PRIVATISING THE SWEDISH WELFARE STATE

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Abstract
The introduction of private competition and choice in the Swedish welfare sector has attracted widespread attention in recent years. This paper sets out the factors that helped make this development possible, and explains why the influence of the organisational theory of New Public Management (NPM) has ensured that while market economy elements have increased in welfare services, the scope of the state and the public sector has continued to grow. The result is the emergence of welfare quasi-markets, which are increasingly subject to input-related regulation and control.

JEL codes: H44, I11, I38.

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1. Introduction

> Social democracy characterizes Sweden from a political perspective, and Social Democrats are not anti-capitalists, but in favor of regulations. (Svenska institutet & United Minds 2012, p. 24)

This is how the French journalist Bruno Palier describes the Swedish model in a report on the international view of Sweden. It's a pithy summary of what political scientist Andreas Bergh describes as the 'capitalist welfare state' (Bergh 2009). The Swedish welfare model, founded on a combination of public financing and private freedom of choice, is often held up as a well-functioning institutional compromise between values difficult to reconcile: a strong, collective equality ideal and the individual need for self-determination.

However, it is important to examine the arguments surrounding the Swedish 'Third Way', not least when they are put forward by classical liberals. This is particularly the case in the area of welfare, where a combination of price regulation and exposure to competition has created a number of more or less well-functioning quasi-markets. One problem is the big knowledge gaps arising from flaws in the system design that have made proper academic evaluation of the reforms impossible. As a result, there is a lack of comparable statistics that could be used to indicate whether exposure to competition in the Swedish welfare sector has had the intended results when it comes to cost efficiency and freedom of choice (Hartman 2011, p. 11).

Today, crucial reforms are impeded, and private contractors in the welfare sector have been hit, by new waves of regulation and political suspicion. Severe criticism is being levelled at the ideological basis for the reforms that preceded the liberalisation of the Swedish welfare sector. This critique necessitates a renewed discussion on how the ideas of the New Public Management have been implemented, when the services in question are publicly financed.[1]

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The question is important not only for the Swedish experience but for the future of many European welfare models, since it touches upon the very legitimacy of exposing the public sector to competition.

Welfare systems are largely the products of specifically national historical development. Hence there are limits on the extent to which individual reforms can be exported from one country to another (Esping-Andersen 1990). Nonetheless, important lessons can be learned from other countries' experiences and mistakes, not least from countries that have pioneered new solutions to universal problems. However, it is important to distinguish between country-specific conditions and elements of universal application.

In the following I maintain that the rise of liberalised – rather than privatised – welfare could not have taken place in Sweden without the presence of four key factors: (*a*) a legitimacy crisis in the public sector, (*b*) political sensitivity, *across the political spectrum*, to the Public Choice School's market-oriented view on the governance of the public sector, (*c*) a quantitative shift of wage-earning union members from public to private management, and (*d*) a severe economic crisis.

2. A legitimacy crisis for the public sector

I have previously argued (Svanborg-Sjövall 2012) that the remodelling of the Swedish welfare sector can be traced to the parliamentary elections of 1976, where deregulation and de-bureaucratisation were high on the public agenda. It would still be another ten years before exposure to competition in the welfare sector gained momentum, but the debate was the first sign of a backlash against the great expansion of the public sector, which had come increasingly to be viewed as autocratic and an obstacle to growth (Nilsson 1989, p. 70).

By the end of the 1980s an overheated economy coincided with a fall in support for the public sector; by 1990 the number of those who wished to diminish the public sector, rather than keep it at its current size, had tripled (Nilsson 1989, p. 110). The greatest shift in opinion took place on the left, among Social Democrats and supporters of the Communist Party. However, the change reflected not just a legitimacy crisis in the welfare state at large, but widespread discontent with both the availability and the quality of the services supplied by the public sector. This discontent was captured in an important public inquiry in 1989, which described a widespread feeling of 'powerlessness' among Swedish citizens. In particular, consumers of two welfare services – schools and health care – expressed intense frustration with their lack of influence on and participation in decision-making (Petersson, Westholm and Blomberg 1989).

