THE ISSUES OF REGIONAL DEVELOPMENT OF THE KINGDOM OF SWEDEN AND THE CZECH REPUBLIC

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Abstract: The purpose of this paper is to analyze the regional problems of the Kingdom of Sweden at the beginning of the 21st century and to confront these findings with the regional policy of the Czech Republic. In the introduction the basic issues of Swedish regional development will be presented. In the text the tax issues will also be outlined, i.e. the system of taxes redistribution to the regional and local authorities in our republic and in Sweden. In the text a case study of regional association of “Western Sweden” follows (West Sweden the EU Project Analysis Service - WEPA). This association has established in Brussels its permanent representation and it promotes here the interests of individual cities and regions – for now only of mentioned “Western Sweden”, which is not a municipal Swedish region, just the association composed of three Swedish regions (Halland, Värmland and Västra Götaland) and 71 cities. In the paper current practice and principles are documented, and the question remains: Is it possible to use this model of “Western Sweden” also in the Czech Republic? This article was created within the research project “Innovation Approach to Analysis of Disparities on Regional Level”, realized under the state subsidy of The Ministry for Regional Development WD-30-07-1 at the Faculty of Economics, Technical University of Liberec, the Czech Republic.

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JEL classification: O18, O57, R11

Introduction

The following text is focused on the description of the Swedish model and the Czech model of regional structure. In the first part of the paper, there is briefly described Sweden, its regional development policy and its system of financing of the regions, municipalities. In the following section the Czech Republic is presented, its regional structure, financing of municipalities, 6,249 of which are in the Czech Republic compared to 290 municipalities in Sweden. In the fourth part the model of cooperation of chosen regions and municipalities in Sweden is introduced; they are merged within the common organization WEPA. It provides for its members the consultancy service by obtaining financial resources from the EU funds directly in Brussels. This system is introduced as a case study. In the final part, the text is trying to find the application options of the Swedish model and to improve the model of cooperation of municipalities and regions in the Czech Republic.

1 Sweden – Description of the Country

Sweden is a constitutional monarchy, in which King Carl XVI Gustaf is head of state, but royal power has long been limited to official and ceremonial functions. Several political parties want Sweden to become a republic, but due to public opinion (Swedes like their traditions) abolishment of the monarchy is not realistic anytime soon The Swedish Monarchy (2011). The 349 members of the Swedish parliament (Riksdag) represent the people and the government answers to the parliament. The parliament has the legislative power and the
government the executive power. Every four years, there are universal and equal elections here where they vote for preferred representatives to the national, regional and local governments. In international comparisons election turnout is normally high, even though it has fallen to about 80 percent in recent decades Swedish government & politics (2011).

Sweden is divided into 21 counties (lan), 18 county councils (landsting), 290 municipalities (kommuner), and two semi-independent regions. Each county is headed by a governor, who is appointed by the central government. The counties coordinate administration with national political goals for the county. The county council (landsting) is a regional government that is popularly elected with particular responsibility for health and medical care. The municipalities are local governments that deal with issues such as education, public transportation and social welfare. Elected municipal councils are headed by executive committees roughly analogous to the boards of commissioners found in some U.S. cities Kingdom of Sweden (2011). The Swedish economy emerged from the financial crisis as one of the strongest in Europe. A high-tech local economy and a comprehensive system of welfare benefits allow Sweden to enjoy one of the highest standards of living in the world. Sweden has one of the most globalized and competitive economies today. GDP (Purchasing Power Parity) was 389.912 billion of International dollars in 2011. The inflation rate was 1.4 % in 2011. Unemployment was 7.5% in 2011 Kingdom of Sweden (2011).

From the recherches of the Swedish regional structure it can be argued that the biggest problem is mainly the distribution of population throughout the country. About 85 % of 9 million inhabitants live in the southern half of Sweden Informace o Švédsku, Embassy of Sweden (2011). It is therefore evident, that the population is substantially unevenly distributed. This fact, however, Sweden is realized and to avoid the disparities, resp. unequal development of the regions, Sweden has adapted its system of financing of the regions in the country to this imbalance: Regions, municipalities, producing higher GDP pay to the state budget more resources, which are then reassigned in favour of the regions with lower population and productivity. The aim of Swedish regional policy is a uniform development of all regions in the country, in order to ensure uniform conditions for the education, health care, etc. in the whole country.

