

Rapport 2005:6

**Sub-National Insular Jurisdictions (SNIJs)  
as Configurations of  
Jurisdictional Powers and Economic Capacity**

**A Study of Åland, The Faroe Islands and Greenland**

ÅSUB

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## Förord

I denna ÅSUB-rapport presenteras resultaten från en jämförande studie av ekonomisk kapacitet och självstyrelsens utvecklingsnivå inom de tre nordiska autonomierna Färöarna, Grönland och Åland. Frågan om relationen mellan graden av politisk autonomi och ekonomisk potential är inget litet forskningsområde. På ett mer grundläggande plan handlar frågeställningen nämligen om det svårfångade förhållandet mellan politik och ekonomi i en utvecklad marknadsekonomi. Detta är en problematik som samhällsforskningen - med varierande framgång - brottats med under mycket lång tid.

Frågan om förhållandet mellan utformningen av ett samhälles politiska institutioner och dess ekonomisk tillväxtförmåga har dock under senare år fått förnyad aktualitet. Orsaken är den runt om i Norden och EU nu pågående diskussionen om vilken typ av ansvar på den regionala nivån som ger de bästa tillväxtförutsättningarna. Detta har medfört en ny öppenhet för intryck från tidigare mindre uppmärksammade sätt att organisera politiskt beslutsfattande och ekonomiskt ansvar inom små perifera samhällen. Intresset har därmed på ett helt nytt sätt kommit att riktats mot regioner med någon form av politisk autonomi (och därmed också som regel mer självständigt ekonomiskt utvecklingsansvar) - men som ändå inte utgör självständiga stater.

Intresset har varit särskilt starkt när det gäller de autonomier som samtidigt också är öar. Orsaken är att den avskildhet som ö-läget medför gör dem till användbara fallstudier i en forskningsgenre som syftar till att öka kunskaperna om hur olika grader av politiskt ansvarstagande påverkar den ekonomiska utvecklingen.

Detta är också bakgrunden till framväxten under senare år av ett globalt forskarnätverk kring studier av politisk och ekonomisk utveckling inom olika ö-autonomier runt om i världen. Initiativet till nätverket kommer från *Institute of Island Studies* vid University of Prince Edward Island i Kanada och *Institute of Commonwealth Studies*, School of Advanced Studies vid University of London. Vid ett möte i London i april 2005 drog dessa två akademiska institutioner även i gång ett globalt upplagt forskningsprogram kallat *Sustainable Development in a World of Multi-Level Governance: Lessons from Sub-National Island Jurisdictions (SNIJs)*.

Föreliggande rapport är resultatet av en - inte minst resursmässigt - mindre förstudie av de tre nordiska autonomierna inom ramen för detta betydligt bredare internationella forskningsssammanhang. Projektet, som i huvudsak genomförts under sensommaren och hösten 2005, är samfinansierat av ÅSUB och NORDREGIO (Nordic Center for Spatial Development).

Rapporten har presenterats vid den vetenskapliga sektionen av det brittiska samväldets regerings- och statschefskonferens på Malta den 22 - 25 november 2005. Den presenterades även vid ett nordiskt seminarium i Stockholm den 30 november samma år. Förhoppningen är att under 2006 få fram nordiska (eventuellt även andra) forskningsmedel för ett flerårigt fullskaleprojekt där förstudiens frågeställningar kan fördjupas och erfarenheterna från de tre nordiska autonomierna kan diskuteras och tillämpas i ett bredare nordiskt regionalpolitiskt sammanhang.

Till ÅSUB knutne seniorforskaren *Agneta Karlsson* har ansvarat för arbetet med den nordiska förstudien. Hon är också rapportens författare. *Undertecknad* har haft det övergripande ansvaret för projektet och även bidragit med en del inspel till rapporttexten.

Den engelska texten har granskats och bearbetats ur språksynpunkt av utredare *Richard Palmer*.

Mariehamn i december 2005

Bjarne Lindström  
Direktör

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## 1. Svensk sammanfattning

I denna rapport, som baserar sig på en pilotstudie genomförd under sommaren och hösten 2005, utvecklas och diskuteras en speciell form av samhällsorganisation som under senare år rönt allt större uppmärksamhet inom såväl forskning som praktisk politik. Det handlar här om öar med någon form av inre självstyrelse (politisk autonomi), men som inte uppnått full formell statssuveränitet. Den här typen av ö-samhällen - i internationell forskningsjargong s.k. SNIJs (*Sub-National Insular Jurisdictions*) - har visat sig fungera som utmärkta "fullskalelaboratorier" för den forskning som vill öka våra kunskaper om hur olika grader av regionalt självbestämmande påverkar en långsiktigt hållbar ekonomisk utveckling.

I denna rapport presenteras en preliminär analys av Nordens tre SNIJs – Åland, Färöarna och Grönland. På basis av främst sekundära källor kartläggs ömsesidiga beroenden mellan graden av och formen för politiskt självstyre och den faktiska ekonomiska utvecklingskapaciteten inom dessa tre autonomier. En av de viktigaste konklusionerna är att förhållandet mellan graden av egen beslutsrätt och ekonomisk utveckling är ytterst komplext och att enkla kausalsamband därför inte, a priori, kan förutses.

Den gängse uppfattningen i debatten om ö-autonomier, och även i diskussionerna kring regionalt ansvarstagande i allmänhet, är att ett utvidgat självstyre på sikt medför en starkare ekonomi. Erfarenheterna från de i denna rapport närmare granskade nordiska autonomierna tyder på att den uppfattningen baserar sig på en alltför förenklad verklighetsbild. Visserligen kan ett sådant samband ofta hittas i den politisk-ekonomiska verkligheten, men samspelet mellan de två huvudparametrarna politik och ekonomi är för det mesta betydligt mer komplext än så.

I rapporten visas sålunda att **Åland**, trots betydande ekonomisk kapacitet och god ekonomisk utveckling, har en förhållandevis svagt utvecklat autonomi och därmed också ett rätt så begränsat eget ekonomiskt-politiskt handlingsutrymme (se rapportens *figur 1*, sid. 42). Frågan om Åland är moget för ett politiskt handlingsutrymme på samma nivå som övriga nordiska autonomier kan emellertid inte entydigt besvaras med det begränsade underlag som denna rapport bygger på. Analysen av samspelet mellan det egna formella handlingsutrymmet och kapaciteten inom den åländska ekonomin tyder dock på att dagens situation lätt ger upphov till besvärliga systemkonflikter mellan moderland och autonomi. Detta innebär att autonomins utvecklingsbehov ofta inte kan tillgodoses på den statliga nivån, åtminstone inte om prioriterade nationella intressen samtidigt skall bevakas. Gäller det för Åland verkligt avgörande utvecklingsfrågor - i dag t ex sjöfartens framtid, i morgon kanske något helt annat - kan intressekonflikter av

detta slag knappast lösas på annat sätt än att kontrollen över politikområdet i fråga lösgörs från den statliga nivån. Slutsatsen är alltså att en fortsatt väl utvecklad ekonomisk kapacitet som kommer hela det åländska samhället tillgodo åtminstone delvis är beroende av vidgad ekonomisk-politisk beslutsrätt.

När det gäller samspelet mellan ekonomisk kapacitet och graden av självbestämmande så kan deras inbördes relationer också förändras över tiden. Fallet **Färöarna** är ett utmärkt exempel på detta. Den nordatlantiska ögruppens politiska autonomi tillkom som en konsekvens av andra världskriget. Färöarna var då besatta av Storbritannien medan Danmark ockuperades av Tyskland. Den brittiska närvaron kallas i folkmun ”den vänliga ockupationen”, vilket ju är rätt belysande. Krigsåren blev i själva verket de ekonomiskt mest framgångsrika åren i Färöarnas historia genom uppbyggnaden av en från Danmark fristående ekonomi. Framgången i denna uppbyggnad bidrog till en mobilisering av den färöiska identiteten och den nationella stoltheten. Efter kriget var det omöjligt att återgå till de för-krigstida förhållanden då Färöarna var ett danskt amt (län). Pendeln svängde mellan suveränitet och hjemmestyre, men autonomi vann (med knapp marginal) och trädde i kraft 1948. I detta fall betydde den ekonomiska kapaciteten mycket för det självstyret, och därmed ekonomiskt-politiska utrymme, som sist och slutligen tilldelades Färöarna.

I takt med ett under efterkrigstiden successivt allt mer utvecklat självbestämmande kom emellertid politiken att överta allt mer av den ekonomiska styrningen – främst genom snabbt ökande subsidier och andra stimulansåtgärder. Den strategiska omställning av fisksektorn (både den sjö- och landbaserade delen) som skedde under 1970- och 1980-talen förändrade relationen mellan det färöiska samhällets ekonomiska kapacitet och politiska autonomi. I själva verket överutnyttjades det väl tilltagna egna handlingsutrymmet så ett sätt som till slut gjorde att hela den färöiska ekonomin ”kokade över”. Bankkrisen 1992/1993 ledde till att ögruppens BNP reducerades med en tredjedel, till att alla landbaserade fiskförädlingsindustrier gick i konkurs och till att ca 7 000 människor (av 40 000) emigrerade.

I detta fall ledde alltså utnyttjandet av ett väl tilltaget eget samhällsansvar (åtminstone på kort sikt, Färöarna har idag i stort sett återhämtat sig från krisen) faktiskt till en minskning av den ekonomiska kapaciteten. Eller annorlunda uttryckt: det spelar ingen roll hur mycket självstyret man har om man inte använder sig av de möjligheter som autonomi ger på ett kompetent och balanserat sätt.

Den tredje i rapporten behandlade autonomi, **Grönland**, uppvisar ännu ett specifikt mönster i det komplicerade förhållandet mellan faktisk ekonomisk kapacitet och formellt politiskt handlingsutrymme. Den grönländska självstyrelsen är förhållandevis ny med etablering så sent som 1979. Fram till 1950-talet var Grönland en dansk koloni vilket också präglade dess post-koloniala historia. Det paradoxala i det grönländska

samhället är att man har samma formella autonomi som Färöarna (som alltså är betydligt mer omfattande än Ålands) men utan några reella möjligheter att utnyttja detta väl tilltagna handlingsutrymme till gagn för den ekonomiska utvecklingen. De av Danmark införda politiska och administrativa strukturerna (inkl. självstyrelsen) är nämligen fullständigt främmande för den grönländska ursprungsbefolkningen. Resultatet har blivit att Grönland utrustats med en ”överutvecklat autonomi” med betydande socio-politiska dilemman. Det ekonomiska livet kännetecknas också av mycket speciella ägar- och managementstrukturer. Fortfarande äger, trots intentioner om motsatsen, det grönländska hjemmestyret de företag som står för huvuddelen av sysselsättningen. Grönland har således ett slags "statskapitalistiskt" system med föga innovationskraft utöver kärnverksamheterna – dvs räk- och fiskesektorn. Till detta kommer så en mycket omfattande överföring av danska statsmedel fritt till förfogande inom den - även med nordiska välfärdsstatsmått mätt - rekordstora grönländska offentliga sektorn.

Man kan alltså beskriva Grönlands predikament i termer av ett omfattande formellt självstyre som man hittills haft rätt små möjligheter att utnyttja. Detta har i sin tur fått negativa konsekvenser för Grönlands ekonomiska kapacitet och utvecklingskraft. Det är alltså inte självklart att ett stort mått av politisk autonomi utan vidare leder till en starkare ekonomi. Självstyret och dess administrativa strukturer kräver en anpassning till den ekonomiska utvecklingsnivå som samhället ifråga kännetecknas av.