3. A new ideological superstructure: New Public Management on the rise

Attitudes towards the public sector underwent dramatic change across the political spectrum in the 1980s. If the public sector's previous expansion had been characterised by a sense of political bravado, the more business-oriented approach, which involved attributing responsibility and creating incentives, was a reflection of the changing political mood (Bröms 1989, p. 106). International impulses, not least those originating in the US and Britain, were also challenging the old state socialism. In Swedish politics, interest was awakened in the school of policy known as New Public Management (NPM), which was triumphantly described as 'public

management for all seasons' and was often contrasted with the Weberian conception of hierarchical, vertical bureaucracy (Manning 2000).

By contrast with some products of the Public Choice School, NPM was not seen as a theory of privatisation but remained neutral on the question of the ideal scope of the state's role. Instead, it focused entirely on how to make public administration more efficient. The starting point was that the state's productivity and cost efficiency could be increased by transposing the logic of the market economy into the public sector, without necessarily replacing public production with private production. Nevertheless, the call for competition with private contractors followed logically from NPM's advocacy of decentralisation and competition between different service producers.

To sum up NPM in a single definition is notoriously difficult, partly because it seeks to characterise an organisational culture in terms of certain values rather than a single model. The philosophy behind the concept did, however, chime well with the demand for more responsive public administration and welfare, not least because it avoided the controversial issue of public financing. In an article in the *International Public Management Journal*, Kuno Schedler and Jürg Felix (2000) described how a consumer perspective came to complement – not replace – the notion of the citizen, and how it fundamentally changed the view of public administration to that of servant of the consumer rather than the state:

> Legitimization may be considered to have three layers: basic legitimization is a product of the social contract and refers to the state and its structure in general terms; institutional legitimization relates to public management as an institution, and to its outward manifestations; and individual legitimization is the product of specific contacts between management and its customers. It is on this individual level that most changes are sought by New Public Management. (Schedler and Felix 2000, p. 1)

This study marked a paradigm shift in how the state and the public sector should ideally be managed, with a shift from micromanagement and management by rule towards management by objectives. These two changes – exposure of welfare services to competition and the new, more management-oriented philosophy – should be considered together, because to some extent they presupposed each other. NPM was the ideological superstructure that legitimised and motivated the introduction of competition in the welfare sector.

The new Swedish welfare model achieved its full breakthrough at the beginning of the 1990s, when a centre–right government, headed by the Conservative Prime Minister Carl Bildt, took over from the Social Democrats. A school voucher system was introduced in 1991, along with a decision to allow private companies to run schools provided that they were approved by the Swedish National Agency for Education and remained free for students (Bergh 2009). The Swedish health care system was transformed, with commissioners and providers, decentralised budget responsibility, competition between public and private health care services and increased freedom of choice for patients (Blomqvist and Rothstein 2000, pp. 194–7). The most pervasive reforms took place in primary, specialist and aged care, whereas general health care remained more or less untouched by competition from private contractors.

4. 'Don't waste a good crisis'

As political scientist Peter Santesson (2012) has pointed out, controversial market reforms often require a difficult economic crisis to gain political legitimacy. The economic crisis that

Sweden went through in 1992 was on a par with the Eurozone crisis in the 2010s and was to change the Swedish labour market radically.[2] The difference, if one is being smug, is that Swedish politicians grew into the task. That a Social Democratic government (from 1994) pressed on with reforms that, according to some commentators, surpassed even those of the Thatcher governments in the UK is something that its heirs today are not too keen to acknowledge (Jakobsson 2013).

Unlike many other countries, neither the centre–right government of 1991 nor the succeeding Social Democratic government of 1994 stopped at improving the competitiveness of existing markets, but opened the social state's Holy of Holies – welfare – to market forces, with the aim of increasing cost control, improving efficiency and raising the level of innovation. With this, Sweden started moving, in the words of Laura Hartman, from 'welfare state to welfare society', where the main change took place in the model of service provision (Hartman 2011, p. 10).

