

# Regional Dynamics in Sweden: Historical Trends and Future Challenges

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Regional economic disparities and geographical differences in terms of population development have characterized social dynamics in Sweden since the Second Industrial Revolution. Drawing on a historical study covering the period from the 1860s to the present, this report shows how regional inequalities in Sweden interchangeably shift between periods of increased and decreased inequalities. Since 1980, economic growth has primarily benefited larger regions in terms of both productivity and population, while smaller areas have lagged behind. This trend, however, started to slow down in 2015.

The historical comparisons offer perspectives on the dynamics in this development. We find that a “double divergence” has characterized Swedish regional economic development since the 1980s. Large parts of the country have fallen behind in terms of population density and regional GDP per capita, while regions lagging behind have also experienced a relative population decline. This combination of trends was last observed in the 1930s, and Sweden is not the only European country to exhibit these patterns.

Our analysis shows that the double divergence trend having prevailed since the 1980s started to weaken around 2015. This shift suggests that regional economic development, along with changes in work, commuting, and location patterns, may be entering a new post-pandemic phase. While the pandemic did not cause this change, it did serve as a catalyst for technological and social transformations that were already underway.

Therefore, we discuss signs of changing migration and work-from-home patterns in Sweden during and after the pandemic. We also discuss the signs indicating that the labor market has become more spatially dynamic, something that traditional statistics may not capture. Relocating is a big step whereas extending the weekend by working from a summer house while keeping a city home is a smaller one. In fact, there are signs that labor market regions may be expanding beyond traditional commuting distances.

As an example, co-working spaces and office hotels, where individuals from various sectors share workspaces, are a growing phenomenon shaping our new labor market regions. In March 2022, there were 649 co-working companies in 200 municipalities. For jobs that do not require constantly being present in the office, these facilities allow work relocation to spaces outside the home, thereby expanding local labor markets.

The recent decrease in regional inequality is particularly noteworthy, as it underscores a fundamental point: economic development is not determinis-

tic but shaped by social forces that may diverge from economic forecasts and assumptions. The observed slowdown of the regional divergence trend was not widely anticipated, as most forecasters expected that the trend toward increased disparities would continue. Understanding these dynamics is crucial for policymakers seeking to address regional disparities and promote a more evenly distributed growth across the country.

At the same time, the findings highlight the need to review the tax system in order to better support local communities that contribute to national productivity – even when the formal residence of the workforce does not reflect its actual economic contribution. By acknowledging these shifts in work and migration patterns, policymakers can pave the way for a more equitable distribution of growth.



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