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Are financialisation, privatisation and individualisation the same thing? The Swedish experience

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INTRODUCTION

Social services such as welfare, education and day care of children and the elderly are primarily tax-financed in Sweden, with very low user fees. School is completely free of charge. The political reasoning behind this paradigm is that the access to such important services should be determined by the economic resources of individuals and households. Even the social insurance – unemployment insurance, sick leave and parental leave – are predominantly tax-financed through payroll taxes. The reasoning behind the tax-financed social services and the social insurance is the same: security in case of illness or unemployment cannot be dependent on the individual's income.

Until 20 years ago, the tax-financed services were predominantly provided by public authorities. Schools, child care and home care for the elderly were organised by the municipalities, while the Swedish regional authorities (*landsting*) were responsible for providing health care. Since the early 1990s, private actors have been increasingly allowed to access the tax-financed serv-

ices sector. Services are still financed through public funds and the private providers cannot charge fees above or beyond those politically mandated. In other words, what was privatised was the provision of services, not the financing. Although the private actors are formally supervised by national or municipal authorities, the actual means of control are – as has become evident in recent years – insufficient. The principle of transparency does not extend to the private actors and citizens' rights to access economic data are limited.

The privately provided services still amount to a relatively small share of the publicly funded services but the share is growing fast. The private actors operate mostly in the large cities where they may be responsible for large shares of the total provision. For example, while 20 per cent of Swedish secondary school students attend private schools, in Stockholm the share of private schools is over 50 per cent.

There are several concurring factors that lie behind the privatisations. The demand for greater choice over schools or health clinics – the individualisation – that has emerged since the mid-1980s is the most cited reason in public debates. Increasing individual choice was thought to require private actors. Behind the scenes, however, there are the neoliberal ideas that seek to diminish political power in favour of market solutions as well as strong economic interests coupled with the growing financial markets, which have sought to enter the large and profitable health and education sectors. After about twenty years of privatisations we can now see that it is the strong private equity companies that dominate private health care. They have gained even more ground in the private education sector. This has come as a somewhat nasty surprise. When the privatisations started, the idea was to give opportunities to small enterprises, employee cooperatives, non-profit associations and so forth. These kinds of actors indeed dominated the emerging sector in the early days, but their share is now steadily declining, as they are outcompeted or bought by big corporations.

The purpose of this chapter is to discuss the recent developments in the Swedish public service provision and how they have affected the politics of social risks in Sweden. The text is divided to two sections. The first section addresses the changes in social policy regarding the demands of greater individual choice. It demonstrates the ways in which the concept of individual

choice has become its antithesis in the contexts of social services and social insurance. The second section then extends the discussion to the social consequences of privatisation and financialisation of the tax-funded 'service markets'.

INDIVIDUALISM AND INDIVIDUAL CHOICE IN SOCIAL POLICY

Social policy has two key dimensions in terms of welfare provision: social services (such as health, education and social care) and social insurance (such as sickness allowances and unemployment benefits). In broad-brush terms, the social services distribute opportunities, whereas the social insurance system pools risk. Education and social care serve as possibilities for individuals to improve their lives in different ways. Unemployment and sickness insurance, on the other hand, are protections against risks that make life difficult: the risk of losing your job, of falling ill or being injured so that your capacity to work changes. The fact that social services are paid through taxes means that citizens guarantee each other certain fundamental possibilities. The fact that social insurance is paid by taxes means that citizens share the individual risks together. In both cases, it is about a collective responsibility over individual welfare.

It is common to say that the society has become more individualistic since the 1980s. However, the concept of individualism has two different meanings. Firstly, it can refer to the broadening of individual life choices – that is, to individual rights. Secondly, individualism can also stand for more individual responsibility. This can mean that the problems caused by the wider economic and social changes are presented as individual problems, which ought to be solved with individual choices. The latter understanding of individualism can be used as an argument against public responsibility for welfare.

The changes in Swedish social services and social insurance in recent years demonstrate clearly how 'individualisation' can mean diametrically opposite welfare policies in practice. In politics of social services, 'choice' is the leading concept. The citizen/consumer is free to choose the school or preschool to her children, the health clinic for her family and so on. For this choice to be real the service provision should not be regulated and extra charges should

not be allowed. Sweden has free establishment of providers in school, child care and primary health care. The municipalities and regional authorities are obliged to compensate all producers according to the same rules. The private producers are not allowed to charge any fees above or beyond those set for the public actors.

