

Sigurður Guðmundsson, BES, MPhil
Head of Development Department
Institute for Regional Development
Reykjavík Iceland

Rural Policy: Coping Locally with Global Challenges

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Introduction

In this lecture I intend to discuss first on a general level the development scene facing peripheral communities. I will refer in some cases to our neighbouring countries but mainly I will do this from an Icelandic perspective. I will then consider how companies, local authorities and the central government are reacting, and how Icelandic authorities are preparing for the future. I shall try my best to discuss fairly the official policy of the Icelandic authorities but views and conclusions drawn are my own and not the responsibility of neither the Institute for Regional Development nor the Icelandic government.

Peripheral communities in a time of rapid change.

We are living in times of great change. We experience rapid technological changes, both as individuals at work and at home as a regular feature of our daily life. We are regularly presented with new materials and hear about new automatic production processes. We experience institutional changes both public and private when companies are amalgamated, public institutions are privatised or when new technologies are taken into use. Change has become an integral part of our existence. The prospects are that we can expect an enhanced speed in structural transformation in many branches¹. The peripheral areas take part in these changes and in some cases they have resulted in job losses, both in blue collar jobs and jobs for educated people. In addition, and only partly because of this, the peripheral areas have experienced out migration on a large scale. In Iceland the net out migration from the peripheral areas has been between 1,5-1,8% of the population per year.

This is an era of globalisation. The economies of the world are becoming increasingly interdependent, mainly because of the volume of international trade, aided in part by multilateral agreements that stimulate and facilitate such trade. In Iceland international trade is not new. We have never been totally self sufficient. From the beginning of the settlement we have traded with other nations. The products have changed over time, however, fish not becoming a major export item until the 14th century². All through the settlement producers have had direct contacts with foreign markets. It is only in the 20th century, when national marketing organisations were formed, that individual producers temporarily lost their contact with the markets they were

¹ Lundqvist and Persson: Northern Perspectives on European Integration, NordREFO 1994:1, p. 15

² Sigfús Jónsson: The Development of the Icelandic Fishing Industry 1900-1940 and its Regional Implications, 1980, p.81. and Karlsson, G. Frá þjóðveldi til konungsríkis in Saga Íslands II, Reykjavík 1975, p. 16.

servicing. Some of these organisations were state institutions and enjoyed a monopoly situation. In the last few years this has changed yet again, both through the liberalisation of exports and through increased quality consciousness programs initiated by the sales organisations.

The globalisation process poses a different challenge for small economies than large ones³. It imposes a more rigid pressure on companies in peripheral locations than more centrally located ones due to the limited size of the local market. There have been very good studies made on the situation and prospects of Nordic small companies⁴ but these studies have not been able to deal adequately with the situation in the more peripheral parts of the Nordic countries or in other countries in similar situations. What I am referring to here are the development prospects of communities that have a fully utilised natural resource base. This is the case for many communities in the Nordic countries. Their further development has to be based on economic activity that is based on a ubiquitous natural resource or no natural resource utilisation at all. This is becoming more common especially in knowledge intensive industries,

The rural fishing communities in the Nordic countries have a long tradition of direct contacts with the outside world as I already mentioned. They have been trading with faraway locations for many generations. This may aid them in trying to develop new companies that have to export by necessity if they are to survive. Studies have shown that in Finland entrepreneurs in exporting companies are more educated than in the ones that do not⁵. This of course could never imply that by exporting entrepreneurs would become more educated but it can be interpreted as an argument for more education in regions that need more exports.

It is commonly accepted that the technological possibilities for a geographically dispersed economic development are there already or at least on the horizon. This is the case in communications, in affordable small scale equipment and processes, in effective transportation possibilities. On the other hand production networks are becoming more and more complex thus requiring a growing need for face-to-face contacts, something that can be difficult from a remote location.

Development paths for peripheral communities

In my opinion there are two main development paths for peripheral communities to choose from. On the one hand there is the possibility of developing a stagnant community by trying to attract investment from outside, either domestic or foreign.

This is what used to be called “smokestack chasing”.⁶ A peripheral community, unless it offers low operating costs or is aided by considerable government subsidies is bound to lose in such a chase. Many would argue that it also loses if it wins. Many communities that have been chosen as locations for large manufacturing plants, with little or no linkages with what was there already, have had a negative development. They are vulnerable to the single large employer and may suffer from the rigidity of the production process in question when situations change, as they always do. In addition to that there aren't all that many footloose factories to go around and there is plenty of competition.