Samspelet mellan ett samhälles politiska befogenheter och möjligheterna till eget ekonomiskt ansvarstagande å ena sidan, och utvecklingen av dess ekonomiska kapacitet å den andra sidan, är med andra ord komplext och variationsrikt. Den empiriska verkligheten ställer krav på en balanserad användning av tillgängliga politisk-ekonomiska instrument samt lyhördhet inför de kontextberoende - men trots detta ändå alltid unika - förutsättningar som varje samhälle alltid bär med sig

## 2. Introduction

This paper presents the results of a preliminary study of three Nordic sub-national insular jurisdictions (SNIJs) – Åland, the Faroe Islands and Greenland. The study focuses on the relationships between the jurisdictional powers of these autonomous islands and their economic capacity; relationships that reveal intriguing interdependencies that go beyond simple causal explanations. The aims of the study are a) to explore the characteristics of the relationships between jurisdictional powers and economic capacity and the ways they function in the specific insular setting b) to present the findings in such a way that the structure of each SNIJ concerning their political and economic capacity becomes clear c) to uncover, through comparative analyses, the unique as well as the common characteristics, and the strengths and weaknesses of these configurations.

### Three Nordic SNIJs

The three SNIJs demonstrate both similarities and dissimilarities. They are islands, they enjoy home rule, although to different degrees, their relationships with their metropolitan authorities differ to some extent, and the structure of their economic sectors demonstrate some significant differences etcetera. In this report we will concentrate on defining them as politico-economic configurations, and analyse their characteristics with regard to such configurations. The presentations of the SNIJs are basically qualitative but will be supplemented by some general statistical data (*Table 1*). We take a special interest in the SNIJ concept *per se* and in its analytical potential within the larger socio-political research field, and we are curious regarding the empirical worlds and the politico-economic uniqueness of autonomous regions in general (since SNIJs can be classified as a sub-category of the latter).

SNIJs have, during the last few years, received more and more attention within the social and policy research areas (Baldacchino & Milne (eds), 2000; Baldacchino, 2005). Their specific geographical, political, economic and cultural characteristics make them “self-contained enclaves” (Baldacchino & Milne, 2000:1) which in turn contribute to them becoming “constructive laboratories of experience” (ibid.) for both scientists and actors on the politico-economic scene. The small size of most SNIJs and their distinctness make them easy to handle - intellectually as well as empirically.

**Table 1.** Some statistical data.

	<i>Åland</i>	<i>The Faroe Islands</i>	<i>Greenland</i>
Size, sq km	1 552 (land area)	1 393	2 166 086 <sup>1</sup>
Population per sq km	17.4	34.7	0.14
Total population	26 530	48 379	56 969
Capital	Mariehamn	Torshávn	Nuuk
Population, capital	10 712	19 351	14 874
GDP at market price, 2002	906 M EUR	9 972 M DKK	7 706 M DKK
Value of exports	770 M EUR <sup>2</sup>	4 235 M DKK <sup>3</sup>	2 251 M DKK <sup>3</sup>
Unemployment rate	1.9 %	3.1 %	6.5 %
Number of companies 2004	1 994	1 536	13 owned by the Home Rule
Form of government	Home Rule w. Finland	Home Rule w. Denmark	Home Rule w. Denmark
Membership of EU	since 1995	non-member	member 1973-1985

<sup>1)</sup> 410 449 sq km ice free land

<sup>2)</sup> Our estimate. Includes both services and goods.. Exports of goods amounted to 124 M EUR in 2004.

<sup>3)</sup> Exports of goods only. Exports of services are negligible.

Sources: Nordic Statistical Yearbook, Statistics Greenland, Statistics Åland

This is, however, not to say that they are easily understood – the complex relationships that characterize larger political entities, like states, are also inherent to SNIJs but analytically these relationships and their empirical manifestations are more easily grasped. There are, for sure, lessons to be learnt from SNIJs; lessons that can be exploited in other politico-economic settings, may they be full-fledged states or ‘ordinary’ regions with delimited jurisdictional powers.

## Research issues

There are a number of different perspectives on the issue of political and economic vulnerability of SNIJs, and within the research debate on islands in general. Most scholars stress negative factors such as isolation, negative migration figures, high transportation costs of exports and disadvantages when it comes to price competition, lack of basic resources, investment problems as well as lack of crucial competences for successful economic and political management. In later years however a more positive attitude has emerged due to the fact that a number of islands demonstrate a strong economic development. As Baldacchino (2005:4) concludes from his extensive global inquiry into the economic status of islands: “The island citizens of Aruba, Bermuda, French Polynesia and Iceland have been counted amongst the world’s top ten richest people (...) Notably, three of the above four territories are non-sovereign islands jurisdictions. Other sub-national island jurisdictions like Åland, Falklands, Jersey and Isle of Man seem to be doing equally well”. The conclusion, then, is that island territories – characterized by varying degrees of sovereignty – have a salient position on

the global economic top lists and for that reason they obviously qualify as subjects of inquiry in politico-economic projects.

The polarized perspectives within the politico-economic debate on islands and SNIJs are interesting from a research point of view. Apparently, they reflect divergent empirical experiences. The 'negative' conclusions, then, seem to usually emanate from studies of islands with less developed economies and/or rudimentary political institutions while the 'positive' ones have typically developed out of experiences of successful island territories. From the current debate we learn that islands and SNIJs are not to be treated as non-problematic politico-economic entities and that their basic characteristics cannot be taken for granted. Empirical comparisons that focus on essential political and economic dimensions seem to be the only valid approach in our endeavour of understanding under which conditions successful, and less successful, SNIJs operate. In this project we assume that the essential parameters are jurisdictional powers and economic capacity and that research questions regarding their individual constituents and their inter-relations/interdependencies are of importance if we are to develop further our knowledge of SNIJs.

*How can we, in a formal sense, analyse and explain SNIJs in terms of jurisdictional powers and economic capacity? Which are the essential constituents (or sub-categories) of jurisdictional powers and economic capacity? How do they interrelate, i.e. what kinds of configurations do they form? Which are the strengths and weaknesses of each configuration? Under what conditions do jurisdictional powers and economic capacity strengthen each other, and under which do they contradict one another?*

These are the kind of questions that have been important to the present project and which we hope to preliminary answer throughout the report (they will, of course, be analysed more in depth in the full-scale project that we hope to continue with after this pilot study has been completed).

### **Methods and structure of the report**

The present paper is based on various scientific reports, political documents, statistics, biographies and historical essays, and on interviews. We have carried out several interviews, on Åland, with people on The Faroe Islands and Greenland. The individuals whom we interviewed were civil servants, politicians and business people. However, this pilot study is mostly based upon the interpretation and analysis of secondary sources.

The project focuses on formally defined SNIJs. However, this does not mean that its contributions are relevant only for this category of politico-economic entities - Nordic

SNIJs as well as other SNIJs around the world. The contributions of the paper can also be related to the ongoing debate on the need of stronger and more active regions within the framework of various national growth policies (Lindström, 2005).

The next section of the paper will introduce the reader to the wider theoretical framework of the present project. In chapter 3 we present the main categories of jurisdictional powers and economic capacity, their sub-categories and their interrelations. In the following three chapters we introduce, describe and analyse the three SNIJs. In chapter 7 we discuss the configurations that have emerged and their similarities and dissimilarities.

The paper ends with a short summary of the key contributions of the report.

## 2. The Theoretical Frame of Reference

In order to more fully understand the assumptions and theses of the present project the reader should be introduced to its theoretical setting and frames of reference. Below, we will therefore present a few of the most important theoretical sources and how they have come to influence the work.

The project relies heavily on economic sociology and political economy; disciplines from which we have brought our basic assumptions as well as major lines of thought. Similar to many other representatives of economic sociology and political economy we take as our point of departure a critical position towards neo-classical economic theory, even though the most common criticism related to the mainstream economic treatment of SNIJs – its inability to explain the specificities of small-scale economic systems (see for example, Alesina & Spolaore, 2003; Lindström, 2000) – will not be further developed here. Instead, we join those critics that attack the reductionism that stands out within most classical economic theory (for an overview, see Smelser & Swedberg, 1994)<sup>1</sup>.

These critics maintain that economic activities cannot be reduced to utilitarianism or simple goal rationality, they are not being carried out by atomistic individuals free of socio-political and cultural bonds (Granovetter, 1985, 1992; Lie, 1992). Of course, divergent forms of capitalism (Whitley, 2000) may be characterized by more or less integration of different societal sectors. The conception of ‘a pure market economy’ is often described in terms of segregation (the market system is, thus, seen as isolated from the political, social and cultural spheres of a society).

Representatives of economic sociology, however, convincingly argue that even the most advanced market economies do not exhibit total segregation (Whitley, 1992, 1994, 2000; Streeck, 1992; Dittrich et al., 1995). Following these scholars means an acceptance of a “complexity argument” – economic actions are not only based upon a pure economic logic or rationality; they are, on the contrary, influenced by social, political and cultural logics. Cook & Emerson (1984) explore, in their social exchange theory, the multi-faceted characteristics of even everyday transactions. They strongly criticise the neo-classical assumption that economic transactions are to be understood as

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<sup>1</sup> Economic sociology, as such, is quite heterogeneous. A variety of theoretical traditions have emerged over time. However, prominent scholars such as Marx, Weber and Durkheim have had a profound influence upon several of these. This paper is not the place for a more extensive presentation of economic sociology. Only its rough lines of thought are presented in order to demonstrate which theoretical hemispheres present project has brought inspiration from.

'independent' events. In everyday economic reality, various social mechanisms such as trust, obligations, commitment and personal affection play a major role. Even 'simple' economic action is as a matter of fact in most instances 'complex'.

Economic sociology is, in general, context-oriented. The basic argument is that economic practices are to be understood in their socio-political/institutional and cultural contexts. Or they are seen as "embedded" in such contexts. Whitley (1992:5), when introducing his "business system theory", states that: "(...) the development and successes of different kinds of managerial structures and practices in different contexts require an explanation in terms of those contexts rather than being reduced to a single economic logic or it being assumed that market competition will, in some mysterious way, select the most efficient patterns of economic organization". Implicit to this statement is a normative assumption; managerial structures that are adapted to, or at least in balance with, contextual conditions will attain success. Contexts are, further, described in terms of proximate and formal institutions; institutions that range from financial, political and educational structures to cultural norms and attitudes.

In the present project we adopt the idea that economic practices are not purely economic to their nature. They are much more complex than that. But instead of leaning towards an elaborate contextualism and thereby separating practices and contexts in our analyses we assume that economic practices incorporate various economic, political, social and cultural elements, or resources, as we call them (and thereby demonstrating our assumption that the exploitation of various resources is central to economic action). Actually we go one step further, proposing that a deliberate and *intelligent incorporation/combination* of various resources in business as well as in business influencing (political) practices might be the very key to the economic capacity of a region. Coleman's (1988:101) 'social capital' thesis bears, in this sense, resemblances with our line of thought. Note how he formulates this thesis in the following sentences: "Just as physical capital and human capital facilitate productive activity, social capital does as well. For example, a group within which there is extensive trustworthiness and extensive trust is able to accomplish much more than a comparable group without that trustworthiness and trust". Aggregated resources, or 'capital', exploited in an intelligent way do not only facilitate productive activity, as Coleman states, but also innovative activity and economic capacity over time.

Resources of different kinds are central to our reasoning. To some extent we assume that they exist in a specific setting. To reduce the economic capacity issue to an efficient use of existing resources is, however, not enough. Strategies for acquiring critical resources should be given just as much attention. A statement by Baldacchino & Milne (2000:9) regarding Åland (one of the SNIJs of the present study) may illustrate this thesis: "(...) the evidence suggests that much more could have been done in developing

a more diversified economy had the Åland Islands enjoyed a more fulsome measure of sovereignty”. “A more fulsome measure of sovereignty”, or a more extensive access to the resource of “formal powers”, would – following this line of thought - generate a stronger economic capacity. Therefore we, logically, assume that the significant actors on the contextual arena act so as to enhance their access to critical political and economic resources. This is, basically, the meaning of the “intelligent acquisition” thesis stated above.