The economic crisis, however, meant that the government had to implement structural changes hastily and without proper planning. A large number of jobs within the welfare sector disappeared, not least in central administration, and many citizens had to endure a deteriorating quality of service. The fact that even municipalities controlled by Social Democrats made cutbacks and privatised local enterprises shows that much of the restructuring of the public sector came about as a result of the economic crisis, rather than from ideological conviction (Möller 2001). On the local level exposure to competition was implemented as a way to reduce costs, not primarily as a way to improve the quality of services. It was this initial motive that, to a great extent, has persisted and has come to play an important role in determining the shape of Swedish welfare markets today.

5. Shift of the workforce from the public sector to the private sector

An important explanation of why the discussion on the shortcomings of the public sector became so politically explosive is that it also took place in the workers' movement, not least in influential union circles. Some occupational groups in the unreformed public sector complained that the lack of alternative employment had negative effects on wage trends and employee influence. An explicit goal when implementing management by objectives was to delegate responsibility, through a general process of de-bureaucratisation, further down the organisation. This would increase the influence of local leaders in the decision-making process (Castillo 2013, p. 15). This measure appealed to large groups in union circles and legitimised, even on the political left, the use of NPM to decentralise top-down monopoly systems.

When exposure to competition and entrepreneurial enterprises on the local level gained momentum, there was both hope, among right-wing politicians, and fear, mainly among the unions on the left, that a diversity of employers in welfare would change the way employees viewed the public sector. The fear was that, as dependency on the public sector disappeared, the socialist order in general would be increasing questioned.

History was to prove both sides right – and wrong. Between 1993 and 2000 the share of employees in privately managed welfare delivery, on the local level, increased by 118 per cent (SOU 2001, pp. 132–6). This trend has continued. When one considers the welfare sector as a whole, the numbers are even more striking: the share of employees in profit-oriented health care, schools and care increased by 145 per cent between 2002 and 2010 (Table 1).

Table 1: Number of employees in the Swedish welfare service sector, 2002, 2003 and 2010

	2002	2003	2010
Private non-profit organisations	24,434	26,035	33,510
For-profit corporations	38,467	44,500	94,364
Publicly managed welfare	505,777	604,689	614,450
Public companies	267	553	2,537
TOTAL	568,945	675,777	744,861
Share of privately employed in the welfare sector	11.1%	10.4%	17.2%

Note: The numbers are of employees providing care of the elderly, care of the disabled, individual and family care, and preschool and school services.
Source: Statistics Sweden (SCB).

Politically, this would have far-reaching consequences. Sweden's largest trade union, Kommunal, went from being a militant opponent of exposure to competition in the 1980s to becoming an ardent promoter of a more liberal, decentralised welfare model in the 1990s (Svanborg-Sjövall 2012, p. 68). At the same time, Kommunal would never cut its political ties to the Social Democratic Party. With a growing number of its members working in the private sector, the internal demand grew for a more independent and pragmatic relationship with the previously unquestioned principle that welfare should be publicly managed. The union was faced with a choice: either remain loyal to the traditional goal of implementing 'democratic socialism' or represent all of its members. With a growing number of members that had either changed employer or used the opportunity to start their own businesses (as public employees were encouraged to buy out provision of primary or maternal care on very favourable conditions), it became increasingly difficult to maintain a dogmatic interpretation of the union's mission.

6. Bureaucracy strikes back?

Thus, the *organisation* of the Swedish public sector has gone through a radical transformation since the early 1990s. Its scope and financing, on the other hand, have not changed much. Liberalisation and exposure to competition have dramatically increased market economy elements in the welfare state, but the character of the welfare state has remained surprisingly unchanged since the 1970s (Bergh 2009). Instead, there has been a shift in the interface between private and public. It's difficult to obtain an overview of the implications of this shift, but among the more general are the questioning of old hierarchies – which in turn leads to backlashes, especially from those whose role is questioned – and the loosening of interfaces both within and between different sectors of society. There appears to have been little understanding, though, that any welfare programme creates its own interest groups, and, as a result, any attempt to reform the system will be met with opposition (Santesson 2012, p. 11). Where the old bureaucracy has been rooted out, new bureaucracy has sprung up.