In case of social services, 'individualisation' thus means more rights to choose but no greater individual responsibility for the economic consequences of those choices. Quite the opposite, it is considered meaningful for the choice that there is no such responsibility. The collective responsibility for financing these services stands. There is in practice a bigger collective cost burden because the system becomes more expensive for the funds. The allocation of fund assets has, however, been privatised. The possibilities to control costs or the distribution of funds by political or social priorities have thus diminished.

The development has been the opposite within the social insurance system. Individual rights have been circumscribed and the responsibility of individuals increased. Social benefits levels have not followed wage growth. There are deep cuts after a certain time of sick leave or unemployment. The requirements to enter the earnings-based unemployment insurance system have been made stricter and the individual contribution levels have been raised. Stringent time limits have been introduced in the sickness insurance system. The control over people in the case of sickness or unemployment allowance has become strict. The assessment of individual needs is now driven rather by administrative regulations than by the individuals.

The underlying idea of these reforms is that 'too generous' benefits make people passive and less inclined to accept work. The sick and unemployed are under severe economic incentives to hasten their return to work. The economic and social cost of illness and unemployment have thus been individualised and privatised, whereas the administrative control on those who need sickness or unemployment allowance has increased. Although the demands that the sick and unemployed should improve their social status on their own have increased, the actual possibilities for doing that have in many ways decreased. The availability of adult education and labour market training has been cut. The resources for medical rehabilitation of employees are all

but sufficient. The number of people on sickness leave has increased but the resources for rehabilitation have been cut.

THE BACKGROUND OF DIVERGENT DEVELOPMENTS

The demands for more choice in social services emerged in the 1980s. It can be seen as a natural consequence of the rising prosperity. As education, health and childcare became to be taken for granted the demands to choose between alternatives became stronger. There were also rigidities within the public sector where the internal interests of public authorities sometimes overshadowed the need and demands of citizens. This also strengthened the demands to be free to choose and to avoid bad solutions prescribed by the public regulations. Parallel to these understandable wants by citizens, there were strong commercial interests that sought to enter the large and profitable publicly financed markets. A combination of civic demands from well-established and articulated groups and economic interests of private service providers pushed for privatisation, choice and less political control but with the same level of public tax financing as before. The same level of public financing was a prerequisite for the choice citizens wanted and for the stable and secure markets producers sought.

Today, there is in principle an unlimited right to establishment for private companies in primary care, education, childcare and home care for the elderly. There is a requirement for a formal licence by the regional authority for primary care, by the Swedish Schools Inspectorate for education, and by the municipality for all other services. A licence must be accorded, however, if the company fulfils mainly formal requirements regarding personnel, premises and professional knowledge. In principle there is no possibility to judge whether or not the activity is in fact needed. The private companies are then remunerated for their activities on the same basis as the municipal or regional agents in their respective branches. In other words, it's a fixed-price compensation based on the municipality's costs, not the actual costs for the private service provider. This means that reduced costs in the private sector never benefit the taxpayer.

One substantive explanation for the changes in social insurance lies in high sickness insurance costs and high long-term unemployment. The number of days covered by sickness insurance grew markedly during the 1990s. The main reason for the development was that long-term sick leaves increased. The high unemployment rates, a legacy from the economic crisis years of the early 1990s, diminished tangibly at the end of the 1990s but stayed at a level which would have been considered unacceptable in the 1980s. The rising costs of sickness insurance system and labour market policies became problematic in economic terms. Unfortunately these problems were explained wrongly. The faults in the social insurance system were framed as "too generous" remunerations, which were seen to make people passive so that they did not make enough of an effort to find employment. Although there is some basis in the criticism in that short sick leaves were at times overly generous, the real problems – the increased long-term unemployment and number of sickness leave days – were not caused by the social insurance system. They were caused by a variety of reasons like the faster tempo of working life, the cuts in regular staff by firms and the higher know-how requirements, which all took a large share of people out of work.