From what we have stated above it should be clear that we treat the political and economic sectors as, more or less, integrated within the SNIJ context. They both influence and incorporate one another in various ways. How they do this, is an issue highly relevant to the present project.

### 3. Jurisdictional Powers and Economic Capacity

Economic sociology and political economy provide us with an overall frame of reference. Still, the two concepts of jurisdictional powers and economic capacity have to be given more precise definitions if they are to be utilized as analytical categories in our study of SNIJs. The text below aims at clarifying our use of the concepts.

#### **The one-way causality hypothesis**

The conceptual platform of the present project relies on the findings of an earlier major research programme – The North Atlantic Islands Programme (NAIP) – reported in Baldacchino & Milne (2000). In that project – which comprised The Faroe Islands, Iceland, Isle of Man, Newfoundland, Prince Edward Island and Åland – the two categories were introduced and elaborated on in their individual insular empirical settings. They are, however, still open to analysis and in no way finally set.

The basic assumption stemming from the NAIP is that *jurisdictional powers* can be seen as an economic resource, that creatively exploited may contribute to the economic prosperity of autonomous regions. The aims guiding the scholars were expressed as follows: “(...) For we want to understand how large an economic resource or potential it is for small islands to have law-making authority or jurisdiction in their own right that they may exercise to advance their economies, or how important power-conferring conventions and practices might be for sovereign states or sub-national jurisdictions” (ibid.:3). Jurisdictional powers are, then, associated with political and economic space and strategic considerations made by political and economic actors.

In the programme *economic capacity* was defined as: “(...) the ability of people in a jurisdiction to respond to opportunity and adversity. It is the capacity of governments, communities, firms, labour unions, employers and workers to innovate as they face new conditions, and utilize their structures and strategies as enabling mechanisms rather than as impediments to change” (ibid.:10). This definition represents a deprecation of the mainstream economics and its tendency of reducing insular economics to a question of small scale, territorial isolation and disadvantages when it comes to exports and trade (the ‘negative perspective’ mentioned in the introduction above). Instead the definition highlights various stakeholders in their role of strategic actors and ‘change agents’, and it also carries a view on economic development as basically a question of (innovative) strategic decisions and actions.

Applying this view means that jurisdictional powers become a principal resource in the strategic behaviour of the significant actors, and an element of economic capacity

within SNIJs.

The NAIP programme treated jurisdictional powers and economic capacity in a causal way based on the assumption that an extension of jurisdictional powers, more or less automatically, would lead to a more extensive political and economic space and thereby to a stronger economic capacity. This 'pure' causality might be relevant with regard to certain SNIJ contexts but the interrelations of the two categories cannot altogether be reduced to this sort of one-sided causality. Throughout the work with the pilot study we have come to the conclusion that there exists a number of complex interdependencies between them and that various sub-categories are to be defined if we are to understand their innermost meanings.

### **Two interrelated key concepts: jurisdictional powers and economic capacity**

In this report we define jurisdictional powers in terms of both *de jure* and *de facto* powers. To the first set of powers we assign those institutional-functional areas that formally belong to a SNIJ following from constitutional rights and that politico-economic space that formally and logically emanates from these rights. Jurisdictional powers are, in this sense, those institutional powers that the Home Rule Act and other formal institutions (guaranteed by international agreements and/or by bi-lateral agreements between a Metropolis and a SNIJ) are securing for a SNIJ. Formally they are to be seen in law texts, written agreements, protocols and other official documents.

De facto powers emanate from the fact that metropolitan influences can be exercised in a number of ways and that they are not just restricted to a formal agenda. Likewise, the authorities of a SNIJ might mobilize informal (counter) powers thereby reducing the metropolitan influences on the local arena. Besides including both the formal and the informal power relationships between a metropolis and a SNIJ into our analyses we also adopt a dynamic perspective on the interactions between these two entities. Jurisdictional powers are not, once and for all, given and the SNIJ is not a frozen entity situated in a vacuum. The negotiated order perspective that often follows political science studies of dynamical political processes (see Smaráson, 2002) is also applicable in the present study. Viewing the interactions between a metropolis and a SNIJ as a set of continuous, more or less conflict-laden, negotiations gives us a deeper (and more actor-oriented) understanding of how jurisdictional powers and politico-economic space develop over time.

Earlier we maintained that jurisdictional powers could be approached as a resource in the development of economic capacity. If jurisdictional powers – with regard to both their formal and informal dimensions – are quite logically defined, economic capacity is not as easily specified. Using this concept as a salient instrument in the analysis of

SNIJs requires it being thoroughly clarified. The definition given by the NAIP scholars was discussed above. In this report we conceive of it slightly differently. Here, we conceptualise economic capacity as the culturally and structurally embedded ability of the significant actors of a SNIJ to respond to opportunity and adversity by the means of an intelligent acquisition and exploitation of various critical resources.

To state that economic capacity is culturally and structurally embedded is to maintain the - to economic sociology - salient thesis that was discussed in the previous section of the paper. Culture, in our work, is constituted by a variety of stocks of knowledge that have developed over time and that are carried by various systems of symbols (everyday language, myths and belief systems, narratives, artefacts and physical manifestations etcetera) specific to a people or a contextually defined socio-political entity<sup>2</sup> and transferable between generations within that entity. These stocks of knowledge are discernible from structures and practices – or ordered actions and interactions – and constitute the common traits of what people value and do within a specific contextual setting. Stocks of knowledge, it should be emphasized, are not free of values but rather the opposite, they reflect those elements of reality that, historically, have been prioritized and - to their most extreme - been given an almost sanctified position (i.e. they are seldom questioned).

Applying this line of thought on SNIJs means, first of all, that we assume that culturally distinct economic practices exist within their realms. With regard to the individual SNIJ we thereby state that the acquisition and use of critical (material and immaterial) resources are not random (or for that matter a question of pure rationality) but emanate out of the stocks of knowledge that have accumulated over time in the setting. With regard to economic capacity this means that those practices that support economic progress are mobilized in times of opportunity and adversity; those that do not are the subject of rejection. In the present paper the cultural dimensions of empirical practices will only be touched upon. The reader should bear in mind that so far this has been a pilot study, and that the time necessary for carrying out extensive anthropological fieldwork has not been available. This, however, does not stop us from emphasizing the crucial position of culture in local business and political practices.

Our definition highlights the acquisition and use of resources, generally regarded as key elements of economic action. It should be emphasized that we adopt a broad perspective on resources including both material and immaterial ones. The very essence of a resource is that it is related to freedom of action, or behavioural space. Jurisdictional powers, as defined by the NAIP, are consequently seen as at least a potentially

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<sup>2</sup> This definition lends its basic constituents from the cultural philosophy of Ernst Cassirer, one of the most prominent Neo-Kantian scholars of the early twentieth century. The present paper is not the right place to discuss - at length- his theoretical position, the interested reader can turn to Karlsson (1991).

important immaterial resource in their capacity of enhancing politico-economic space.

Material resources, as we see them, include financial capital, land and nature, raw materials, infrastructure etcetera. The immaterial are, besides jurisdictional powers, managerial capabilities of both the political and economic sectors, intellectual capital, social capital, national identity and responsibility, legitimacy and the likes. In the present report we term all these resources 'strategic' to the extent that they are, or could be, used for the purpose of strengthening economic capacity i.e. if they contribute to the strategic adaptability, innovativeness, vitality and sustainable economic development of a SNIJ. The latter part of the last sentence is important because in the end economic capacity is about adaptability and innovativeness and the capacity of a SNIJ to constructively relate to its surrounding (more or less international) environment.

Thus, culture, resources and adaptability/innovativeness are sub-categories, which are important to our knowledge of economic capacity. Before we turn to the empirical part of the paper we should however give some comments on the interrelations between the two key categories.

### **The interdependencies between economic and political space**

Above we described how the NAIP conceptualises the causal relationship between jurisdictional powers and economic capacity. Furthermore, we also suggested that this causal relationship (jurisdictional powers influencing politico-economic space and economic capacity) might be just one way of describing this interrelation. The other way around, i.e. economic capacity influencing jurisdictional powers, might be just as relevant a description of a SNIJ. From that, it logically follows that a strong economy increases the chances of an extension of jurisdictional powers. A strong economy would thereby be associated with a stronger political position vis-à-vis the metropolis and a better position when negotiating politico-economic space.

An interesting angle of perspective on this interrelation is indicated, though not fully explained, by Ackrén (2005). In her recent study of 48 identified autonomies all over the world she indicates a relationship between economy and identity in terms of the latter influencing the former. In our own empirical work we have seen how national self-confidence, national pride and a commonly shared responsibility can mobilize the people of a SNIJ with positive consequences on economic performance. Identity can be conceptualised as a resource of economic capacity, it can be mobilized in order to strengthen the economic capacity and thereby influencing jurisdictional powers. And vice versa, formal and informal jurisdictional powers can strengthen the identity of a people and that way influence economic capacity. In our own empirical work we found that causality may run both ways. We have also found both of them, but at different

times in the same SNIJ. An obvious conclusion is that there exists interdependencies between the two and that these interdependencies are crucial to our knowledge of the politico-economic configurations of SNIJs.

## 4. The Åland Islands

Åland, constituted by more than 6,600 islands (of which about 50 are inhabited), covers a land area of 1,552 sq km.<sup>3</sup> Its population of approximately 27,000 people is distributed over 16 municipalities of which the capital, Mariehamn, is the biggest (with almost 11,000 inhabitants). Åland has since 1921 enjoyed home rule within the Republic of Finland and is, since 1995, member of the EU, although not a member of the EU tax union.

Situated in the middle of the Baltic, between Finland and Sweden, the economy of the Åland Islands has always been characterized by the close access to these two important markets. The all-dominating shipping industry, developed during the last two centuries, has its roots in the 19<sup>th</sup> century trade of local agrarian and fish products with these two markets. The maritime and logistical knowledge that accumulated from transporting these goods constitutes the historical platform of the Ålandic international shipping companies of today. The financial structure of the early, village based, shipping cooperatives, characterised by joint ownership and collective investments, has prevailed until today in modified forms. Ålanders still often refer to a 'people's capitalism' when characterising the institutional and ownership structure of their shipping industry. Annual shareholders' meetings and corporate dividends are not merely a topic of financial analysts, but also an issue for a majority of the Ålanders. Compared with The Faroe Islands, and especially Greenland, Åland has a more diversified business life, but even so, the maritime cluster is at the centre of the economy and stands for approximately 40 % of total value added (65 % if the cluster is defined somewhat wider). Furthermore this cluster is, with its banks, insurance companies, shipyards, tourist companies and a multitude of other service companies, characterised by a number of mutual ownership relations and strategic interdependencies, which of course contribute to a simultaneously strong and vulnerable economic situation (ÅSUB, 2002).

A further characteristic of Ålandic economic life is the close interrelationship between tourism and the shipping sector. Since the fifties, the passenger ferry traffic has transported an ever-growing number of tourists to the islands (in 2005 more than 2 million people entered Åland). This volume-oriented concept with its focus upon mass-transport and tax-free sales (representing approximately 50 % of all sales from the ferries) has strongly contributed to the wealth of Åland. Occasionally, especially those who advocate a more segmented, and exclusive form of tourism have called this concept

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<sup>3</sup> Statistical data in this chapter on Åland are from ÅSUB (2005a,b) *Statistical Yearbook of Åland 2005* and *Nordic Statistical Yearbook*.

in question.