This development may seem contradictory, given the impact of NPM on the organisation of Swedish welfare. Yet I would argue that this trend is a logical consequence of a management philosophy that inherently legitimises an expansion of bureaucracy. Even with a growing number of welfare workers – assistant nurses, childminders and home-help workers – having moved from public to private employment, the number of salaried employees in the welfare

Table 2: Growth of professional employment by category, 2001–2007

Occupation	2001	2007	Increase	Growth (%)
Public service administrative professionals	37,492	54,771	17,279	46
Shop and stall salespersons and demonstrators	152,715	197,432	44,717	29
Other specialist managers	56,587	70,603	14,016	25
Architects, engineers and related professionals	56,549	69,748	13,199	23
Production and operations managers	50,333	61,442	11,109	22
Building frame and related trades workers	74,498	89,652	15,154	20
Managers of small enterprises	64,181	74,867	10,686	17
Motor-vehicle drivers	83,719	96,976	13,257	16
Building finishers and related trades workers	80,522	92,251	11,729	15
Business professionals	81,534	92,561	11,027	14
Finance and sales associate professionals	156,612	176,366	20,754	13
Helpers in restaurants	51,531	58,165	6,634	13
Computing professionals	77,318	87,025	9,707	13
Metal- and mineral-products machine operators	48,419	53,459	5,040	10
Pre-primary education teaching associate professionals	73,555	81,109	7,554	10
Personal care and related workers	457,692	501,167	43,475	9
Machinery mechanics and fitters	49,470	53,060	3,590	7
Nursing associate professionals	62,899	65,805	2,906	5
Helpers and cleaners	65,715	68,447	2,733	4
Secondary education teaching professionals	55,136	57,205	2,069	4

Source: Kreicbergs (2009).

sector has continued to grow. A study that investigated how the extra funding awarded by the state to local governments was used between 1996 and 2004 showed that the largest share had been used to employ administrators in public management, not to hire more workers in core welfare delivery (Dahlberg and Mörk 2006). Another study showed that the number of administrators in central management grew by 28 per cent between 2001 and 2007, compared with general employment growth of 2.7 per cent (Kreicbergs 2009, p. 15). A comparison of the growth of administrators with the total growth of workers in care and education in the public and private sectors alone reveals exceptional growth of administrators in central management: three times as fast as the total growth of employees in welfare in all sectors (see Table 2).

It is hard to give a satisfactory explanation of why this is the case. It can be argued that during the crisis in the 1990s this category of employees was hit hard by the cutbacks, which led to highly qualified doctors and teachers having to spend more time on administrative tasks and less time on their core activities. Another, less benevolent, explanation offered by Dahlberg and Mörk (2006) is that local officials have strong incentives to hire more lower-level officials to ease their own burden of work. Also, local officials perform a double role as employees: they take part in the decision-making process at the local level, and are themselves part of the workforce. The growing costs of the bureaucracy are carried by someone else, while increasing salaries mean an increase in officials' own private income.

7. A quasi-theory for a quasi-market

Every advance of liberal organisational solutions has been met with a backlash in which politicians and bureaucracy compensate for loss of influence by increasing control elsewhere. Today, this is perhaps shown most clearly in the way government procurements are more and

more burdened with heavily specified input-related requirements. This is partly because of an increased formalisation of government procurements as a result of European Union (EU) rules and regulations, and partly because exposure to competition increases the demand for transparency and comparability (Winblad, Isaksson and Bergman 2012, p. 15).

An interesting question is whether bureaucratisation follows logically, at least in part, from the way NPM is put into practice. Customer choice solutions require a voucher that follows the user, which in turn requires a diversity of providers. In a fully private system the market would be guided entirely by the preferences of the customer: creative destruction alone would determine the set of players. In a system based on public financing the logic is, of course, different. For it to be politically defensible to place tax revenue in the hands of private contractors, an extensive system of controls, assessment and follow-ups is needed. Here, politics introduces a logic that promotes special interests, both commercial and bureaucratic, and that counteracts the original intention, namely to introduce more market-oriented ways to create efficiency.

New Public Management demands, in the words of the World Bank, that 'policy is authoritative' and is not misinterpreted when decisions are put into practice (Manning 2000). Numerous indications support the claim that politicians and administrators do, in fact, interpret the tools that NPM offers in different ways. It should be noted that those who are put in charge of implementing these 'market inspired' policies are usually officials who have spent their entire professional careers in public monopoly enterprises.