In 2006, the right-wing parties won the parliamentary election and entered government on a promise of "Jobs Policy", which was predominantly about economic incentives: about lower income taxes to make work profitable and about stricter requirements for sickness and unemployment allowances to force the sick and unemployed to find work. The "Jobs Policy" does not take into account that individual qualifications and the actual capacity to work influence individuals' chances of employment given the requirements of the labour market. The program adhered to economic theories that have dominated the public debate but that have been put into question during the past years. The OECD (2006) for example has clearly changed the perception that unemployment insurance should be such that the time of unemployment is as short as possible. Today the view is that the unemployed should be given some time to find the best job, not just the first on offer. The prolonged unemployment is fully compensated by the increase in productivity that follows from the individual finding the right place to work.

Class dimensions of social services and social insurance reforms

Individualisation is two different things for the social insurance system and social services. Unemployment and illness are transformed into individual problems and the solution lies in the individual's will and ambition. The public support for these systems has been diminished while the control over individuals has increased. The social services on the other hand are still seen as an important public responsibility that ought to be paid through taxes. The public responsibility has been extended to choice as right, which has been implemented in a way that limits the possibilities to control costs. In the first case (social insurance system), the rights of individuals have been limited but societal control increased. In the latter (social services), individual rights have been expanded while public control has been decreased.

There is a clear class dimension to this development. The idea of individual choice has been mainly driven by the well-off middle class groups, and it is mostly these groups that take advantage of the individual choice. Highly educated and high-income groups use more public services than the unskilled groups and they also demand more of them. The right to free establishment for service providers in the publicly funded services sector is also backed by powerful economic interests that also have their stronghold in the well-educated and established social groups. The social insurances are of importance for blue-collar employees but in a different manner. The risk of unemployment and work-related injury or illness is higher for blue-collar workers. Although unemployment has become more common even among white-collar professions, they in general have better complementary economic security through collective agreements or trade union income securing measures. In addition, their financial resources to manage a period of unemployment are on average better as are their prospects of finding new employment than in case of blue-collar workers.

The powerful opinion-forming groups have less interest in the social insurances but vital interests in the social services. The changes over the last decades largely concur with these interests. In public debate the social insurance system and services have even been pitched against each other. The conservatives in particular have put forth the thesis that the costs of social insurance

are taking money from the "heart of welfare", the social services, and from tax cuts. In general, there always seems to be potential distrust of public sector support, as there have often been claims of fraud or over-generous public spending. The claim that higher costs are due to over-generous spending has been compelling and, consequently, it seems clear that lower benefits are the right solution. This argument makes the cuts seem psychologically positive, not unsolidaristic, because it is supposed to help people get back to work.

Of course, one should not deny that the increase in long-term sick leaves and unemployment is a problem, both in social and economic terms. However, the problems do not lay in "too generous" benefits. The experience of the last years demonstrates this well. The strict new rules in the social insurance systems have all but solved the problems. The problem is caused by tougher requirements in the labour markets that cast more workers aside than before and make it harder for outsiders to return to the market. Social problems such as labour market exclusion are being currently portrayed as individual problems. This clearly demonstrates how the Swedish public debate has changed over the decades. The left-wing perspective highlighted how the social and economic structures affect individuals' equality of opportunity and the social risks that individuals face. This has been replaced by a liberal/conservative perspective, which emphasises the individual's will and ambitions without wanting to see how the individual's choices are linked to social structures.

PRIVATISATION AND FINANCIALISATION

When the privatisation of the Swedish public sector started in the early 1990s, the general perception was that it would lead to many new local businesses, to teachers and care staff taking over their workplace in order to run them on their own, and to non-profits being able to provide care and education according to their distinctive profiles. Twenty years later we have the results – and they show something completely different. During the first years of privatisation the expectations were largely met. Many local companies emerged in the home care sector. Among private child care providers, parent cooperatives became the dominant form. Now, however, the picture has changed dramatically. The private care is today dominated by less than half a dozen large

companies backed by international venture capital. The same development is taking place in education. The share of schools managed by independent companies or non-profit organisations is declining while the share owned by large corporations is growing. Of the private pre-schools over half are now limited companies although the parent cooperatives were still predominant just a few years ago.