The economy of Åland has historically been strong and stable compared with other international regions of similar status, as well as with other Nordic areas. In her recent study of 48 autonomies all over the world Ackrén (2005) concludes, with reference to the GDP/capita of 2000, that Åland is on top of the list with its 35,690 USD (see also Baldacchino, 2005). Recent developments within the shipping sector, however, signal the need of relatively fast and far-reaching strategic adaptations.

To treat the shipping industry as a standardized business is, nevertheless, not correct. The industry operates on a variety of individual, geographical as well as product markets and with various strategic instruments. Within merchant shipping there are at least three strategic groups; one that exclusively works on the spot market (and with parameters of competition that focus upon price and flexibility), another that concentrates on time charter and long term contracts and which is a major transporter of Finnish pulp and paper goods and, finally, a group that combines these two strategic alternatives. The passenger ferry companies that today mainly operate in the Baltic is, another significant strategic group. Historically, this diversification has meant that contradictory business cycles have been balanced leading to an, overall, relatively stable economic progress (see ÅSUB 2002).

In the passenger ferry traffic of the Baltic, however, there is at the moment a growing over-capacity followed by a fierce price competition. Profits have turned into deficits for a majority of the operators. However, in the past the industry has demonstrated strong abilities to adapt to new situations. Structural changes, which have reduced over-capacity and increased overall synergies, have been the traditional option in strategic turnarounds. Apparently this industrial strategy will also be applied in today's situation. Those shipping companies that have the strongest capital bases are, naturally, those who will lead the turn around strategy. Since Åland does not have a shipping register of its own, an alternative strategic option is to sail under foreign flag, thereby reducing costs and increasing the strategic space.

Besides the predominant maritime cluster, Åland has a typical entrepreneurial business structure. A majority of Ålandic companies are small and typically family-owned. Out of a total of 1994 registered companies in 2004, 1,679 had less than 10 employees. Trade and tourism is the biggest individual category followed by construction.

The rate of establishing of new companies is relatively high on Åland, although it often is questionable as to how innovative these new companies are (ÅSUB 2006). Many new businesses simply copy leading successful companies, which in turn sometimes leads to a strong internal competition within individual sectors. It is a saying in the islands that what triggers a person the most is the urge of succeeding better than the neighbour, and

that is why one has to copy the behaviour of the neighbour and drive him or her out of business. Irrespective of the truth of this saying, to duplicate existing businesses seems to be a regular strategic behaviour, and it is obviously supported by the Government.

Historically, subsidies have been given sector-wise, prioritizing one sector at a time. This is also illustrated by the current intense debate regarding how many golf courts Åland should provide its tourists with. The success of its two main courts has led to a conviction that this part of the recreation sector should be expanded, even though experts maintain that the market has matured and that new golf courts could only weaken the competitiveness of the two existing ones.

The effects of the same kind of policy was seen in the expansion of, and failures within, the aquaculture sector. In the eighties aquaculture was seen as both the business of the future and almost as the last resort for the municipalities of the outer archipelago. Consequently, subsidies favoured the establishment of a number of companies within this sector. Internal competition, however, grew too strong and several of them were forced to close down. Today, the remaining ones are the subject of much ecological debate and their future is unclear.

Thus, the economic policy of the Åland authorities has not had differentiation as its main goal, but rather the support of specially prioritized industries. The incentives underlying its support priorities have had unfavourable consequences, leading to a too strong internal competition. Of course, this kind of competition – per se – stimulates product and service development; but when it becomes too strong it diminishes the profitability of the whole industry.

### **Jurisdictional powers – some characteristics**

The Autonomy Act of Åland dates back to 1921 and has been revised twice, in 1953 and 1992. The historical events that preceded the League of Nations' decision in 1921 were dramatic and set the stage for the so-called Åland question. The Russian Revolution in March 1917 and the Finnish declaration of independence in December the same year activated, in various ways, the population of Åland. The Swedish identity of the population – carried by the Swedish language and cultural heritage – was threatened. A re-union with the old mother country, Sweden, seemed to be the only way to preserve the language and the culture. Åland had, together with Finland, been part of Sweden from the 10<sup>th</sup> century and until 1809 when this Eastern part of the realm was lost to Russia. Finland, including Åland, had until its declaration of independence been a Grand Duchy within the Russian Empire. Even though a great majority of the Åland people in an unofficial referendum – declared its wish for a reunion with Sweden, Finland regard this as an act of separatism. Instead Åland was offered autonomy within

the borders of the young state. The question was finally settled within the international community by the League of Nations, where the Ålanders' right to self-determination was denied. Åland became an autonomy under Finnish sovereignty. The autonomy assured by Finland in the so-called Guarantee Law, protects the Swedish language, culture and local traditions. The law also entails the promise "to enhance the Autonomy as much as possible without interfering with the interests of the State" (Lindholm, 1997:83).

The Parliament of Åland has legislative competences within the areas of education, culture and the preservation of old monuments; health and medical services; environment; promotion of industry; internal communications; municipal administration; police service; the postal service and radio and television broadcasting. The laws of the state of Finland regulate the following sectors: foreign affairs; civil and penal law; courts of justice, customs and taxation. Åland has the right to appoint its own member to the parliament of Finland but has not got its own representative at the EU Parliament. Furthermore, Åland is a demilitarized and neutral zone. No armed forces or fortifications are allowed in the islands. A special feature of the Home Rule of Åland is the right of domicile; a right that is naturally possessed by Ålanders born in the islands. Foreigners who have lived permanently at least five years in Åland may apply for this right, which is necessary if one is to acquire land or properties, run a company or even vote in general elections. The ownership of land and water on Åland is altogether an issue of the Åland authorities.

Relationships with Finnish authorities have, from time to time, been turbulent and characterized by a number of disputes concerning territorial, financial and cultural issues. Guarding and protecting the autonomy is an important job for some politicians and civil servants of the central administration of Åland. This means, among other things, scrutinizing all major decisions taken by the Finnish legal assembly and analysing them in terms of the contents and intents of the Autonomy Act. If incongruities are found decisions are to be brought to the Supreme Court of Finland for further judicial investigations. Guarding and protecting the rights of the autonomy is a time-consuming job requiring ample judicial and constitutional skills, skills that sometimes constitute a scare resource.

Even though much of the interaction between Helsinki and Mariehamn follows the formal etiquette of diplomacy, unofficial and personal networks on the political as well as on the administrative levels have always been important. In his memoirs, the former Åland prime minister Folke Woivalin, (1998) stresses the importance of personal bonds as a source of political and economical leverage for Åland. Inviting Finnish politicians to Åland and giving them exclusive information on the spot has been a deliberate strategy when settling a number of disputes. "Use formal arenas for informal networking in a deliberate way" is the advice that the former prime minister gave his

successors. Social capital, emanating from networking capabilities, seems to be at least one of the pillars of the autonomy to build on.

According to some analysts (Lindström, 1997) “polite diplomacy” can function according to a “a fear of provoking” the central powers of Finland. To get a separatist stamp on your forehead might be a compliment in certain political circles, but the opposite in others. Historically, and in order to guard its hegemony, the state of Finland has acted firmly if separatist tendencies have been spotted. These acts of the state might, as the present Åland member of the Finnish Parliament – Roger Jansson – maintains, have perfectly logical reasons. Finland is a relatively young independent state, the existence of which has been threatened on several occasions. The Second World War and the subsequent Cold War are fresh in mind. The Finnish cultural heritage, itself, has throughout history not been fully acknowledged under the ruling powers; neither by the Kingdom of Sweden, nor by Tsarist Russia. Therefore, in Finland, cultural self-esteem and national pride are highly prioritized issues even in present times.

Obviously, the general attitude towards Åland among ordinary people living in mainland Finland, has an indirect influence upon official government policies. Roger Jansson has, therefore, put education on his political agenda. Behind this is the fact that the people of Finland in general (as is shown in various polls) only have a rudimentary knowledge of the autonomy of Åland and what it means in terms of rights and powers. Educating the public seems to be a relevant way to create respect and a positive attitude towards Åland. In the long run, this might affect official Finnish politics concerning Åland.

Immigration from mainland Finland is a source of metropolitan influence that is seldom analysed in official documents, but is most often referred to in the public debate. This is, however, a controversial topic, on the verge of being considered by some as politically incorrect. When Lindström published an article on the subject in 1997 it was met with considerable debate. In this article it was proposed that a process of - seemingly unconscious – ‘Finlandisation’ was taking place in the Åland Islands : “Most noteworthy was a penetrating ‘Finlandisation’ of the Ålanders’ mode of orienting themselves, vis-à-vis various phenomena of the outer world – of their way of thinking and interpreting their own place in the world, so to speak” (ibid.:225). ‘Finlandisation’ is, thus, not so much experienced in sphere of language of the Ålandic society but in the modes people think and act. One of the points of the article was to discuss the effects of the Swedish-speaking Finns’ cultural influence upon Ålanders. Even though Ålanders and immigrated Swedish-speaking Finns share the same language there may sometimes exist differences in culture and basic attitudes towards the authorities in Helsinki.<sup>4</sup> Due

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<sup>4</sup> A study (Hägglom et al 1999) based on a random sample of 820 residents in Åland showed that the basic identity (national loyalty) of Swedish speakers from Finland - after more than 20 years of residency

to the fact that a number of (well-educated) Swedish-speaking Finnish' immigrants have come to hold important positions within the administration and within the public sphere of Åland, this issue of cultural differences and attitudes is not unimportant. But it obviously requires further inquiry. In comparison with this debate, the discussion on the Danish influence on the administrations of The Faroe Islands and Greenland is altogether open, even though at times it is quite conflict-laden.

However, in business relations, knowledge of the Finnish language is frequently needed (Lindholm, 1997). Obviously, it would be a disadvantage for Åland companies not being able to communicate in the language of their customer and/or their business partner. Voices in the local debate sometimes argue that to a sovereign Åland a good knowledge of the Finnish language would be of even greater importance, since the language - in that case - would not be regarded an instrument of power but rather as a commercial necessity.

A somewhat more important issue, with regard to power, is that Åland is a member of the EU but without a representation of its own in the EU Parliament. The position of the Finnish government is in this instance quite clear: Finland, itself, is too small within the Union to allow for regional interests to occupy one of its few seats. The influence of Åland upon decisions in Brussels, thereby, goes via Helsinki. Needless to say, this is one of the issues of major concern for the political system of Åland, of today (see Jansson, 2001).

Some scholars (referred to in Jansson, 2001) maintain that the autonomy of Åland primarily concerns language and culture, while the Åland authorities still lack real economic power. The fact that Åland, contrary to for example The Faroes and Greenland, do not possess taxation rights makes it a relevant subject of discussion. And it is, at the moment, an issue at the centre of the debate (see further below) on a potential expansion of the autonomy of Åland.

### **Jurisdictional powers and economic capacity**

Guarding and protecting the autonomy and the jurisdictional powers of Åland is of major concern for its political actors. But their everyday work is complicated by a variety of systemic conflicts. In economic issues Finland and Åland often operate on different systems levels. On the state level, economic policy might incorporate or ignore regional interests, depending on their congruity with the economic logic of the state level. Economic issues of prominence to the SNIJ level might be downgraded on the state level because satisfying regional needs would, if not jeopardize, at least contradict

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- was Finnish (*finländsk/finlandssvensk*), not Ålandic.

state level interests. During the last few years this has been the case with the Åland shipping industry – the economic life nerve of the Islands.

