

# Regional productivity and income differentials in Sweden 1850-2008:

## The historical roots of the turnover between North and South

### Abstract:

This paper utilizes a new data material of estimated regional GDPs between 1855 and 2007 at the level of the 24 Swedish counties to uncover the long-run dynamics of the regional industrialization process. Most previous attempts to measure regional inequalities have relied on historical tax assessment data, but this paper shows that the dynamics that shape regional income distributions have largely been different from the ones that shape productivity.

By comparing regional GDPs with regional income data, this paper shows that incomes per capita were much more unequally distributed than production per capita at the wake of the industrialization process. For the five most northern Swedish counties, the value of production vastly exceeded the incomes declared in the region, and that this gap was at its largest during the beginning of the last century. The gap between the value of production and incomes is evidence of the existence of large regional net capital flows between north and south, involving direct investments and capital gains. Today, these capital flows are smaller and are largely off-set by regional redistribution, and other redistribution schemes within the welfare state.

While previous research about the long-run process of regional growth have suggested the existence of an inverted u-shaped in income per capita convergence, with a peak in regional inequalities around 1920 (Williamson: 1965), we find that there has been a constant process of long-run convergence in GDP per capita since 1855. In addition, our results modify the result that the Swedish regional production system has been in balance since the 1920s, as indicated by stable incomes shares per county (Andersson: 1978). This paper argues that there have been large absolute turnovers in the shares of regional production which were previously missed by focusing only on the spatial distribution of incomes. Again, the turn-over in the production system have been most prominent in the five most northern counties, who accounted for about 20 % of all Swedish GDP in 1900 but had decreased their share to 12 % in 2007, while staying at a constant income share of 12 % throughout the period. The paper will address the likely cause of these discrepancies.