The increased concentration is not always apparent, however, as many of the corporations work under different names. The largest corporation of free schools, *Academedia*, has schools under seventeen different company names (*Didactus*, *Vittra*, *Fenestra*, *IT-gymnasiet* etc.). The many different names reflect the fact that *Academedia* is constantly growing through acquisitions of formerly independent, smaller companies. The private equity companies in the care and education market are all in the buyout segment. Such companies do not seek to develop long-term ownership and they should thus be regarded as financial rather than production companies. The basic idea is not to make money off the service provision: the profits are made buying and selling providers.

These companies borrow money from other financial actors like banks, insurance companies and pension funds that are allocated in limited maturity funds. The funds are invested in activities with stable market shares with the intent to increase profitability by selling them for a large profit after a few years. The sales profit is the rent the investors get as the fund is dissolved. Because the funds are usually placed in tax havens, the company does not pay any capital gains tax. The businesses are built as long chains of holding companies that link the main owner (the fund) and the different service providers at the end of the chain. As a rule, every producing entity – no matter how small – is a company on its own. This makes it possible to move money up and down the chain to minimise the tax burden. The so-called shareholder loans, the loans to the producing companies with an internal interest that naturally exceeds the market rate, are one common practice. The interest pay-

ments reduce the producing entities profits, while the shareholder company in a tax haven can avoid taxes on the interest gains.[1]

The construction of businesses demonstrated above highlights the financial character of the Swedish social services companies. This logic is also compatible with how real estate companies financed by multinational venture capital funds are built. In both cases profits are made with buying and selling on markets that are expected to produce ever rising prices. The likeness to the stock market behaviour before the collapse of Lehman Brothers in 2008 is clear. Many of the large care corporations have already changed owners several times, but this has always been about sales from one venture capitalist to another. The same development has begun in the education sector, where a number of companies founded in Sweden have been sold to multinational private equity companies in the last year alone.

Because large care and education corporations have been regarded as financial companies, the Swedish School Inspectorate has now hired economists to examine how the large corporations act financially. The private but publicly financed care and education sector in Sweden has proved itself a very attractive market for financial interests. It is easy to see how the pressure to turn over tax-financed services to private providers increases with the growth of the international financial markets and the need to find new sectors where to invest and yield interest. Indeed, "privatisation" does not have to mean "financialisation", as the first years of privatisation showed, but as powerful financial interests need new markets to invest in and when social services provide a stable market with secure profits, then privatisation becomes financialisation. The financial actors compete or buy out the local cooperatives and small businesses with their economic upper hand.

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1 The Swedish Tax Agency recently won a court case against one of the large care companies in Sweden (Attendo) with regard to this sort of internal interest. The court found that the interest was not a market rate and thus not tax deductible. That meant about SEK 80 million in tax surcharges.

Why the big interest?

The tax-financed services such as health care and education are not sensitive to changes in the business cycle – the demand is great and the payer very reliable. When it comes to health care, the producer also has good chances of increasing demand by ordering follow-ups, routine check-ups and other service extensions. It is a well-established fact that private for-profit production combined with third party financing (taxes or insurance policies) increase demand for services. The producer has an interest in driving consumption, while – in contrast to normal markets – there are little or no economic restrictions on demand. The result is higher costs.

This explains the interest shown by large financial corporations towards the social services sector. The interest is likely to be increased by the very generous (or more frankly, clueless) rules of compensation, which make it rather easy to make a profit. Sweden, as opposed to many other countries, allows payouts on publicly financed services. The private companies in the health, education and care sector had in 2008 revenues of 13 per cent of the total capital compared to the average of only 9 per cent for other private companies in Sweden. It is not likely that the higher revenue would be due to private health and education companies being much more efficient than the private companies for example in the highly competitive export industry. The much more likely reason lies in the compensation schemes that enable easy profits.

There are many problems associated with the financialisation of social services. A common argument for privatisation has been that private companies are more efficient than public ones because requirements in the authority tend to build bureaucracy and rigidities that lead to less efficient use of resources. The existence of such risk cannot be denied even though they can be counteracted.[2] However, as modern organisational studies show, exactly the same risks are present in large companies. The idea that private companies work more flexibly and efficiently is based on the owner as the entrepreneur

2 *The Swedish Association of Local Authorities and Regions, SKL, says their systematic work of disseminating best practices and measuring quality and efficiency through annual so-called open comparisons of results and costs has led to clear improvements (see Sveriges Kommuner och Landsting, 2010).*

who himself is responsible for management. Yet large companies are led by professional manager-employees who like public servants can face the same (although not necessarily identical) risks of inefficiencies that all large public organisations face.