Lindström (2001:90) has analysed the situation: “Since 1995 Finland has been a member of the EU without any real strategic needs of its own merchant fleet. EU membership also implies that Finland’s economic interests in the European arena must out of necessity take precedence over regional special interests – as Åland’s concerns are seen by Finland (...) All important shipping nations, together with most not so important ones, have adjusted their labour and taxation rules to the international competitive reality (...) However, Åland’s shipping industry, which needs competition rules equal to the ones enjoyed by other competitors within the EU, has been prevented from getting them due to the fact that the rules and regulations governing shipping are controlled by the Finnish state (...) The Åland economy is totally dependent on competitive prices to allow it to sell shipping services on the international markets. Finland, on the other hand, with its economy dominated by advanced industrial products, is a buyer of shipping services. Its main interest is the access to cheap and efficient transportations. If that can be provided by the Dutch as well as Åland shipping companies, there is no reason for Finland to conduct a shipping policy aimed at meeting Åland’s needs”.

Since the state and the SNIJ, in this case, operate on different system levels they are dealing with different economic logics, but since interdependencies between Finland and Åland exist, conflicting interests logically follow.

This is not to say that the maritime sector is unimportant to the Finnish economy (Mörn, 2005). More than 2500 Finnish companies, with about 50,000 employees, belong to the maritime cluster; which contributes with more than 11,000 M EUR to the annual national accounts. The Åland shipping companies with more than 3,700 employees, of which a majority live in mainland Finland, is – in this perspective – not just a minor contributor. But it is a fact that the age of the Finnish (as well as the Åland) fleet is gradually becoming older and older, and that a necessary renewal is not taking place. The average age of Finnish vessels is 20 years, while EU has an average age of 12 years and the corresponding international figure is 13 years (ibid.).

It is also a fact that domestic cargo ships transport somewhat less than 20 % of Finnish exports and almost 48 % of imports. Foreign shipping companies are gradually increasing their share of the Finnish transport market due to more competitive prices and more efficient tonnage. This has also forced the Ministry of Defence to react. They have, in a statement to the Finnish Parliament, made it clear that the level for an acceptable national emergence preparedness now is passed (ibid.). What Finland actually will do in order to change the negative trend is not clear, but Åland shipping companies seem reluctant to wait for new measures. Viking Line, currently the market

leading passenger ferry company of the Baltic, will choose the most appropriate strategy and probably opt for the Estonian flag for some of its ferries. ‘The foreign flag strategy’ is not, however, new to Åland shipping companies. Today, out of a merchant fleet of 50 ships, 17 sail under a foreign flag (ÅSUB, 2005b).

Åland authorities have continuously called for adaptations/international harmonization of taxation policies, both with regard to taxation of the shipping companies and of their on-board employees. This demand has been intensified after EU published its *Guidelines on State Aid to Maritime Transport* (referred to in Mörn, 2005), in which it is stated that all member states should act in order to uphold their own national maritime competitiveness. There is a special recommendation to the member states to introduce a tonnage tax that allows for profits to be withdrawn from taxation as long as they are used for renewals of the shipping fleets. Finland has not, so far, followed these recommendations.

Consequently, Åland has worked hard in order to establish an independent shipping register. The register issue is, according to the revised Autonomy Act, one that – after negotiations and ‘when time is perceived right’ – can be transferred to the Home Rule. The intensified competition within the ferry-line segment in the Baltic and the new competition, particularly from Estonia, has once again prompted the need for immediate Finnish strategic action on this issue. Estonia has a non-tax system for shipping companies, and in combination with lower labour costs this system gives them a considerable competitive advantage. As long as serious measures are not taken by the Government of Finland there will be a continuous strategic disadvantage for domestic shipping companies in general, and the Åland ones in particular, in international competition.

Historically, the issue of self-determination concerning tax issues, has been one of the most important and most inflamed areas of dispute in the relationships between Åland and Finland (Lindholm, 1997). Contrary to the case of The Faroe Islands and Greenland, Åland does not have the authority of deciding on ‘state’ taxation of its own, or on the control over indirect taxes. Instead the Ålandic taxpayers annually get back an annual block transfer from the State; 0,45 % of the total direct taxes of Finland.

The very idea of controlling the income side of the budget is becoming a more and more urgent matter to the people of Åland. A new political party called the Future of Åland (*Ålands Framtid*) has placed autonomous taxation authority on a prominent position in their programme.<sup>5</sup> This has also prompted the established Conservative Party (*Frisinnad Samverkan*) to revitalise its traditional demand for a more independent economic policy

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<sup>5</sup> See [www.alandsframtid.nu](http://www.alandsframtid.nu).

of Åland.<sup>6</sup> This (re-)new(ed) angle in the political debate makes it look more like the Faroese, where traditionally the political parties, have been positioned not only along a right-left wing, but also along a unionist-separatist, scale (for a historical review, see Mørkøre, 1997). However, so far the attitude of the Finnish government has not been in favour of a separate Åland taxation, something that has caused an intense political debate in Åland.

### **Concluding remarks and configurative inputs**

The economic capacity of the society of Åland has, historically, been strong. The huge maritime cluster, with its variety of branches, has – over time – accumulated crucial strategic skills. The local shipping industry has learned to adapt to changes in the international market, as well as to varying institutional conditions and – in general – succeeded in turning adversity into opportunity. Its development has been characterised by a strong focus on the financial capital basis (which is a precondition for financial perseverance), innovative product/service thinking and a good sense of market needs. The capital accumulation strategy that still is predominant within the Åland corporate culture, gives priority to strong solidity and organic growth.

Oneself being in control is a crucial issue inherent to local cultural norms and congruent with the strong identity of the Ålanders. Moreover, the simultaneously cosmopolitan and local orientation of the business culture has fostered a flexibility that is often regarded as a key success factor of strategic behaviour. The traditional navigating skills of Åland seamen have also come to characterise the Ålandic shipping companies in their endeavour of finding their competitive positions on the global business ocean.

To sum up, the economic capacity of Åland is circumscribed by the lack of powers of taxation and of a local shipping register. Today, the most important tools of economic policy are not controlled by the Ålanders themselves but by Finnish authorities. As long as the interests of the State and the SNIJ are the same, this obviously is not a problem. However, the objectives of the two different systems levels most often, and out of logical reasons, do collide. In such cases the issue of separating the two systems may enter the political agenda. This does not necessarily imply a call for sovereignty, but rather for an extended autonomy with the purpose of protecting the core business and the economic capacity of Åland.

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<sup>6</sup> See [www.fs.aland.fi](http://www.fs.aland.fi).

## 5. The Faroe Islands

The Faroe Islands, situated in the North Atlantic Ocean, is part of the Danish Unity of the Realm, but with Home Rule since 1948.<sup>7</sup> The islands cover 1,400 square kilometres and are inhabited by approximately 48,000 people, of which almost 50 % live in the capital, Torshávn. The Faroe Islands comprises 18 islands of which Streymoy and Eysturoy are the largest. The population of these two islands account for two thirds of the total population. All in all, 17 of the islands are populated.

Since the beginning of the 20<sup>th</sup> century, and especially since World War II, the fishing industry and the cluster that has emerged around it have dominated economic life of the Faroe Islands. During the last five decades a more integrated economy has emerged, incorporating an increasing number of parts of the whole fishery value chain. New companies, based upon various fish processing competences and international marketing skills have altogether changed the picture of the islands isolated by the Atlantic Ocean, but this is not to say that the economic capacity of the Faroese has developed under calm and non-disrupted conditions.

During the last few years the economic situation of the islands has been characterised by a remarkable recovery from the bank crises of 1992-94 when the whole Faroese economy was on the verge of collapse resulting in a reduction of the GDP with one third, bankruptcy of all fish processing companies and an emigration of 7,000 people.

The bank crisis was both caused by and led to a gradually more severe burden of debt. In 1993 public debt – to Denmark - amounted to 7,300 Mill. DKK (per capita 167,000 DKK, three times the Danish per capita debt), of course a very high debt level for this size of an economy. But already in 1998 the negative situation had changed due to a political agreement with Denmark but more importantly due to a positive development of the economy in general and, one might say, the special ability of the Faroese people to mobilize around a common course.

The public subsidy system developed during the economic crisis. The considerable expansion of the fishing industry in the seventies and eighties was, to a large extent, financed by subsidies - direct and in the form of guarantees. Even though the subsidy policy strongly contributed to an over-heated economy it was originally aimed at reducing the effects of economic recession.

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<sup>7</sup> General statistics in this chapter are from Statistics Faroe Islands (2004) *Statistical Yearbook of the Faroe Islands 2004* and *Nordic Statistical Yearbook*, 2005.

In the seventies the fisheries had, in profound way, been forced to change their product strategies. During that decade, before the establishing of the 200 nautical miles fishery zone, two thirds of the catch came from distant waters. The most profitable catches were those of cod. After the zones were established fishing was moved to domestic waters (Lyck, 1997c). Profits were, then, reduced and the strategies had to be redefined. Supporting this process was an issue for the local government. The subsidies, however, came to play their part in a financial development that slipped out of the hands of the authorities. When the Danish Government intervened, demanding structural economic adjustments, it meant a total stop to the subsidy policy. Today, and after a profound restructuring, the Faroese fishing industry is again standing on its own feet. Nevertheless, it is as dependent as ever on international agreements on quotas and trade conditions.

Contrary to its mother country Denmark, The Faroe Islands remain outside the EU. According to the Home Rule Act, foreign affairs are to be handled by Denmark. But due to their different status with regard to EU, a paradoxical situation similar to that of Åland, has occurred. Denmark has, consequently, become a ‘foreign’ country through the establishment of a Faroese customs border.

The Danish authorities have now recognized the strong dependency of the Faroese economy on foreign relations, and have agreed on the Faroese themselves having the possibility of influencing international fishing policies and agreements. For example, the Faroese Government now negotiates bilateral agreements on annual quotas and licences with foreign countries, without the interference by the Government of Denmark (see further below). Furthermore, the Faroe Islands are allowed to act as full members of various central North Atlantic fishing organisations, such as NAFO and NEAFC. The Faroese islands may seem geographically isolated, but they are obviously dependent on international – institutional as well as economic – affairs, and this is a significant trait of the Faroese society.

### **Jurisdictional powers – some characteristics**

The Danish Realm, the political domicile of The Faroe Islands, has historically played a dominant role in North European politics. In 1814, however, a central part of the Kingdom of Denmark – Norway – was lost to Sweden and in 1949 Iceland became a sovereign state. Denmark – today - covers a relatively small geographical area (43,376 sq km), that is excluding the Faroe Islands and Greenland. When it comes to Danish international affairs the role of the two remaining Home Rules should not be underestimated. Because of them Denmark is still a member of some arctic transnational networks and organisations which renders them prestige on the global arena as well as financial support (the U.S. missile base in Greenland) (Smáráson,

2002).

The Faroese Home Rule Act dates back to 1948 and has its origin in the extraordinary events of World War II. At that time the Danish mainland was occupied by German troops and the Faroe Islands – as part of their North Atlantic Blockade – by the British. All communications between Denmark and the islands were interrupted and under the years of ‘the friendly occupation’ the Faroese were under self-government. Prior to the war the islands had been a Danish county (amt) led by a governor (amtmand). Until then the Løgting, which had been reduced to an advisory board, now took over the legislative powers in cooperation with the Danish governor. After the war, it seemed impossible to return to pre-war conditions (West, 1972). Economically, the war years are among the most prosperous in the history of the islands. The British market for fresh fish was opened and the Faroese supplied this market with about 20 % of its total fish consumption during the war (Høydal, 2000). The agricultural sector flourished as well, and the contacts with the British troops brought new technological knowledge to the islands. All of this fostered a strong national pride among the Faroese. As Debes (2001:4) expresses it, the people – for the first time – realized that it could manage its own affairs.