2 Sweden – Public Finance and Regional Policy

One of Sweden’s tools in maintaining solid public figure finances is a budget process that calls for Parliamentary-designated spending ceilings. The ceilings are set for SEK 1.063 trillion in 2011. While spending ceilings can technically be surpassed, they represent a promise the government makes to the people and they are adhered to it. Kingdom of Sweden (2011). Sweden applies The Scandinavian Welfare Model. This model is often used as a general term for the way in which Denmark, Sweden and Norway have chosen to organize and finance their social security systems, health services and education. The principle behind the Scandinavian welfare model is that benefits should be given to all citizens who fulfil the conditions, without regard to employment or family situation. The system covers everyone; it is universal. And the benefits are given to the individual. In the Scandinavian countries most of the social welfare tasks are undertaken by the State or local authorities and only to a limited extent by individuals, families, churches or national welfare organisations Denmark - Conditions of Life - The Scandinavian Welfare Model (2011).

Sweden combines a strong central state with very independent local governments Petersson (2005). Parliament and the national government set standards, while local and regional governments provide most of the services Niklasson, Tallberg (2010). This means that both responsibility for services and decision-making should be placed as close as possible to the
people affected by decisions. Decentralisation also makes it possible to gear activities to particular local conditions. This means that existing resources can be used more effectively Local government in Sweden – organisation, activities, and finance (2005).

The Swedish regional policy since the middle of the 1960s can be summarised as follows:

- 1972-1976: Central place policy where regional planning is a central ingredient, inter-regional balance.

One of the central ingredients in the Swedish regional policy and official rhetoric is the concept of „regional balance“. The official opinion is that the purpose of the policy is to minimise regional imbalances but not at the cost of national growth. Instead, the consequences of the regional policy will result in a more harmonised and sustainable national growth – regional policy will not only reduce regional imbalances but also stimulate growth and reduce bottlenecks in the economy. The purposes of the regional policy in Sweden is twofold – to reduce the negative impacts of the market forces and to give people possibilities to live where they want to live, even at the expense of rising public expenditures. During the past decades the focus has changed from regional balance and regional policy towards economic growth and regional development policy. This is also more in line with the EU policy and can be seen as an adjustment of the EU regional policy Edvardsen (2004).

Special legislation gives municipalities and county councils responsibility for important functions in society that are often mandatory tasks. Municipalities and county councils can also decide to carry out various voluntary tasks Local government in Sweden – organisation, activities, and finance (2005). More is in the Chart No. 1.

**Figure 1: Tasks of municipalities and country councils in Sweden**

To support all mandatory and voluntary tasks needs local government money. A new system of local government financial equalisation was introduced in Sweden on 1 January 2005. The system covers all municipalities and county councils. It has the same purpose as the previous system: to put all municipalities and county councils in the country on an equal financial footing to deliver equivalent levels of services to their residents irrespective of the income of local authority residents and other structural factors Johansson (2005). The system consists of few important parts:

- **Income equalisation:** equalises differences in tax capacity, municipalities and county councils with a tax capacity below a level set by the state receive an equalisation grant from the state.
- **Cost equalisation:** municipalities and county councils that are in an unfavourable position that leads to high structural costs receive an equalisation grant from the state, while municipalities in a favourable position pay a charge to the state.
- **Structural grant** is not paid to all municipalities and county councils but is only paid to the local authorities that previously received supplements under certain models used in the calculation of cost equalisation and/or have experienced major revenue decreases as a result of the change of system Johansson (2005), Local government in Sweden – organisation, activities, and finance (2005).

Local authorities have the right to levy taxes to carry out their tasks. But it is up to the state to decide what local authorities can tax. Since the early 1990s local authorities have been able to tax labour income Local government in Sweden – organisation, activities, and finance (2005). Local income tax is a proportional tax, but the rates vary between municipalities. It is made up of two components, and in 2008 the average rate was 31.44 percent: Municipality tax 20.71 percent, County council tax 10.73 percent, total 31.44 percent Tax in Sweden (2011). State tax in 2008 was 25 percent rate applied to taxable income exceeding SEK 495,000. In 2008, about 19 percent of the population aged 20 or more had income above the threshold for State income tax Tax in Sweden (2011).