As will be shown later on in this chapter, privatisations have led neither to lower costs nor to improved quality of services that increasing competition and the number of actors was thought to produce. This may have something to do with not having innovative entrepreneurs and small businesses but rather large companies that rely on mainstream methods of producing the services – and, indeed, companies that put smaller companies where the new ideas might be out of business. Yet many important risks are related to the financing mechanisms. The most important risk is that these large financial owners who never intend to invest for the long-term. The interest in running the company so that it can be sold for a significant profit has become a driving force for the companies. This affects both the target groups and the geographic areas the companies choose to invest in. These strategies do not necessarily correspond to the distributive policy goals. Companies that are systematically set up to avoid taxation are also a problem that requires changes in both corporate and tax laws.

The uncertainties of today's financial markets entail risks. If some financial institutions that back up the funds that finance investments in health care and education fail, it naturally has consequences for hospitals and schools. What the consequences for Swedish the tax payers are remains unclear. A further disturbing question is which interests might come in with the new owners in the case of a sale or financial crash. In analogy, a curious economic play is unfolding at the moment in respect to the car company Saab. There are innumerable complex and none too reassuring financial institutions behind the new official owner. The possibility of similar oddities in privatised schools or hospitals feels discomforting to say the least.

Private business interests prioritised

Publicly financed private business can take two forms with the current Swedish legislative framework. First, the state and the local and regional authorities

can purchase specified services from private entrepreneurs, or, in other words, provide a private company a commission to do a task according to a contract for a negotiated price. The contract has a time limit, after which the procurement is made anew. There can be procurements for a wide range of activities: rehabilitation of addicts, clearing snow, building roads or hospital food to name a few. The rules for procurements are set in a specific law on public procurement, which in turn is based on EU law. Second, private companies can freely establish and provide services within a specified field, provided that they fulfil certain quality criteria. They are then allowed to compete for customers and to get a fixed compensation for every customer from the public authority. Sweden has such open markets in education, child care, primary health care and home care for the elderly.

Private preschools, schools and home care for the elderly are compensated through service vouchers. For each person, child, pupil or pensioner who uses the private service, a fixed compensation is paid. The value of the compensation (voucher) is calculated on the basis of the costs of the municipal service (schools, child care and home care are managed by municipalities in Sweden, not by the state). The full value of the voucher is paid even if the cost of the private service is lower for example due to fewer personnel. According to statistics by the Swedish National Agency for Education (Skolverket, 2010), the group size is bigger in private preschools than in public ones, and the share of qualified preschool teachers smaller. Similarly, the teacher ratio is on average lower in private schools compared to public schools and the relative number of qualified teachers (i.e. those with completed teacher training) fewer. The fixed compensation scheme means that it is fairly easy to create a profit margin by reducing personnel a bit or by hiring more personnel with slightly lower education, which decreases the personnel costs while the compensation stays the same.

The rationale behind the voucher system is that the municipality should not be allowed to favour their own services over private options and therefore the compensation to the private sector should be equal to that of the public sector. In practice this means that private service providers can be compensated for costs they have never had and that rationalisations in the private sector will never benefit tax payers as lower costs as opposed to those in the

public sector. Furthermore, services provided by the state, municipalities or regions are subject to freedom of information legislation, which means that citizens have the right to full insight in the economy and administration of service provision. When it comes to private actors who perform the same functions that are also financed by taxes, citizens are not privy to that same insight. This is another example of how the producers' interest is prioritised over the tax payers' interests.