³ See for example Björn G. Ólafsson: *Small States in the Global System*, Ashgate, 1998.

⁴ See for example : *Småföretagens internationalisering- En nordisk jämförande studie*, NordREFO, 1994:7.

⁵ Eskelinen, H. and Forsström, B. in *The Internationalisation of SMEs in Four Finnish Regions in Northern Perspectives on European Integration*, NordREFO 1994:1 p. 125.

⁶ Bailey, J.T. : *Marketing Cities in the 1980s and Beyond* as referred to in Table 4-1 in Kotler,P. , Haider, D.H. and Rein, I. : *Marketing Places*, The Free Press, Ny, 1993.

The second available development path is what Bailey terms Product Development, in the line of an analogy with how one would describe ordinary manufacturing. More and more people consider that anything can be promoted using the same techniques, be it toothpaste or politicians. Be that as it may one can advance this line of thinking considerably. Within the philosophy of locally initiated community development several important aspects can be identified. An obvious one is the retention and expansion of existing firms. This is very important although as stated earlier there may be a limited potential and should not be overlooked. If there are growing and profitable industries in a community they can serve as the basis for further growth. The trouble with this for many of the peripheral communities we are concerned with is that either there are no growing profitable companies there, or they have little or no growth potential due to the limitations set by the natural resources.

It is very important to encourage local entrepreneurs and investment. In order to achieve this it may be necessary to do a lot of groundwork. There may be a negative climate for entrepreneurs in a given community and this has to be attacked. The Jante law is thriving well in too many local communities.

It is important for local communities to be able to attract economic activities from other locations. It is essential for their development in many cases to be assisted by others. Even if the community wants to develop on its own premises this policy cannot be executed and the outside world excluded. Public authorities must be willing to participate actively in the development of the community. There should neither be too much emphasis on the role and the responsibility of the public sector in development, nor should public authorities be too rigid in their approach to development. Flexibility in the execution of the role of the public sector is the order of the day.

Any community needs technical resources to develop, both in the form of a functioning technical support structure to companies and entrepreneurs and in a functioning educational system. I will come back to this important aspect of local development competence when I discuss what the authorities in Iceland are doing to promote local economic development.

Icelandic Rural Policy

In spite of the fact that Iceland is a micro state, as far as population is concerned, it is nevertheless a totally independent state and so it must execute almost all of the functions of much larger states. We have a two tiered system of government: the state on the one hand and the local authorities on the other hand. When we speak of local governance or politics we tend to look exclusively at local authorities. I presume that seen from the outside many people would agree that Iceland as a whole is dealing locally with its own development, instead of being at least partially ruled from the outside as is the case with so many of the other regions represented at this conference. I must admit that I am a bit partial in that I know that the distance between the local and national level in Iceland is much less than in the other Nordic countries, to say nothing of even larger states.

I will discuss briefly aspects of policy in Iceland that are important to the theme of this conference in my opinion. I must admit that objectives and methods in different policy sectors can overlap and fuse. There is always the need for more coordination in the public sector and I think this is a universal rule. The problem is that when you achieve it perfectly you have a dictatorship!

Agriculture

Agriculture is the sector of economic activity which receives most aid and protection in Iceland. There have been fixed prices, import of most products have been prohibited and there were capital subsidies. A few years ago the system was partially restructured and a contract made between the state and the farmers' organisation. This contract was in two parts, one for sheep farmers and one for dairy producers. Both of these contracts had provisions for farmers who wanted to exit from their production at a time when production quotas were cut down considerably. The dairy production has maintained its market size to a large extent and the size of farms has increased. The sheep farmers have not been equally willing - or able - to withdraw from their production. They have therefore been unwilling to accept offers to be bought out of farming and thus suffered lowered incomes as production quotas have been cut again and again.

At the same time Iceland has entered into international agreements that have partially opened up the domestic market to imports. At the same time changes in the agreements between the state and farmers have moved production nearer to a free market where prices are decided by supply and demand. This is of course going to remove yet more of the protective "padding" in which Iceland has covered its agriculture. In such a situation it is very important to provide measures to assist those who want to get out of the sector or try something new.

There have been such measures in the general agricultural agreements. A special fund, called the Productivity Fund, has helped farmers who wanted to diversify. This fund has assisted fur farmers, small scale fish farmers and farmers who have taken up tourism as well as a wide range of other initiatives. With only a few exceptions this fund has limited itself to assisting farmers in operations to be carried out on the farm or in the agricultural areas themselves.