3 The Czech Republic – Public Finance and Regional Policy
Territory of the Czech Republic (with the validity from 1 January 2000) is divided into 14 regions and 77 counties (they were abolished on 31 December 2002), including the territory of the capital city of Prague. Regional level corresponds to the splitting of the Czech Republic on the statistical territorial units NUTS III. NUTS II regions are made up of one to three units of the NUTS III. They have been created for the needs of coordination and implementation of the policy of economic and social cohesion, law No. 248/2000 (support of regional development). They are referred to as the cohesion regions. The unit NUTS I is framed of the whole territory of the Czech Republic. Capital structure in the Czech Republic is characterized by the high population density and domiciles disintegration. A significant proportion of the population lives in urban settlements (70.9 % in municipalities with the statute of the city) Regionální uspořádání a region soudržnosti v ČR (2011). In the Czech Republic there are on 1 January 2011 6,249 municipalities, out of this number 4,871 municipalities have fewer than 1,000 inhabitants Počty obyvatel v obcích (2011). Municipalities in the Czech Republic have two basic areas of competence: separate and transferred. A separate competence is implemented through the elected authorities, transferred competence is an expression of the decentralization of public administration. The same classification of activities is within the regions Provazníková (2009).

Revenues of the municipality’s budget are made up of its own revenue, subsidies from the state budget, foreign resources from inland and from abroad. Own revenues include the tax
revenues, municipal taxes, proceeds from the assets, incomes from securities and incomes from its own activities. Furthermore, revenues from fines, donations, lotteries, or credits extending. The tax revenues of the municipality are divided into shared, exclusive and motivational ones. Shared taxes represent the highest share in the budget of the municipalities (approx. 80%); we talk about income taxes (corporate and personal), and VAT. The municipalities about these taxes go halves with the region and the state. Exclusive taxes are those whose income comes exclusively to the municipal budgets, it is mainly the real estate tax (around 12% of the municipality revenues). Motivational taxes represent for the municipality another income arising from the personal income taxes, but this share of the total tax income is just minimal (about 6% of the municipality incomes). Untaxed incomes are also important elements for the municipalities, but their amount depends on the ability of the governing bodies of the village, the size of the assets of the municipality, etc. Furthermore, municipalities can obtain various subsidies from the state budget, and from the funds of the European Union Jáč (2010).

In the Czech Republic there is the average number of inhabitants per municipality around 1,680; in Sweden it is about 31,200 (see Tab. 1). Further the municipalities achieve only minimum tax influenced revenues, a stronger link between the creation of sources from business and communities is missing. At the same time the municipalities had to take over a certain agenda, which was previously carried out by the state apparatus.

**Table 1: Comparison: Sweden vs. Czech Republic**

<table>
<thead>
<tr>
<th></th>
<th>Population (year 2009)</th>
<th>Area (km²)</th>
<th>Population density (inhabitants/km²)</th>
<th>Total no. of municipalities</th>
<th>Average No. of inhabitants per municipality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>10,506,813</td>
<td>78,865</td>
<td>133</td>
<td>6,249</td>
<td>1,681</td>
</tr>
<tr>
<td>Sweden</td>
<td>9,059,651</td>
<td>449,964</td>
<td>20</td>
<td>290</td>
<td>31,240</td>
</tr>
</tbody>
</table>

*Source: own elaboration*

**4 Case Study - Western Sweden**

As a way to encourage local and regional bodies to seek EU funding, the West Sweden region has developed an "advice service" which helps them access funds that match their own long-term development goals. Its designers view the model as "solid and unique" and hope to see it replicated across the EU Region Zápádní Švédsko svým městům pomáhá k evropským dotacím (2011). This particular consultancy service – called the West Sweden EU Project Analysis Service (WEPA) - takes as a starting point the political visions of its member regions and municipalities. Its approach differs from the normal practice of consultants in the area of EU funds, who normally only inform the potential applicants about the current subsidies offer. WEPA consultants are trying to find out more from the representatives of the towns about their regional development priorities. On the basis of this information they seek then an appropriate funding source.