In September 1946 a referendum regarding the future status of the Faroe Islands was held. The result of the voting uncovered a politically divided people; 50.7 percent voted in favour of secession, and 49.3 per cent for a restoration of the constitutional bonds with Denmark (Mørkøre, 1997). But even though a majority voted for sovereignty, Denmark did not accept the results. The official reason was that the status of the referendum was not, a priori, agreed upon. The question was whether it was to be regarded “as an indication of public opinion or as final and decisive?” (ibid.:162). In the following Faroese parliamentary election it became clear that a majority was against secession. The outcome of the following negotiations between Denmark and the Faroe Islands was the Home Rule Act of 1948, approved of by both the Danish Parliament and the Løgting.

The Faroe Islands are, as the case is with Greenland, part of the Danish Unity of the Realm, (*Rigsfællesskabet*) which is held together by the Danish Constitution. However, their status within the Realm is unclear from a strict constitutional point of view. In his dissertation on the Unity of the Realm Harhoff (1993) clearly demonstrates the paradoxes inherent to the relationships between the two insular autonomies on one hand and the Danish Realm on the other. The Home Rule Acts of the both overseas parts of the Realm are, in Harhoff’s words – constitutional curiosities. The constitution of Denmark implies a mono-structure within which some functions have been delegated to the Home Rule authorities of The Faroe Islands and Greenland. These arrangements are, from a strict judicial point of view, reversible even though it occasionally been declared

that the authorities of the Realm should act as if they were irreversible. The Unity of the Realm is, if one is to follow Harhoff, more of a symbolic construction than a political-economic-cultural reality: “Seen from a North Atlantic perspective one cannot speak of governmental structures that represent the State of Denmark, but of independent organisations deeply rooted in the societies and distinct cultures of these parts of the realm” (ibid.:18).

When everyday realities proceed in a regular manner, and are free of conflicts, details of the constitutional arrangements do not seem to bother people. When the situation is the opposite they become prominent. The Faroese history of the nineties clearly demonstrates that. The reversibility issue was directly experienced by the Faroese on the “Black Tuesday” October 6<sup>th</sup>, 1992 when their government was brought under forced administration and when the Danish Government came to dictate the Faroese political and economic life, by the means of both open and hidden agendas. The strong interventions by the Danish State enjoyed certain legitimacy among the Faroese, as long as the hidden agendas were not known to people. The Faroese economy was at that time at the verge of collapse and the two major banks – Sjóvinnubankin and the Farøya Bank (a subsidiary of Den Danske Bank) very close of bankruptcy. Danish intervention could, in that situation, be legitimized in terms of a ‘rescue operation’. But it was subsequently to lead to a severe burden of debt for the Faroese Government, mainly because of the forced take-over of shares in the (worthless) banks and because of the fresh capital that Faroese authorities had to pump into the banks. The Faroese borrowed large amounts of capital from Denmark.

When it became clear that “the Faroese issue” was, prior to the events in Tórshavn, settled in Copenhagen without the Faroese representatives being present, and when it became clear that the Danish Government had acted to protect its own interests and the interests of Danish and foreign creditors, a severe legitimacy crisis followed. Høydal (2000:79) says: “That there had been a secret Faroe group in Copenhagen that had planned the whole series of events of the bank crisis demolished the trust in the government. Realizing that the Finance Supervisory Authority, that otherwise was regarded as the guardian of the money and a state within the state, had been involved with Den Danske Bank was like losing the strong belief that higher justice came from Copenhagen (translated from Danish).” The Faroese authorities initiated a process against the State of Denmark and Den Danske Bank. The dispute, however, was never brought to court, but was settled by political means in June 1998. Needless to say, all these events started a new separatist movement in the islands.

The two examples above, the first from the times when the Autonomy Act came into being and the second from the economic crisis of the nineties, clearly demonstrate both the unmasked and the subtle dimensions of power as well as the pragmatic tactics of power. How these powers are experienced and interpreted by those who are their subject

is of great importance to our understanding of power relations. Direct interventions of the kind demonstrated in the latter example illustrate how powers are openly used with the effect of circumscribing local political space.

What is interesting here is, however, that these seemingly “brutal” interventions did not immediately meet with rage and opposition among the people on the islands. Rather their own authorities were at the centre of criticism and accusations of illegitimacy by the Faroese. A majority of the Faroese recognized that the Metropolitan representatives were there to save the islands from economic ruin. First when it became known that Danish state authorities and officials had played with false cards, distrust emerged and counter-powers were mobilized. The acts of fraud were considered illegitimate, not the interventions. Even though the history of the islands demonstrates an ambivalent attitude towards the central powers of Denmark there has also been a trust in the justice and impartiality of Danish state authorities. This goes back as far as the 17th century when ‘the poor people of the Faroe Islands’ (the most cited expression in Faroese history) pleaded with the King of Denmark for higher justice in order to get rid of the famous Gabel brothers that ruled the islands with brutal force (Høydal, 2000).

Psychological, rhetorical and cultural dominance embody subtle dimensions of power. The description of oneself as “the poor people of the Faroe islands” might be the proper – humble - way of paying homage to a sovereign in the 17<sup>th</sup> century and does not necessary reflect a low national self-esteem. On the other hand, when they who hold the power use rhetorical means, psychological power is used in order to reduce the self-esteem and national pride of a people. From the history of the Faroe Islands there are several incidents illustrating the use of these kind of powers. Among the most often told stories is one from the beginning of the 19<sup>th</sup> century when the Faroese tried to reinstall the Løgting (which at that time was abolished). The Danish legislative assembly rejected this initiative, motivating their rejection in the following way: “The Faroese people which do not exceed 7,000 individuals, consists only of simple agrarians with no higher education” (Høydal 2000:17, translated from Danish).

From time to time there was a hard struggle for an acknowledgement of the Faroese language and cultural heritage. Between 1880, when the first Faroese national movement was organised and the outbreak of the Second World War the cultural struggle was in focus. At that time the Faroese people was divided regarding many issues concerning the relationships with Denmark, as it historically has often been. Those taking a position against the Faroese language becoming the official language argued, that it was not developed enough to support a culture, a distinguished literature and educated knowledge (Høydal, 2000:25). Needless to say, these people were those that would loose most, financially as well as in terms of social prestige, on a weakened Danish language. Since 1948 the Faroese language is acknowledged as the official language of the islands.

The powers mobilized by Danish authorities have been of various kinds – from strong direct political-economic interventions to more subtle, culturally focused influences. In praxis they seem to be inseparable. There is a clear, explicit, strategy in Copenhagen: “if the Faroese want more political and economic space they have to pay for it”. This strategy was clearly demonstrated in connection with the sovereignty negotiations in 2000 when the Faroe Islands declared their wish for secession. Copenhagen stated that: “Denmark will not go against Faroese sovereignty, but the problem is that the Faroese do not accept the economic conditions stated by Denmark” (Näslund, 2000). Denmark was prepared to continue with the annual financial support to the islands up until three years after a sovereignty agreement. The Faroese demanded fifteen years. In this case the Danish Government explicitly put forward an economic argument, but implicitly tried to evoke the feeling of insecurity and restricted self-esteem which small nations often seem to suffer from, and which makes them mentally and emotionally dependent.

### **Jurisdictional powers and economic capacity**

Which jurisdictional powers and economic space of manoeuvring have come out of the political interactions between Denmark and the Faroe Islands? What economic capacity has the islands developed? From above it should be clear that Faroese jurisdictional powers have sometimes been quite vulnerable. With Høydal (2000:82), referring to a metaphor used by *lagmand* (prime minister) Atli Daun, we might summarise the development: “(...) Once in the seventies Atli Daun described the Home Rule Act in terms of an accordion, that could be pulled outwards, further and further. He also argued that it gradually made the Faroe Islands increasingly sovereign. But he could hardly, at that time, calculate with the possibility that the accordion also could be pressed together, when the conductor found out that it played notes that sounded false in the ears of the Danish authorities” (translated from Danish). The last part of the citation, of course, refers to the Danish intervention in 1992.

During the troublesome years space of economic manoeuvring of the Faroese was, reduced to nothing. Economic life was governed by a Financial Fund, which was controlled by the Danish Government. The Fund dictated the restructuring of the fishing industry, which in turn led to a centralized control and to an end to all subsidies to the industry. These were however extraordinary events that changed again when times again were normalized. But up until the financial crisis in 1992 the Home Rule Model was, according to Lyck (1997d:137), “considered an unconditional success, economically as well as politically”. The relations between Denmark and the Faroe Islands were characterized by mutual respect and commitment. The gradually increased political space of manoeuvring has of course been accompanied by a reduced annual financial support by Denmark, but with the exception of the events that led to the bank

crisis, economic life of the Faroese has been quite stable and gradually modernized over the years.

The Faroe economy is highly concentrated to one sector. The fishing industry represents 98 % of total exports. Its economic outcome is, consequently, dependant on both favourable catching and market conditions. Fishing is, in both these respects, an international affair demanding presence in all the important organisations where restitution issues, catch quotas, licenses as well as trade conditions are decided. According to the Home Rule Act, the Faroese have no right of their own to take part in foreign affairs, which means that a central element of their economy is – in a strict sense – blocked. It is also one of the key arguments by the (separatist) Republican Party that sovereignty is necessary if one is to become a full member of all the transnational organisations that influence the conditions of the Faroese economy, or to put it differently, organisations that influence the potential of economic development of the islands.

The attitude of Denmark has, however, in practice been quite open-minded. The High Commissioner's (*Rigsombudsmanden*) Report (2004:18, translated from Danish) states that : “From the special status and industrial structure of the Faroe Islands follows that the Faroe Islands cannot always have the same interests and viewpoints as Denmark in all areas of international cooperation, or when signing bi- or multilateral agreements with foreign countries. Therefore the Home Rule Act postulates, that Denmark pays due attention to Faroese interests by, as far as possible, involving Home Rule authorities in preparatory work processes”.

Local Faroese interests and practices have been favoured regarding catches in foreign waters. The Government of the Faroe Islands together with the Government of Denmark negotiate bilateral general agreements with foreign countries in this matter, whereas the Faroese, by themselves, negotiate agreements on annual quotas and licences.

One matter that complicates foreign trade is the fact that Denmark is a member of the EU, whereas the Faroe Islands remain outside the union. The Faroe Islands have, however, made an agreement on free trade with the EU, which has abolished most duties on exports and imports to/from the EU countries with certain, important, exceptions. One is allowed to sell fish and fish products up to certain quotas; after these quotas have been reached so called MFN duties are added. This rule has, during the nineties, gradually been loosened but is still the subject of irritation in the islands.

The economic crisis of the early nineties highlighted certain policy areas that are beyond the control of most SNIJs, i.e. monetary and exchange rate policies. Lyck (1997c) has, in her analysis of the crisis, highlighted these areas. She pointed to that fact that before the crisis it was almost considered an advantage that the Faroese authorities

did not have access to the instruments of monetary and exchange rate policy since that was believed to discipline the politicians and “forcing them to pursue a balanced fiscal policy by preventing devaluations and inflation” (p 141). The falling prices on fish in the global market, caused by new supplies from Eastern Europe and Asia, would normally have brought about a devaluation; an instrument that was, and still is not, in the hands of the Home Rule Authorities.

Fiscal policy is, of course, an area that has been scrutinized in relation to the crisis. Obviously, this is an area that concerns the economic capacity of SNIJs in general (see the present debate in Åland). We have already discussed the ‘optimistic’ subsidy policy of the eighties, and its dramatic consequences. Another side of the fiscal policy concerns taxation policy and how it is used as an incentive for private, and especially foreign, investments. According to several scholars (Lyck, 1997c; Olafsson, 2000), one would expect the instruments of taxation to be used in order to stimulate a diversification of the Faroese economy. As it seems, these instruments have not, to their full capacity, been sufficiently considered by the Faroese authorities. Even though corporate tax levels are relatively low there are higher taxes on distributed profits. Moreover, indirect taxes play a minor role in stimulating private business.