Regional Policy

Regional policy in Iceland has a tradition of more than three decades. For most of this time span it has mainly been occupied with lending to companies in the peripheral districts. In the first decades this was done in a time of economic expansion in a situation where capital was scarce. The delivery of the policy was political and the rules were invisible. When the economic situation as well as the financial environment changed the policy was left behind to a certain extent. This means that the label of arbitrary political decisions has never been rubbed off.

There has been an increase in the assistance to local economic development as a part of the regional policy. This has grown very much in the last few years. Local economic development companies are assisted in hiring development advisors or officers. Assistance to individual companies has been decreased.

Industrial Development and Innovation

The main emphasis of the Icelandic authorities in industrial development in the past has been on the utilisation of hydroelectric power and geothermal energy. After the aluminium smelter in Straumsvík and the ferro-silicium smelter in Grundartangi there was a long period with little visible results in spite of a considerable effort. This would be described as smokestack chasing in the terminology used above. In the last few years there have been a few major decisions made to enlarge or build new factories. These fundamentally change the development prospects of the localities involved, at least in the short term.

At the same time the government has attempted to streamline and coordinate policies that are aimed at small and medium sized enterprises. The ministry for industry has coordinated its measures under one umbrella program and a large emphasis is put upon companies taking

advantage of the possibilities enabled by the agreement on the European Economic Area. These programs have been fairly successful although many would say that companies outside the capital area have not participated sufficiently. This is not caused by any preference on the part of the aid package but rather a neutrality as far as the geographical distribution of participants.

The same holds true for the technical support structure in Iceland. In the last year and a half a EU supported exercise called RITTS (Regional Innovation and Technical Transfer Structure) has been undertaken in Iceland. A part of this exercise has been a study of the support structure. As could be expected the support structure was considered fragmented and insufficiently coordinated and it was noted that the people responsible for individual institutions within the structure did not consider it perfect. As far as geographical distribution of the companies participating in projects with the institutions there was little concern.

One of the things that came out of this part of the RITTS exercise was that expanding companies in Iceland are in many ways more reliant upon the technical competence of the producers of the equipment they use than the domestic technical support structure. This is probably normal in a case where companies tend to be unique or almost unique and no one would expect the public sector to provide technical support. In a way small economies can be “free riders” on the technical knowledge of other nations.

The RITTS exercise nears its conclusion and will in all probability result in recommendations about the tasks of the local economic development officers. These are envisaged as so called “switchers”, i.e. their task will in future be to establish themselves as “first stop shops” for the companies in their region, where they can turn to when they need a solution for a particular problem. Extensive consultation to companies on free government time will be discouraged, among other things on the basis of competition legislation.

The Information society

The Icelandic government has recently agreed upon a policy about the information society.⁷ This policy cuts across all the government departments and is to be equally pursued in the public and private sector, in schools and homes. This policy is specific in that it is stated that it shall seek to involve everybody, regardless of residence. The objectives of the information policy are as follows:

1. Icelanders shall have easy access to the information society. That its advantages be utilised to strengthen democracy and increase the quality of life for the benefit of the public and the Icelandic economy. That information technology be employed in all fields, whether for innovation, public health, science, the arts or other fields of daily life.
2. Complete equality shall be ensured between the public and private sectors in the field of information technology and the information industry. That the Government, with the help of information technology, facilitate access to governmental information and services to level the status of individuals and companies without regard to residence and economic resources.
3. Information and telecommunications technologies shall be mobilised to improve the competitiveness of the Icelandic economy, increase productivity and proliferate the possibilities of exporting Icelandic inventiveness.

⁷ An English version of the policy document is to be found on the internet at this site:
<http://www.stjr.is/framt/vision00.htm>

4. The educational system shall adapt to changed social dynamics and focus general education and continuing education upon the advantages of the information society while, at the same time, keeping watch over our language and culture.

5. Legislation, rules and working methods shall be re-examined with respect to information technology to stimulate technological progress and to protect the rights of individuals and companies.

Conclusion

In conclusion it may be said that more and more we are becoming more aware of the challenges that we will be facing in the 21st century. There will be ever fewer possibilities of protecting economic activities from outside competitive pressure and there will be a decreasing political willingness to do so. The effective utilisation of our marine resources necessitates a dispersed settlement structure and technological possibilities exist to sustain it. Yet the centralising trends are quite strong. I don't know whether we will succeed in coping with the challenges ahead but I know there is a willingness to try both locally and in the central government.