West Sweden, the West Sweden EU and Representation Office, is a co-operation between the regions and municipalities in Western Sweden. The organisation has 71 members; 68 municipalities and three regions: the Region of Halland, the Region of Värmland and the Region of Västra Götaland. West Sweden was founded in 1992 and established its Brussels Office in 1993 as one of the first Swedish regional offices.
West Sweden's activities aim to:

- Refine project ideas with the ambition to develop West Sweden in co-operation with European partners.
- Encourage and support the member's participation in the EU funds and programmes.
- Monitor EU policy that affects West Sweden as a region.
- Build networks with the different actors in the European Union.
- West Sweden has two offices, one in Gothenburg and one in Brussels. The board, which is the highest decisive body in the organisation, consists of 17 politically appointed representatives from the different parts of the region West Sweden (2011).

WEPA keeps track of what is going on within the following areas: energy, external relations, R&D, transport, environment, social policy & health, culture & tourism, employment, information society, youth & education. West Sweden works closely with the municipalities and regions, providing support and coordination throughout the project development process, from the initial idea to the finished application within the above mentioned areas. The total budget for projects approved in 2003-2008 was € 493,454,900, project budget to West Sweden members in 2003 - 2008 was € 7,022,507. Over 50 approved project-applications in 2002-2009 were realized Project Development - West Sweden (2011).

The model has a number of steps. In a preparatory phase, West Sweden representatives will sit down with elected representatives and officials for an all-day kick-off meeting. After this first step, the analysis phase will allow the regional office to make an assessment of potential funding options based on the region's priorities. In a second all-day recommendation meeting, authorities will outline the next steps and finally during the application phase the local authority will set up a project applying for EU funds, assisted by West Sweden throughout the process.

West Sweden officials quizzed by EurActiv cited Arvika Municipality as an example of how WEPA works when it works well. Arvika was the first local authority to test the model. At the kick-off meeting, around 30 leading politicians and civil servants took part in a two-day discussion. West Sweden noted 25 areas which Arvika wanted to develop using the EU funds. These were analysed and further prioritisation was made, which resulted in three successful project applications for a total of € 260,000. As an example, one of the projects aimed to rescue elderly people from isolation through the use of new technologies. Arvika was advised to apply for funding under the Ambient Assisted Living Programme and joined a successful bid from a Dutch-led European partnership. The Arvika and WEPA models have received considerable media attention in Sweden Region Západní Švédsko svým městům pomáhá k evropským dotacím (2011).

5 Discussion
Due to the limited financial resources of municipalities (especially those with a smaller population), and the increasing claim on technical and civil facilities it can be argued that the cooperation of municipalities is becoming a key factor. This cooperation could be very successful in particular in obtaining financial resources e.g. from the EU funds. Thanks to the associations of municipalities into the voluntary fellowships, the creation of legal persons or interest groups, the municipalities may find it easier to achieve these means (resp. for some municipalities, given their scale, the individual effort on the EU funds is virtually impossible) Galvasová (2007, s. 140).
If we compare financing of municipalities in Sweden and the Czech Republic, then the basic lack of the financing of Czech municipalities is their little autonomy, i.e. the municipalities cannot influence the revenue side of their budgets. Of course it would be appropriate to deepen this link, which could lead to greater transparency, when a citizen living in the region could see on what projects his taxes are going.

In the future it would be appropriate to:

- Reduce the importance of shared income taxes in the budget, change its structure in favour of the taxes which would have been intended directly for the budget of the municipality.
- Still increase the importance of the tax on real estate, which is currently the only direct tax income for municipalities.
- Encourage municipalities to promote entrepreneurship and cooperation with local entrepreneurs.
- Prevent the birth of a great margin between the poorest and the richest municipalities in the territory of the region with the assistance of the compensation system – as it was outlined in Sweden.
- Reduce the number of municipalities, resp. to restore once again the counties that would manage the administration of the municipalities that are too small and their management is not effective.

These several basic points could become the basis for further debate and above all the scientific work in this area. However the fact, that the mayors/mayoress are not satisfied with the budget determining taxes was confirmed within the framework of our project InoReDis., You can obtain more information about the project and its outputs in the publication of JÁČ, I. at all. Jáč (2010).

