prepared individually by the counties, thus reflecting neither the local labour market nor the Stockholm Mälars region. Particular attention should also be paid to the national fiscal equalisation scheme, to which the municipalities within the Stockholm County and the Stockholm County Council itself are the main contributors. Looking farther ahead, ageing of the population will begin to exert pressure on both welfare and equalisation systems, thereby increasing further the significance of wealth creation by the Stockholm region in the national economy.

Greater co-ordination and rationalisation of programmes across central government administrations also need to be considered. Programme clutter, with different agencies delivering overlapping government programmes with different criteria, has detracted from the ability or willingness of business to engage in these programmes, thereby reducing their effectiveness. Weak cross-sectoral co-ordination on regional development issues at the national level also impedes the establishment of a coherent strategic plan at the regional level. Further reinforcement of the position of the state representative at the regional level is recommended as presently the Governor’s effectiveness depends on the Governor’s personal authority. Overall, attention in central government policies should be given to distinctive challenges of a large metropolitan region like Stockholm. ■

For more information

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For further reading

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