The regulatory framework for private but publicly financed services was developed in the 1990s. The process was clearly driven by the producer interest, which reflects the ideological climate of that time. "Market solutions" were seen as superior to political solutions and market solutions required private entrepreneurship by definition. The key was therefore to facilitate private enterprise in the tax financed sector in different ways. The thought that the interests of companies could run counter to those of the taxpayers never occurred. It is not until recent years when a number of problems with the private production have become apparent that the regulatory framework is being questioned. At the same time, the environment for tax financed privatised services has changed with financialisation. The companies that dominate the private care and education markets are of a whole different kind than what was imagined in the early 1990s. The possibility that the companies taking over the sector would be big multinational financial institutions driven by purely financial calculations never entered considerations in the 1990s.[3]

It can be argued that the analyses of the consequences of opening up the tax-financed sector to private competition that forms the bases for decision-making were flawed. There were for example no analyses of the problem of third party financing even though it is well known in economics. Neither were there any analyses on the effects of the measures in case only the profit incentive would become dominant. The experiences from other countries very

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3 It must be noted here that the social democratic Prime Minister Olof Palme nevertheless stated in a speech in 1985 that "it surely isn't a coincidence that demands of privatisation are being voiced at a time when there are lots of capital in companies. It's quite simply about a hunt for new profitable markets for the money. […] In the USA, where a good part of the social services are managed privately, this sector is more attractive for investors than the industrial sector!"

clearly demonstrate these effects and even ordinary market logic tells you that companies that look for a profit will locate where prospects for making a profit are the best.

Today, the pattern is obvious: private medical clinics predominantly choose affluent areas in the larger cities while they avoid areas with multiple problems.[4] The same goes for the newly privatised pharmacies. Few private schools address children with difficulties in school and these schools have on average a higher percentage of pupils whose parents have higher education than in the municipal schools. The latter is a well-established international pattern.

Indeed, there is a lack of insight on the effects of the profit motive and a poor understanding of economic incentives in general. It is truly astonishing, as the question of incentives plays such a great part in the economic debate over the last decades, not least in the calls for tax cuts and stricter social security. Today, the incentives may be completely distorting. Fixed compensation is one example. Another one can be found in the Stockholm region healthcare. In Stockholm, the compensation to health clinics is based on each doctor's appointments. This has led to a situation in which people with several ailments have to schedule a visit for each illness instead of going through them all in one meeting. An additional eccentricity is that the compensation for medical treatment is not paid on basis of the treatment itself but of who conducts it. For example the compensation for a blood test is bigger if it is a doctor that draws the blood than if it's a nurse. This has naturally led to doctors performing procedures nurses used to do.

The economic incentives, as they are today, are counterproductive regarding the one goal stated in favour of privatisations – the lower costs. On the contrary, they often induce seeking a profit through methods that are neither more effective nor increase quality. Privatisations have been driven by ideology and financial interests rather than factual analyses of the prospects for and problems with private for-profit agents in a publicly financed and in principal needs-based system. The assumption for allowing private actors in

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4 In 2008, of in total 511 private health clinics in the Stockholm region, 400 were in the northern, more affluent parts of the region, and only 111 in the southern, poorer parts where health problems are greater.

the market was that it was all that was needed to do in order to gain a number of benefits such as lower costs more variety and better quality – or, as a conservative newspaper wrote some years ago, "ever more and better goods to choose from for less money". (Note that the word 'goods' here is used to refer to services such as education and care.) The notions that economic incentives determine the behaviour of companies and that wrong incentives create wrong results were not a part of the picture.

Overall, much of the Swedish privatisation debate seems to have been simplified, even naïve, in relation to serious economic analysis of real life markets in contrast to those of theoretical markets. An explanation for this can of course be that economic interests and political ideology steered policy instead of economic and political analysis of what means achieve the best results for the publicly finances services. The starting point was not to find out if, and under what circumstances, the introduction of private elements could make public services better and less costly. The point of departure was that private companies without a doubt and in all circumstances would have these effects.

CONCLUSIONS: THE ECONOMIC AND SOCIAL EFFECTS OF PRIVATISATION

Despite the critique presented above, it must be noted that there are, of course, a number of private schools, preschools, clinics and other organisations that function very well. There are also some that have been disastrous and some that are neither particularly good nor particularly bad. Disregarding individual cases, what does the picture look like if one tries to evaluate the overall results? Above all, what are the effects like in comparison with the hopes of lower costs and better quality that were used to argue for privatisations? Incredibly, there are no extensive evaluations on the effects of privatisations. One would think it evident that the effects would be monitored, both with regard to the hopes associated with them and with consideration of the importance of the services. Yet no such general follow-ups have been conducted. In order to get an idea of the effects, one needs to lay a puzzle made up of numerous specialised research projects or reports about specific sectors.

