



# The welfare inquiry – limiting profits in the Swedish welfare sector

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*The Swedish welfare sector has undergone a far-reaching deregulation since the 1990s. A government inquiry recommends increased regulation and limiting profits for companies operating in the tax-funded welfare sector. The proposals intensified the debate on such profits, and the controversial issue is likely to be contentious in the debate until the 2018 general election.*

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## Description

Sweden has a tradition of universal, tax-financed and publicly provided welfare services. However, since the 1990s, there has been a strong marketisation trend in Swedish welfare services. The services remain publicly funded but are, to an increasing extent, carried out by private service providers. In international comparison, Sweden deviates from other countries in regard to its far-reaching deregulation and private for-profit sector involvement in basic education, healthcare and social services. Actually, according to the Swedish tax authority (Skatteverket 2012), Sweden has one of the world's most unregulated welfare sectors, and a higher share of private for-profit companies running schools, health and long-term care (LTC) than any other country in Europe. The Swedish school system has developed from a highly unitary to a fragmented system, from an almost exclusively public system to a system with a large share of publicly funded but privately owned schools, many of which are owned by for-profit companies. A similar trend is seen within LTC, in which the entire increase of private provision is the result of the growth of for-profit, in contrast to non-profit, providers (Meagher & Szebehely, 2013).

Whether private for-profit providers should be permitted to operate in

education and welfare provision has lately been lively debated in Sweden. The debate has been fuelled by several highly publicised scandals in the welfare sector (e.g. schools filed for bankruptcy, grade inflation and drastically falling results according to PISA study). The criticism is especially targeted at large private corporations owned by venture capitalists, which manage to generate high profit margins exceeding those in other service sectors, while avoiding taxes through elaborate, although legal, tax planning. According to public opinion polls (conducted by the SOM Institute, University of Gothenburg), a clear majority of voters, including those voting for the right-wing parties, are opposed to private companies profiting from providing publicly funded welfare services, especially within the school system.

In 2015, the new social democrat-led coalition government, with support from the Left Party, commissioned an inquiry to propose how public funding of privately provided welfare services can be designed to ensure equity, quality, economic efficiency, requirement adjustment and transparency. The purpose of the inquiry was to ensure that public funds are used for the intended activity and to the benefit of the users. Moreover, any surplus is to be returned to the activity where it resulted

from. A major report from the inquiry (SOU 2016:78) was presented in November 2016, and key proposals are:

- Limiting profits in healthcare, schools and LTC. Operating profits should be restricted in relation to the working capital at a rate based on the government borrowing rate plus 7 percentage points.
- Only legal persons, authorised by the Swedish Schools Inspectorate or the Health and Social Care Inspectorate, shall be permitted to operate in the tax-funded welfare sector. The authorised companies shall send their annual financial reports to these administrative authorities for control.
- Swedish Schools Inspectorate or the Health and Social Care Inspectorate shall have the right to impose financial penalties and, in serious cases, withdraw authorisations.

## Outlook & Commentary

The proposals in the inquiry have already been subjected to massive debate. On the one side, the Social Democrats and the Greens, with support from the Left Party, argue that welfare is not a market like others and that the school and care systems have pronounced societal goals. Limiting profits that private profit making companies can make from providing tax-funded schooling, healthcare and LTC will ensure that the majority of tax money will remain within the welfare sector, and will benefit children, pupils, patients and older persons.

On the other side, all party leaders of the centre-right opposition have broadly rejected limiting profits in favour of higher

performance targets, stricter quality standards, supervision and control (Dagens Nyheter, 2016). Their view is that the government's proposal will torpedo free-choice by scaring away private entrepreneurs. This criticism is based on the argument that a profit ceiling of 7 percent would be unacceptably low in the social service sector (though similar profit levels are regarded as normal in other services). The centre-right opposition and the anti-immigration Sweden Democrats have stated that they will vote against the proposals in the inquiry. Hence, due to the social democrat-led coalition government's weak position in parliament, it will be hard to get the proposals through parliament.

Among other stakeholders, the inquiry has attracted strong criticism: The Confederation of Swedish Enterprise calls the proposals an unreasonable attack on private companies and an assault on property rights (Dagens Industri, August 2016), while The Association of Private Care Providers calls it "a frontal attack on peoples' possibility to choose healthcare and LTC, and on entrepreneurs' possibilities to contribute to the development of care" (Vårdföretagarna, November 2016).

The inquiry and the debate on profits in the welfare offer a traditional right-left conflict, where the left-wing parties expect to have the voters on their side for limiting profits. Profits in the welfare sector will probably be a central question in the 2018 general election.

## Further reading

Dagens Industri. 30 August 2016. Nya uppgifter om vinsttak i välfärden upprör näringslivet. [New information regarding profit cap in the welfare upset commercial and industrial life].

Dagens Nyheter. 7 November 2016. Generellt vinsttak omöjligt i en bred överenskommelse. [A general profit cap is impossible in a broad agreement]. Article written by the party leaders of the opposition parties: Annie Lööf, Jan Björklund, Anna Kinberg Batra and Ebba Buch Thor.

Meagher, G. and Szebehely, M. (2013). Marketisation in Nordic eldercare: a research report on legislation, oversight, extent and consequences. Stockholm University, Department of Social Work.

Skatteverket [The Swedish Tax Agency] (2012). Skatteplanering i företag inom välfärdssektorn. Slutrapport. [Tax planning in companies in the welfare sector. Final report].

SOU 2016:78. Ordning och reda i välfärden. Betänkande av Välfärdsutredningen. Stockholm 2016. [Order in the welfare sector. Report from the Welfare Commission].

Vårdföretagarna. 8 November 2016. <https://www.vardforetagarna.se>

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