A telling example can be found in health care in Stockholm. As a part of the effort to achieve cost control and increase productivity in the old health care monopoly, Sweden imported a system of so-called DRG (Diagnosis Related Group) lists from the US.[3] The goal was to create a system of compensation which would relate the prices paid by the county council for the services performed – by public and private performers alike – to output. Those prices were also intended to create incentives for efficient and cost-effective production. The system thus sought to affect behaviour within the medical profession through financial incentives (Källman 2011).

When the system of compensation in non-institutional care and outpatient surgery was reviewed in Stockholm in 2011, the consultancy bureau Vasco Advisers observed a lack in consensus on what DRG was intended for (Källman 2011). Care providers, public as well as private, saw DRG primarily as a system of compensation. The authorities, on the other hand, saw it as a way to classify and register the production of care. Health-care financiers saw DRG as a way to measure output and distribute financial risks. Recipients of care described DRG primarily as a way to ensure transparency and efficiency – regardless of whether this was achieved by competition or by centrally planned distribution of resources.

8. The public market: a real market?

Does exposure to competition naturally lead to the creation of proper markets? In a broad sense it does, with monopolies being broken and private contractors allowed to compete in delivering services. But no market functions independently of how it is regulated – and deregulation often leads to supplementary regulation that, overall, increases the total mass of regulation. There is a risk, not least in sensitive policy areas such as welfare, of ending up with poorly functioning quasi-markets that combine the worst of public and private sectors.

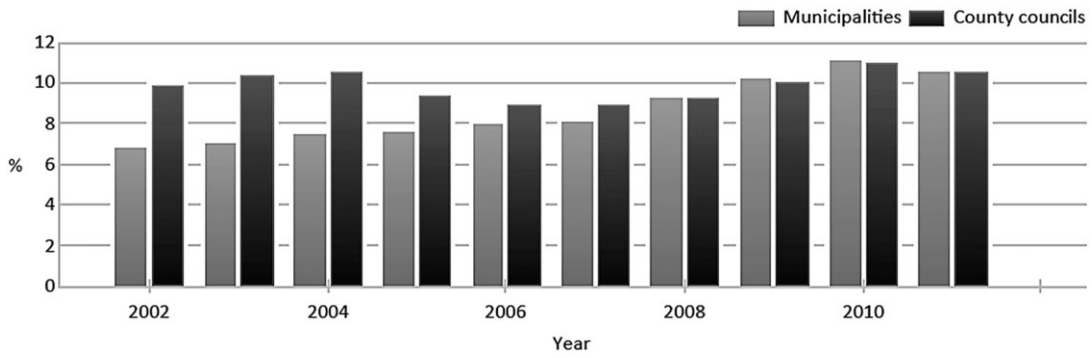

Figure 1: Local government purchases of services from private providers as percentage of total cost, 2002–2011.
Note: The total cost equals the operating cost for municipalities and the net cost for the country councils.
Sources: Swedish Association of Local Authorities and Regions and calculations from Ekonomifacta.

Although customer choice models have become increasingly common in recent years, traditional government procurement still dominates welfare markets in Sweden. The public is remarkably unaware of the huge amounts involved and the importance of the public market for both the financial sector and the state. The market for publicly funded but privately produced welfare[4] is estimated to be worth approximately SEK 82 billion (c. USD 12.5 billion).

The county councils that are responsible for health care, and the municipalities that are responsible for schools and general care, spend about 11 per cent respectively of their total expenditures on welfare services from private contractors (Figure 1).

Enterprises within this sector generated around 3 per cent of the total value of the output produced by the private sector in Sweden (Leonardsson 2012). As previously noted, the financing remains overwhelmingly public: in 2011, 92 per cent came from public sources (Leonardsson 2013).

The dominance of the procurement model has been highly influential in determining the set of players, not least in health care. The logic that lies at the foundation of the original public sector paradigm of management by objectives has gradually been replaced by input regulation through assessment models specified in advance. Increasingly formalised and complicated procurement procedures, in combination with lower compensation levels, have made it difficult for small and medium-size companies to keep up with the competition. This is partly the result of the municipalities primarily (and understandably) using tenders to reduce costs, and partly because Sweden, unlike most other EU members, has voluntarily introduced detailed regulations even for contracts that have been excluded from the provisions of the EU public procurement directive. These rules ensure that the award of contracts is predominantly based on the lowest price (Shekarabi 2012, p. 8).