The Association of Swedish Local Authorities and Regions (SKL) use several cost and quality indicators to annually compare results for instance in the care of the elderly and children in the municipalities. These comparisons show no systematic differences between municipalities with high and low share of private and public providers respectively. Within education the costs have increased due to excessive supply and fragmentation of resources. There is also a clear tendency of weaker results in education on average. The costs for primary care have grown rapidly since the right to establish was instituted. A recent comparison of private and public employment agencies shows no difference in results. The privatisation of pharmacies has been accompanied by higher costs and many complaints of worse customer service. There was until recently only one large hospital that has been transferred to a private actor (ST Görans in Stockholm). Based on dozens of quality indicators, comparisons with publicly run hospitals in Stockholm place it in the middle of the pack.

The effects of private schools – the free schools – are among the most controversial. Undeniably, the average grades in the free schools are better than in the public schools. However, as the student population of free schools has a different social composition – there are more children of highly educated parents – the results are not comparable. A study from 2002 claimed that the establishment of free schools in a municipality in general led to higher average scores, but it was heavily questioned on methodological grounds, and in a revised version the results had been played down. International studies show mixed results: some studies from the US suggest that competition between private and public schools tend to raise the average scores, while studies from other countries show no such effects.[5]

PISA, a recurring comparison of the OECD countries schools, notes that private schools and public schools with student populations from socio-economically advantaged backgrounds benefit the individual students who

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5 A review of the research mentioned can be found in a study by the University of Aarhus (Calmar Andersen & Serritzlew, 2006). This review is of interest because it tracks the development in the Danish school system, which has had privately run but tax-financed schools for nearly a century, and the effects have thus had time to stabilise. The study finds no effect of competition on quality, but some tendencies of rising costs and a clear tendency of social stratification.

attend them, but there is no evidence to suggest that private schools help to raise the level of performance of the school system as a whole (OECD, 2011). The difficulties of comparing private and public schools has to do with differentiated student populations, and the student population influences school results both according to both research and practical experience. Some effort has been afforded on developing methods of comparison that would correct these differences in student selection. The problem arises in that this necessarily involves some kind of weighting. The tools can only be argued for on a theoretical basis but neither empirically proven nor falsified. Moreover, there are many ways to conduct the weighting, all of which can be theoretically motivated but give different results. (The problem is familiar from political opinion polls.)

What can be empirically stated on grounds of results in national tests as well as of international comparisons such as PISA or TIMMS is that the average results of Swedish students show a faint but steady decreasing tendency since the 1990s, which is particularly apparent in mathematics. The reasons are naturally complex. However, it is somewhat odd that the decline coincides with a period that has been distinctive in the increased interest in pedagogical development and evaluation. The decline does coincide in time with two significant organisational changes: the emergence of free schools and the decentralisation of primary schooling to the municipalities. Both are considered to have contributed to the increased disparity between schools – that is, the equality of education has diminished. The differences between schools are still small by international standards, but the fact that they have grown is troubling as such.

Free schools have clearly increased social segregation within education. This kind of stratification has clear negative effects for schools in socio-economically disadvantaged neighbourhoods. The communalisation, the decentralisation of the responsibility for schools from the state to the municipalities, has implied more disparity in the resources allocated for schools depending on differences in the municipal economy. The differences in political interest for school issues have possibly also played a part. The parliament has made a decision that the effects of the big structural changes, the decentralisation and

the free schools, should be evaluated in a study by the state but no inquiry has been yet initiated by the government.

A research review published in the fall of 2011 by one of Sweden's biggest and oldest think tanks, the Centre for Business and Policy Studies (*Studieförbundet Näringsliv och Samhälle*), concludes its results:

To summarise, the consequences of increased competition are remarkably unexamined. The research results that do exist show neither any unambiguous efficiency gains nor losses in public expenses for welfare services. The private providers do have lower costs in several areas, but the functions are not comparable. Moreover, the savings usually result in higher profits for the producer, so it does not reduce costs for the public. In most areas there are no clear-cut quality gains either. The available measures on the whole indicate no real change in results, or the results are different depending on the study. (Hartman, 2011, 265, my translation.)

