European Commission

No profit cap in the Swedish welfare sector

ESPN Flash Report 2019/32

PÄR SCHÖN – EUROPEAN SOCIAL POLICY NETWORK
JUNE 2019

In 2016, a government inquiry recommended limiting profits for private companies operating in the tax-funded welfare sector. In January 2019, a four-party agreement stated that the proposed profit cap should not be implemented. The issue of profit in the Swedish welfare sector seems now, after years of heated discussions, to have been resolved.

Description

Since the 1990s, Sweden has experienced a strong marketisation trend of welfare services. Under the 1991-1993 Conservative government, a "freedom of choice revolution" was proclaimed, with privatisation of public services (Burström, 2015). Services remain publicly funded but are, to an increasing extent, privately provided. Sweden has a higher proportion of private for-profit companies providing welfare services than any other country in Europe. In particular, the marketisation of the school system and free school choice have created one of the most market-driven education systems in the world (Dahlstedt and Fejes, 2019). Private provision is not new in Swedish welfare, but competition and for-profit provision are new phenomena (Svallfors and Tyllström, 2018).

Whether private for-profit providers should be allowed to operate in welfare provision has been vividly debated in Sweden. In 2016, a governmental inquiry, commissioned by the Social Democrat-led coalition government, was presented. The aim of the inquiry was to seek ways of regulating profit-making by private welfare companies, in order to ensure that public funds are used for the intended activity and to the benefit of the users, and that any surplus is reinvested in the services in question (SOU 2016:78). The inquiry recommended increased regulation and limiting profits for private companies operating in the tax-funded welfare sector (see also Schön, 2016). The government proposal to introduce such regulations was stopped by the parliament in June 2018.

The Swedish general election in September 2018 resulted in an inconclusive outcome, followed by a four-month deadlock. In January 2019, the Social Democrats, the Green Party and two former Alliance parties (the Liberals and the Centre Party) reached an agreement on 73 policy items, referred to as the January agreement, which allowed Stefan Löfven to remain as Prime Minister. The 73-point deal covered virtually all policy areas and included a wide range of concessions by the government. The controversial issue of profit in the welfare sector was one crucial item in the deal. The agreement states clearly that the proposed profit cap in the welfare sector should not be implemented, and that potential problems should be resolved by increasing supervision and quality controls (see Fritzell and Palme, 2019). It is, however, not clear how this supervision should be achieved.

Outlook and commentary

How is it that Sweden has become an international outlier in regard to de-regulation and private for-profit sector involvement in the publicly funded welfare services? There are no self-evident answers. Some driving factors behind the development have been identified, in particular the changed political landscape. The Social

Democrats are still Sweden's largest political party, but not the dominant party, as they used to be. Social Democratic governments have had internal conflicts on the profit issue and defended public provision weakly over the last decades. Moreover, private welfare companies and their interest organisations have been successful in their lobbying efforts and have gained power and influence over welfare service policy (Meagher and Szebehely, 2018).

On several occasions, the OECD has reviewed the performance of the Swedish school system. Independent (private) schools and free school choice are often main topics, both from a profit and a segregation perspective. Already in 1992, the OECD was critical of the intended marketisation reforms of the then Swedish Conservative/Liberal coalition, and asked why Sweden wanted to make such dramatic changes to the school system, given its good performance and high degree of equality. They referred to international experiences showing that increased market-orientation may lead to increased segregation. In their most recent report (OECD, 2019), the OECD experts conclude that free school choice has led to increased school segregation and inequalities. They also state that "competition and school choice can be powerful tools to improve school quality, but private interests in many cases differ from the interests of society as a whole. Effective regulation and governance therefore need to steer private providers to deliver for the public good". The OECD experts state that competition and choice can be effective and positive. But in a broader perspective, they also point out that private interests often deviate from the interests of society. In effect, the possibility of generating profit in the publicly financed welfare sector could result in for-profit organisations not acting as the society would like them to. It could be argued that welfare is not a market like others and that the school and care systems have strong societal goals. For example, a stock-company should only generate money for their share-holders. A school, on the other hand, should educate and prepare future citizens of society. These two outlooks are not always compatible (Kornhall, 2019). According to the OECD (2019), the welfare sector must therefore be regulated so that the organisations operating within it work to further society's interests. This can be illustrated by the gap between political aims and the opinions of citizens. A number of public opinion polls, a vast majority of voters, from across the political spectrum, are still opposed to private companies profiting from publicly funded welfare services, especially within the school system (ESPN Flash Report 2016/69).

The issue of profit in the Swedish welfare sector seems, for the moment, after years of discussion and debate, to have been resolved. It is, however, not clear what happens if the January agreement falls through.

Further reading

Burström, B. (2015). Sweden—recent changes in welfare state arrangements. International Journal of Health Services, 45(1), 87-104.

Dahlstedt, M. and Fejes, A. (eds./ 2019). Neoliberalism and Market Forces in Education: Lessons from Sweden, London: Routledge.

Fritzell, J. and Palme, J. (2019). The end of the deadlock in Sweden: policy reforms in a four-party agreement. ESPN Flash Report 2019/09.

Kornhall, P. (2019). Ingen i Sverige verkar lyssna på OECD – och det är allvarligt [No one in Sweden seems to listen to the OECD - and that is serious]. Skolvärlden, Lärarnas Riksförbund [The National Union of Teachers in Sweden].

Meagher, G. and Szebehely (2018). The politics of profit in Swedish welfare services: Four decades of Social Democratic ambivalence. Critical Social Policy. doi: 10.1177/0261018318801721, 1-22.

OECD (2019). OECD Economic Surveys: Sweden 2019. Paris: OECD Publishing.

Schön, P. (2016). The welfare inquiry – limiting profits in the Swedish welfare sector. ESPN Flash Report 2016/69.

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

Svallfors, S. and Tyllström, A. (2018). Resilient privatization: the puzzling case of for-profit welfare providers in Sweden. Socio-Economic Review. doi: 10.1093/ser/mwy005

Author

Pär Schön (Stockholm University and Karolinska Institutet)

The Flash Reports are produced by the European Social Policy Network (ESPN) established in 2014 to provide the European Commission with independent information, analysis and expertise on social policies in 35 European countries. The topics covered are identified by ESPN experts in the light of significant developments in their countries, or in some cases suggested by the Commission or the Flash Reports' editorial team (Eric Marlier and Slavina Spasova). The ESPN is managed by LISER (Luxembourg Institute of Socio-Economic Research), APPLICA and the OSE (European Social Observatory). More information on the ESPN: http://ec.europa.eu/social/main.jsp?catId=1135&langId=en.

Quoting this report: Pär Schön (2019). *No profit cap in the Swedish welfare sector,* ESPN Flash Report 2019/32, European Social Policy Network (ESPN), Brussels: European Commission.