In the Czech Republic the question of representation within the EU is different, compared to the Swedish example in the previous part. In June 2001 the establishment of the Association of Regions in the Czech Republic a private interest group was initiated. The main aim of the new organisation is to promote the regions’ joint interests, especially overseeing the overall development of the territory and tending to the needs of its citizens. The association represents the collective voice of all 14 members - regions. Founding members of the association are (from June 8, 2001) are: Karlovy Vary Region, Liberec Region, Moravian-Silesian Region, The Pardubice Region, The Ústí Region, Vysočina Region, and Zlín Region. On September 14, 2001 the following regions joined: South Bohemian Region, Hradec Králové Region, The Olomouc Region, The Pilsen Region, and Central Bohemia Region. On July 13, 2002 Southern Moravia Region became a member, and on March 21, 2003 City of Prague joined the association. All fourteen greater territorial self-governing units are currently members of the association Asociace krajů České republiky (2011). Within the framework of the Association, the regions:

- submit proposals for legal regulations,
- co-ordinate, approve and secure territorial development programmes,
- create a concept for developing tourism in the region
- set the extent of basic transportation service in the region, etc.

Except these activities through the Association each Czech region has its own representation in Brussels. For example: Liberec Region in Brussels is the permanent Representation of the Liberec Region at the European Union. The Office was created in 2004 with the task of strengthening the position of the Region in Europe. The Office provides complete information
about the essential topics concerning the European Union, for now and the future. Liberec in Brussels edits a periodic newsletter to update the Region about the EU all the facts and events. It also publishes policy papers, technical reports and studies.

Regional representation of the Liberec region in Brussels solves mainly the community programs. It monitors calls, which lists the EU, and searches for the Liberec region institutions, firms, and the appropriate foreign partners for cooperation. It lobs also for the interests of the Czech Republic and the region and ensures mutual transmission of information. Here you can see the main difference between the above-mentioned representation of Sweden and the Czech Republic: the Czech party mainly draws attention to the new possibilities of cooperation, financing, etc. regardless of the current specific requirements of the municipalities and regions. By contrast, the Swedish party is primarily based on the needs of their communities looking for options to address these needs in Brussels.

Thanks to the activities of Representation of the Liberec Region at the EU it managed to raise money in the Regional Operational Programs (ROP), the benefit for the region in seven years reaches about 1.281 billion CZK. In total, the Liberec region could get from the ROP around six billion CZK for the period between 2007 and 2013 Liberecký kraj se snaží získat vliv v Bruselu přes své zastoupení (2011).

In this part we would like to give the examples from the Slovak Republic: Slovakia can go as an example of the Czech Republic in a number of fields, whether it's about the significant progress in areas such as the investments into infrastructure, and increase the availability of the regions, or the active use of funds on employment policy. It's worth to see also the development in exclusion of subsidies on the objectives contained in the Lisbon strategy, whether it is about the support of research and development, small and medium-sized enterprises or increasing of the energy efficiency.

Conclusion
In the paper the regional policy of Sweden and the Czech Republic was foreshadowed, including specific case studies of cooperation of the regions, the municipalities in Sweden with the aim of obtaining some financial resources from the EU funds. From the text it can be argued that, in comparison with Sweden, the biggest problem in the Czech Republic is the diversity of the municipalities – resp. 6,249 municipalities with an average population of cca 1,650. More than 4,871 municipalities have fewer than 1,000 inhabitants. This situation may not always lead to the efficient management of municipalities and the overloading of its representative (mayor/mayoress), who is not always released just for this function; he/she is employed or in business. An interesting approach of Swedish regional policy is the so-called "regional balance", which leads to extending the development of all regions in the country. Another finding is that the Swedish municipalities have a much greater autonomy in influencing the revenue side of their budgets, when also the personal income taxes of the municipality inhabitants belong to the local budgets. The municipalities may even then affect the rates for these income taxes. In the Czech Republic the taxes are collected centrally and then reassigned back to municipalities, regions. In conclusion, we would like to generalize, that the reform of the financing of municipalities in the Czech Republic would have been appropriate, towards greater autonomy of municipalities and towards the reduction of the tax redistribution by the state. Adequate regional policy thus becomes here absolutely necessary Martinčík (2008). However, only by in advance scheduled and conceptually coherent
solutions, not just in the form of one time and specific steps, which will be responsible only for political, not economic decisions.

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