### **Concluding remarks and configurative inputs**

As we have seen, the economic-political history of The Faroese Islands is highly dynamic. The inter-relations between jurisdictional powers and economic capacity have changed over time and the causality between them has flown in both directions. The upturn of the Faroese economy during World War II strengthened and nurtured a new dimension of national self-esteem and pride. The economic capacity experienced by a majority of the people, was the main force behind the Home Rule (and the sovereignty movement) and the enhanced jurisdictional powers that followed. This capacity emerged out of a learning process that, in spite of the hard war times, developed harmoniously within the Faroese society.

The crisis of the nineties and the years that preceded this crisis demonstrate another chain of causality. In the seventies and eighties jurisdictional powers were often utilized in order to strengthen the economic capacity. Although these instruments seemed to be the obvious ones to use at the time, they became misused over time. Consequently, an over-exploitation of jurisdictional powers created a reduced economic capacity (an interrelation that is seldom recognized within politico-economic theory). The economic-political situation of the Faroese today is close to balancing between jurisdictional powers and economic capacity even though certain instruments (such as taxation powers) constitute an un-exploited potential of the society.

## 6. Greenland

Greenland is, with a total area of 2 166 086 sq km, the largest island of the world. As much as 1 755 637 sq km consists of icecap and glaciers but the remaining area of 420 449 sq km still constitutes a considerably vast territory.<sup>8</sup>

Greenland received its Home Rule within the Danish Realm in 1979 and was a member of the EU (EEC) between 1972 and 1983 (when it, after a referendum left the union). A somewhat curious fact about EU (ECC) at the time of the Greenlandic secession is the following: “As an example of the size of Greenland, the world’s largest island, it should be born in mind that when in 1983 Greenland chose not to be a part of the EEC, it cut the territorial size of the EEC by more than half” (Smárason, 2002:17)

As is the case with the Faroe Islands, fishing is the dominating industry of Greenland, 95 % of its exports coming from fishing and fish processing products. Prawns represent approximately 50 % of the catches while the share of the halibut amounts to about 20 %. Crab is also becoming increasingly important. The number of fishing vessels that operate in coastal waters is far bigger than the corresponding figure for ocean-going vessels (about 900 compared to 70). Greenland is among the few remaining areas where whale hunting is still an active industry. Today, between 2000 and 3000 whales are being caught annually. Similar to the Faroe Islands, the Greenlandic economy is dependent on catches and on trading conditions; especially export volumes and the price on prawns. Even small changes in prices are apt to affect the foreign trade balance. According to the last report published by Statistics Greenland there have been, considered over a longer period, price reductions on prawns on the global market, although higher export volumes have compensated this. Even so, since 1990, Greenland has experienced a foreign trade deficit – officially due to the closing down of the last lead and zinc mines in 1990. But the Greenlandic economy is currently about to recover from the recession that occurred between 2001 and 2003.

Obviously, the highly concentrated nature of the Greenlandic economy makes it very vulnerable; they have placed ‘all eggs in the same basket’. Simultaneously one should bear in mind that the Greenlandic economy still is very rudimentary. Currently tourism is a prioritized sector, although high prices and short seasons are disadvantageous to this sector. Hydrocarbon and minerals explorations constitute another potential sector, the growth potential of which is so far unclear.

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<sup>8</sup> Statistics in this chapter are from *Nordic Statistical Yearbook*, 2005; *Statistics Greenland*,(2005) and Statistics Greenland, (2003) *Greenland in Figures* 2002.

An extra-ordinary characteristic of the Greenlandic business sector is its governance structure. The most important companies are not owned by private capitalists, but by the local government - Royal Greenland being the biggest and KNI Pilersuisoq the second biggest corporation. Stimulating private enterprises has been a key issue for the Home Rule, but there is still a shortage of financial capital as well as managerial capacity. With a raised educational level and the gradual establishment of educational programmes that are relevant from the point of view of the Greenlandic culture, such resources might be accumulated and the Home Rule will be able to reduce its influence on the business sector (which is its explicit goal).

The economy of Greenland is also highly dependent on its military establishments. Thus, Lyck (1997e) emphasizes the influences of the defence system on various sectors of the Greenlandic society, such as the transportation system, the income transfers from Denmark, the modernization processes as well as the basic structure of the Greenlandic economy. It is a fact that income transfers are “extremely high” (ibid.:150), reaching a maximum above 60 % of Greenland’s GDP (today 50 %). However, to treat this merely as a cost is not correct – if one is to follow Lyck: “This transfer income creates some advantages for Denmark, in the form of high-paid jobs for Danes, which saves the Danish state the costs of creating jobs in Denmark and reducing the overall Danish costs for unemployment benefits, etc. Furthermore it also gives Danish industry favourable export opportunities. Thus, the amount transferred from the Danish state is not identical to the real costs – which amount to less than the transferred amount” (ibid.:157). The number of Danish employees within the public administration and public services of Greenland is astonishingly high, something which indicates the relevance of this statement. Consequently, economic relationships between Denmark and Greenland are quite complex, and they demonstrate various interdependencies that are hard to explain (see further below).

Infrastructure and domestic transports are areas that represent a heavy cost to the Greenlandic society. According to Statistics Greenland: ”In Greenland the cities are not connected by roads. Therefore, all traffic between cities and settlements is by ship, boat, snow scooter or – as usually – by airplane or helicopter (...) The main gateways to Greenland are the former American military bases in Narsarsuaq and Kangerlussaq. From there traffic to all of Greenland is being distributed – either by airplane or by helicopter”. There are few roads in Greenland, and they cover only 150 km, of which 60 km are paved. There are no railways and no natural inland waterways. Not only does Greenland cover a huge land area but is also geographically divided. The natural way of transportation has been by boat along the coasts in the summer, and by dog sleds in the winter. Under these conditions, creating an integrated economy seems a, very hard task. The level of the costs of investments in infrastructure which are required is simply too high.

### **Jurisdictional Powers – Some Characteristics**

The Greenlandic Home Rule dates back to 1979 and Greenland is, thus, the youngest of the three SNIJs of our study. The island was a Danish colony already in the 18<sup>th</sup> century and maintained this status until 1953. That year it became an equal part of the Danish Realm, which meant that Danish laws, for the first time, automatically came into force in the island. There were probably several reasons for changing the status of Greenland. According to Näslund's (2000), pragmatic, view the Danish Realm took this measure to avoid Greenland being listed by the UN as a territory lacking self-government and, thus, out of fear of loosing international prestige.

The strategic and military significance of Greenland has – since World War II – made it a focus of international defence politics. The Thule Base in northern Greenland is important for the US star missile shield. This base has, apparently, given Denmark extra financial benefits from NATO. Smárason (2002:17) states that while the regular NATO member contributes at least 3 % of its GDP to the common defence budget, Denmark does not contribute with more than a mere 2 %. In the period of 1976-1989 the net gain of this discount was 30 billion DKK - the net gain calculated as the difference between financial support given by Denmark to The Faroe Islands and Greenland and the value of the discount. The Danish authorities do not admit that this net gain exists, but if it dose, there obviously is a strong financial cause for Denmark to keep Greenland within its realm.

Analysing the internal and external power structures of Greenland means touching upon deep cultural conflicts. The Danish (and American) influence has created unnatural divisions between the sectors of Greenlandic societal life. In an extensive investigation of prevalent power structures within the island a group of Danish researchers (Winther, ed 2003) reached some far-reaching conclusions regarding the splits between the life world of the people and the systems world of the Danish-influenced administration of Greenland. In his article on the confrontations between Danish and Greenlandic life practices Adolphsen (2003) discusses the goals of the Danish Authorities, when in the fifties they started the modernization process of Greenland. Until that time the main economic activity of the island had been the catching of seals, whales and other mammals of the sea. With the Danish economic intervention came the fishing industry. This was part of a larger modernization programme aiming at turning Greenland into a modern society by reproducing the Danish administrative apparatus and by changing Greenland into a 'regular' capitalist country.

The plan was that the Danish State would take the responsibility for infrastructural issues while counting on external financial capital for private investments. These investments were never made, but the miscalculation was, according to Adolphsen,

turned into a benefit of the Greenlandic society since it “reduced the confrontations between the Danish and the older Greenlandic life practices; confrontations that otherwise would have been more violent and wiped out the life practice of Greenland” (ibid.:13, transl. from Danish). Since there were no private investments the state and later the Home Rule authorities had to take on the entrepreneurial and productive role. Although this began in the sixties and seventies the governance structure still remains. This arrangement rests on a critical attitude towards the implementation of external, administrative ‘grand models’ alien to the traditional culture of a society. Even though all of the modernization plans were not implemented, the effects of those that were, can be measured in terms of alienation and stratification of the Greenlandic society. Greenlanders that have adopted the Danish life practices, usually those that are educated in Denmark, constitute the political and administrative elite. The distance between these and the rest of the population has been enhanced due to the fact that they live separate lives.

In his book *Arktisk Selvstyre* Dahl (1986) offers a most interesting analysis of the “the over-developed Home Rule”, nowadays a most accepted explanation of the problems of the Greenlandic society. The over-development thesis rests on experiences of several post-colonial societies. With regard to Greenland it implies that the administrative apparatus of the Home Rule is a Danish replica, well suited for the Danish society, but not sufficiently modified for Greenland. Its complex forms and structures are ‘over-developed’ vis-à-vis Greenlandic needs: “The character, powers and functional areas of the State of Greenland are primarily a product of the Danish presence in the country and not a product of the level of development of the national classes” (ibid.:135, translated from Danish) The over-developed administration expresses itself in various ways. First, most leading positions within the administration are held by Danes, or by individuals educated in Denmark. Without this import of know-how, Dahl maintains, the administrative apparatus would not be able to function properly. The Home Rule is not able to reproduce itself but is highly dependent on foreign technological as well as educational knowledge. For sure, this leaves us with a formally democratic society but without the necessary qualities to function as a democracy (see Carlsen, 2005).

Secondly, the Home Rule administration has a size, extension and a horizontal division of labour that, by far, exceeds its needs. Even small municipalities have well-developed bureaucracies which characterize a life world totally alien to the Greenlandic people, Thirdly, the economic preconditions for running this whole apparatus are not there, leaving Greenland in a position where it is financially dependent upon Denmark to pay for a governance structure that it does not need. According to Dahl, the only way out of the over-development dilemma is that the Home Rule is allowed to develop on a level congruent with the level of the people of Greenland. All this was written some twenty years ago. However, its message is still most relevant as we can see in a report by Astgeirsdottir et al (2005).

The Danish post-colonial influence on Greenland might have had the most benevolent motives. Imposing democracy is, however, a paradoxical approach to granting a people the powers over its own affairs. The alienation prevailing in the Greenlandic society, stemming from the alien structures that constitute its governing system, is not solved by regular Westernized bureaucratic methods, but by economic and political practices that rest harmoniously within the cultural setting.

### **Jurisdictional powers and economic capacity**

The socio-economic conditions of Greenland have attracted much attention, as Lyck (1997b) demonstrates in her thorough documentation of scientific reports and research programmes on the island. She concludes with, and motivates her own report by, describing the fragmentary status of the aggregated knowledge at hand. What is urgently needed, are studies that combine sociological, ethnological, political scientist and economic frames of reference since regular economic theories do not fit in.