The studies that have been made can hence be summarised as not to give any credence to the theory that private companies are more efficient than public organisations. The studies do not show that changed mode of operation and competition between providers would have brought any general improvements as to quality and costs. What has happened is that the supply, in particular of schools and health clinics, has increased in the more densely populated areas, especially areas with relatively high proportions of highly educated and wealthy inhabitants. This gives more choice but also drives up the costs. The often distorting incentives, the problems of third party financing and an insufficient regulatory framework that leave great loopholes for 'shadow companies' can be contributing explanations to why privatisations have not given particularly positive results. Today, the demands for clearer regulation and stronger controls are growing and a discussion about the necessity to change the economic incentives is on the way.

European Observatory on Health Systems and Policies[6] (2002, 1) stated already in 2002 that the

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6 The European Observatory is a cooperative including for example the WHO, The European Investment Bank, the World Bank and the London School of Economics.

> "experience so far indicates that entrepreneurial behaviour does not make for an effective health care system in an unregulated "free-for-all". Supporting regulation is needed to avoid some of the dangers inherent in entrepreneurialism which could sacrifice the core policy objectives of a socially responsible health care system."

Private profit interests and the interests of the society at large are not always compatible. It should be obvious that it is the social interest, not the private profit motive, which should be guiding all publicly financed functions. This requires regulation and well designed incentives. It appears likely that a change of the distorted incentive structure in combination with stricter regulation that keeps the 'less serious companies' out would sort out at least some of the problems we have today. Cost-based compensations instead of fixed compensations would diminish the incentive to reduce teacher ratios in order to increase the profit margin. Narrower profit margins and better controls would likely mitigate the risk of misallocated investments.

These changes are important and necessary. Yet they do not solve the problems that arise from financialisation. Nor do they solve the problem of profit incentive – companies going where it is most profitable – which influences where they locate geographically and the groups they address. This may require compensating actions for the areas and groups that are left out. Whether or not the gains of a well-functioning system with private providers really outweighs the extra costs for an expanded control system and for compensating distributive measures is up for debate. However, the experiences indicate that the biggest possible gains are not necessarily of an economic nature.

Are there really grounds to expect any economic gains from privatisations in the first place? There is very little in the Swedish experience to support the thesis that private providers lower costs. There are international studies that point to private companies having higher productivity but other studies show this is not quite the case. Comparative studies on schools and health care show no systematic differences between countries with high proportions of private providers and countries with high proportions of publicly managed services. The PISA studies for example show no connection between school results and

the proportion of private schools. Finland, with a very low number of private schools, is at the top of the comparison while the US with a significant share of private schools is far below average. The health care statistics from the industrialised countries show that the lowest costs (as share of GDP) are in countries with rather high shares of publicly financed and provided care such as Denmark, Finland and Sweden. Countries like France and Germany, with more private care and compulsory insurance schemes, have somewhat higher costs while the US, with the most private care, has the highest health care costs (but hardly the best and most comprehensive care) (Dahlgren, 2010).

So it must be asked: why should private provision be better than public? After all, efficiency and quality are not dependent on the mode of operation but rather on organisation, human resources management, competent personnel, available resources and so forth. There are no magic tricks in these areas that are held only by the private companies: what is done well in a private company can be transferred to public entities, and vice versa. Besides, it is not "only" a question of efficiency and quality. It is also a question of democracy. The debate of the last few decades has been about individual choice, and the possibility to choose is indeed a quality the public sector should provide. Yet choice is never unlimited, neither in the private sphere nor in the public. Economic resources are always a constraint. There is never enough tax money to cover all expectations and wishes and therefore it is necessary to make priorities. If the objective of equal access to social services of equal quality for all is to be achieved, politicians need to be able to ensure in an open and democratic process that everyone can influence that money is spent accordingly.

To control the distribution of tax revenue has become more difficult for example due to over-investment that the freedom of establishment for private companies leads to and to the clear distortion in favour of financially privileged groups. In the 1980s the democratic "exit" option, the possibility to choose according to your preferences to use Hirschman's (1970) terms, was too small. Today, the democratic part of the society that deals with "voice" – the common decisions about common affairs – has been forced too far into the background. We need a new balance!

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