From a formal point of view Greenland enjoys the same jurisdictional powers and economic authority as The Faroe Islands. However, its ability to fully exploit this space is restricted. There still exists natural, geographical and financial as well as knowledge-based delimitations. Economic productive capacity is – in light of this – a most interesting category since it – contrary to jurisdictional powers and economic space of manoeuvring – rests on the capabilities of a people to exploit the existing knowledge bases and use them for innovative purposes. Which are the core competencies of the traditional Eskimo hunting culture? How could they be exploited in order to create a sustainable development of the Greenlandic economy? Or put from a more sceptical angle – do these competences still exist or have the Danish modernization programmes wiped them out? These questions are not explored in the literature, which still is more inclined to analyse problems that coming up with solutions.

### **Concluding Remarks and configurative inputs**

Jurisdictional powers and economic capacity are quite unrelated in the case of Greenland. During the years of Home Rule neither the political nor the economic sectors of Greenland have really developed. Even though the former – to its administrative part – might be characterised as a full-fledged bureaucracy it is still a Danish construction and not internalized by the Greenlandic people. The same goes for the business structures. The companies run by the Home Rule represent a business culture that is not harmoniously anchored within the Greenlandic society.

Still, the Greenlandic and the Faroese Home Rules basically function the same way. But while the economic capacity of the Faroese Islands, over time, has strengthened the platform of the political system, the Greenlandic economic capacity is not developed enough to do that. The obvious solution to the prevalent problem is a) to use jurisdictional powers in order to strengthen economic capacity and/or b) to find the natural platform of economic capacity and the core competences of the original Eskimo economic culture and then rebuild the jurisdictional power system in congruity with the economic pre-conditions. As we know, prosperous economic systems usually reflect the cultural identity of a people.

## 7. Comparing the Three Nordic SNIJs: Jurisdictional Powers and Economic Capacity

As we have seen in this pilot study Åland, The Faroe Islands and Greenland share a number of basic characteristics, in terms of official status, governmental structures, insular geography, cultural strategies etcetera. They exhibit some dissimilarities which are of interest to our understanding of the main parameters of jurisdictional powers and economic capacity and their inherent dimensions. *Figure 1* summarizes our conclusions.

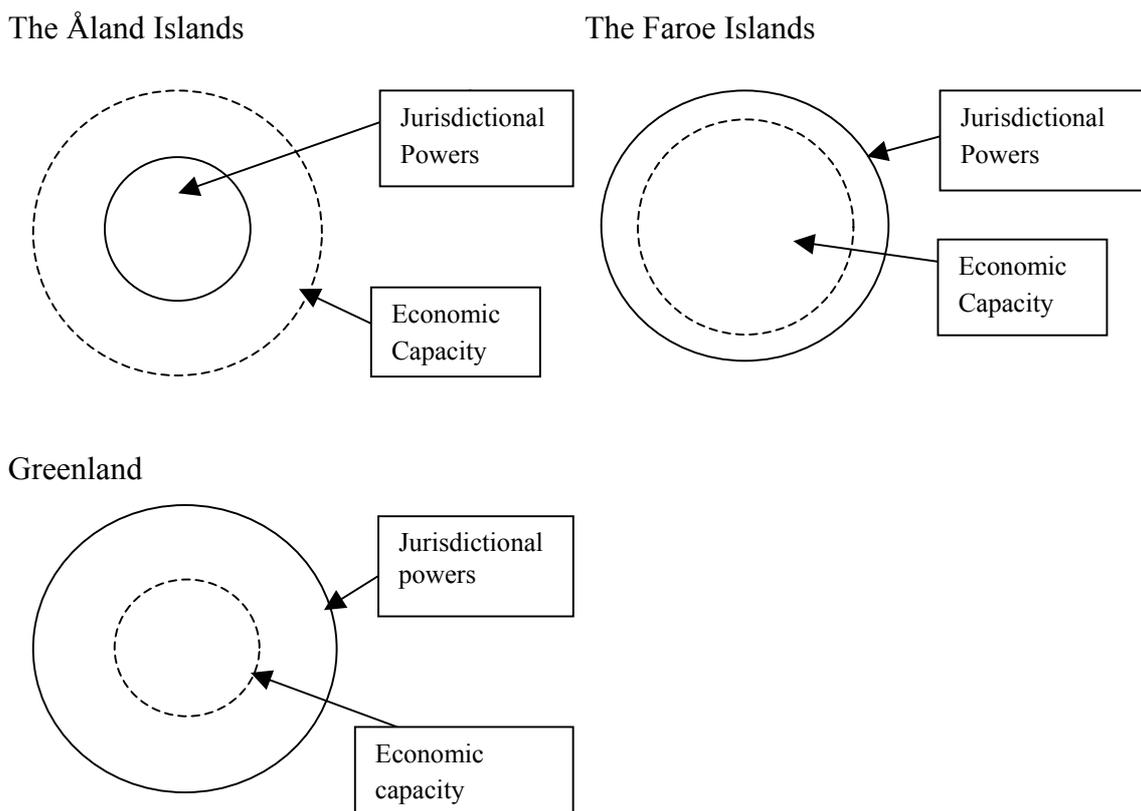
The **Åland Islands** are characterized by a historically strong economic capacity, indicated by the outer circle of the figure. Even before the autonomy was granted, strong basic economic structures had been developed. From the middle of the 19<sup>th</sup> century and onwards, capital acquisition and accumulation has been a main feature of the economic capacity of the islands. These abilities are culturally embedded and can be regarded as a business heritage transferred from generation to generation of businessmen.

The financial structures of today – most clearly seen within the maritime cluster and related to the interrelationships between the shipping companies, banks, insurance companies and other financial actors – originated in the early maritime era when share holding was introduced and collective private investments in sailing ships was the common way of sharing costs and risks. Risk taking capabilities as well as financial perseverance were, and still are, fundamental to these financial strategies. The ability to take and share the risk of major investments was demonstrated in the building of the early transport vessels owned by the villages, as well as in the acquisition of the cargo ships and passenger ferries of today.

The core competencies that have pervaded and that have been accumulated over the years are most clearly visible in international transports, logistics, and services of various kinds. These are not only built upon an intelligent acquisition and use of financial capital and risk taking capabilities but also upon other resources such as managerial know-how, industrial knowledge, corporate structures and social capital (accumulated both within the maritime cluster and externally in international networks). The maritime cluster has developed over time, making use of a gradual accumulation of crucial resources, combining them in an intelligent way, and in congruence with the basic elements of the Ålandic culture.

The jurisdictional powers of the Åland Islands (demonstrated by the inner circle of *figure 1*) are not fully developed, neither with regard to the maritime cluster nor to the business life of Åland in general. Most importantly, the Government of Åland has no authority of taxation.

**Figure 1:** Jurisdictional powers and economic capacity. Åland, The Faroe Islands and Greenland



Taxation of the shipping companies and their on-board employees are important to the international competitiveness of the Åland fleet. Indirect taxes are also an essential element in price competition within the tourism sector. As long as the policy of maritime affairs as well as taxation powers are located in Helsinki, the authorities of Åland are restricted to lobbying and influences via their representation in the Parliament of Finland and the Åland Commission. That is why the jurisdictional powers are drawn as an inner circle and that is why the distance between the two circles is relatively large.

In the case of the **Faroe Islands** the circles of jurisdictional powers and economic capacity are somewhat differently drawn. In this figure the circle of jurisdictional powers is in the outer position, and the circle of economic capacity in the inner one.

Still, they are quite close to each other. The economic capacity of the islands is heavily dependent on the fishery cluster (a complex of interrelating fishing companies, filleting plants, trade and transport companies, banks, ship yards and other service companies). Basically, the economic performance of this cluster is dependent upon the catching, processing and trade conditions of fish.

The catching conditions, in turn, are based upon two essential components to which we can assign some distinct resources: a) relevant equipment, which is a function of financial capital and technological know how b) catching quotas and licenses, which in turn require access to international fishery organisations and participative and negotiating skills in these contexts.

Processing conditions are based on product knowledge and knowledge of the needs and trends of international markets, as well as on the efficiency in handling various stages of processing (basically a managerial competence). Trade conditions, finally, are functions of a) trade agreements with foreign countries and access to the arenas where trade issues are settled b) export and transport facilities, where capital and technological know how also are crucial resources. Capital and risk taking capabilities and access to international organisations and managerial competencies are the crucial resources needed in this complex system. What is unique to the Faroese Islands is that the political system has played an important role in the acquisition of these resources.

The relationship between the outer and the inner circles illustrating the case of the Faroe Islands in *figure 1*, shows how the political and economic systems of the Faroe Islands have always worked closely together, too closely one might say, considering the catastrophic consequences of the financial and subsidy policies of the seventies and the eighties. At that time, access to financial capital was a crucial dimension of economic capacity due to the urgently needed strategic re-orientation of the fishery industry. The alternative chosen; foreign loans and subsidies, was not the best.

The whole process slipped out of the hands of the Faroese authorities and became the subject of its own negative dynamism. Attracting foreign capital would probably have been a better way out. However, the taxation instrument possessed by the Home Rule was not used by the Government to attract that capital. This is marked in the figure by the distance between the two circles. That distance is, on the other hand, quite small which is motivated (besides the general close cooperation between the political and economic systems) by the ability of the Faroese Government to persuade the Danish Government to let them participate in essential international organisations, foreign affairs – under regular conditions being the area of competency of the latter. Thereby a distinctive resource of economic capacity (participation) is being guaranteed on the part of the fishery cluster.

In the case of **Greenland** the two circles are in yet a different relative position to each other. The outer circle is, as the case was with The Faroe Island, that of jurisdictional powers. Greenland and The Faroe Islands have, in principle, been granted the same Home Rule conditions and the same general political authorities. The inner circle of economic capacity is, however, placed at a longer distance from the outer than was the case of the Faroe Islands, indicating that economic capacity is not significantly developed. The Greenlandic economy shares its basic cluster structure with Åland and The Faroe Islands but the principal systems capacities of a cluster are not developed. The fishery industry is still owned by the Home Rule, in spite of strong efforts to attract private capital. Venture capital that would be the natural financial input to the investments that is needed has not yet entered the business scene. Another basic resource that is most urgently needed, if the Greenlandic economy is to develop in the same directions as the other two, is managerial capabilities.

However, a basic problem, when it comes to economic capacity, is the managerial structures that have been imposed on the Greenlandic economy. These structures are totally alien to the hunting culture of Greenland. Instead of a careful inquiry into the core competencies of this culture the Danish, and later the Home Rule authorities, have copied the regular Western capitalist structures. Even the fishery industry – and its basic logics and competences – was alien to the Greenlandic people. Greenland was, basically, a hunting culture, the essential elements of which may have been forgotten when implementing the Danish modernization programmes. However, if we assume that these stocks of knowledge still exist, the basic question would be how they could be built upon and further developed in order to create a functionally solid economic system that exists on its own terms.

## 5. By Way of Conclusion

On the first pages of this paper we argued that SNIJs are ‘self-contained enclaves’ and ‘constructive laboratories of experience’. They provide us with knowledge of interrelations that are more difficult to capture and explain in larger, formal as well as informal, political-economic contexts.

This paper has focused on the interrelations between jurisdictional powers and economic capacity. We conclude that these two phenomena demonstrate strong interdependencies even though such interdependencies, a priori to any empirical analysis, cannot be taken for granted. We cannot, for example, assume that stronger jurisdictional powers automatically will lead to stronger economic capacity or, for that matter, that a strong economic capacity necessarily will lead to stronger jurisdictional powers. Most often they do, but not automatically – and this is the crucial issue here. The very idea of interdependency is related to the existence of complexity and empirical variation. In our analyses we have come close to such empirical varieties.

Hence, an obvious conclusion is that all advice concerning politico-economic development should be context-related. The parameters of politics and economy are not simple tools ready to be used irrespective of the empirical setting. A satisfactory balance between them cannot be reached in an isolated laboratory or by the desk; this balance is, rather, a real life issue.

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