This, along with relatively secure streams of tax revenue, has made the Swedish model attractive for venture capitalists and investment companies, who have come increasingly to dominate among the private players, particularly in health care. The market's gradual drift back to a public logic has benefited financially strong players. With a focus on scale and volume, many previously publicly run and poorly managed aged-care facilities have been taken over and made highly profitable, at least initially, by a process of streamlining. Size also means that margins can be kept low, which is becoming increasingly important due to the pressure on

prices that characterises care exposed to competition. At the same time the health care/care sector is an unusually fragmented market where no private contractor has a market share exceeding 10 per cent (Reinius 2012). As the markets mature and competition intensifies, this is likely to change.

9. Fragmentation and political uncertainty

Despite Sweden's long tradition of being a unitary state, local governments enjoy a great deal of autonomy. Consequently, the level of privatisation in welfare varies greatly across the country. In the county of Stockholm purchases of welfare services from private players by the county council and the municipalities made up 21 per cent of the total cost for such services in 2010. In the northern county of Norrbotten, by contrast, the figure was only 4 per cent (Leonardsson 2012). The majority of welfare services are produced in the municipal sector, and there are big differences between municipalities in coverage and allocation of resources in most areas of welfare.

This autonomy has meant that many freedom-of-choice and privatisation initiatives have arisen locally. At the beginning of the twenty-first century, the development in health care gathered momentum and, as a result, patients' rights depended greatly on where they were nationally registered. This has highlighted the tension between the statutory goal of equality in care and the scope for local decision-making. The centre–right government that came to power in 2006 tried to strike a compromise by implementing a mandatory system of choice in primary care. This meant giving all county councils freedom to establish private primary care providers. At the same time the county councils were allowed to decide their own systems of compensation and list procedures, as well as the possibility of deciding the demands that should be made on the providers.

Viewed as a market reform, the system of choice in primary care is both a positive and a negative example. The advantage is that the voucher system better imitates a real market, and that power over the allocation of resources is transferred to the consumer, or at least shared between the consumer and the municipality or the state. The private contractor is forced to compete on a daily basis for customers. Freedom of entry has also led to more long-term, stable demands, for example by neutralising the risk of a local majority, hostile to privatisation, compensating only the care under its own management.

However, it should be pointed out that choice is not exercised in a free market. A market that functions normally applies flexible pricing and does not stop at municipal borders. Since Sweden today has 290 municipalities, all with their own systems for compensation, differing majorities and demographic trends, the conditions for competition vary greatly. According to the consulting company Vasco Advisers the county council of Stockholm alone could save close to SEK 4 billion if it applied the same harmonisation of DRG prices as in Germany (Källman 2011).

Local politicians critical of privatisation have also shown great ingenuity in distorting competition to benefit their own enterprises, through write-offs when balances are negative and sometimes by establishing very low levels of compensation. Some municipalities, it seems, have systematically set prices that do not correspond to their own prime costs. In the same way that the autonomy of the municipalities was a necessary precondition for the liberalisation in welfare, despite the resistance of the Social Democratic government, it now poses a risk for private players in the opposite direction. Many private suppliers have to cope with rules and

conditions that change every four years, which, first, discourages investment and, second, constitutes a barrier to entry, especially for smaller welfare entrepreneurs.

However, it should be noted that decentralisation and local autonomy also have a number of advantages. Given that the Swedish experience of choice in primary care is still relatively brief, the experimental approach is very helpful. At present, nobody knows how to design a system for compensation that manages to strike the optimal balance between fixed remuneration (capitation) and variable performance-based remuneration. In 2014, a number of evaluations will be conducted and analysed, adding crucial knowledge about how to combine cost control and productivity increases with ensuring that the needs of vulnerable client groups are met.

10. Concluding discussion: threats to future privatisation

How does the increasing mass of, and detail in, regulation affect the municipalities' attitude towards procurement, and the willingness of companies to take part in procurement competitions? If it becomes too difficult and costly, the risk is that the municipalities will choose to run welfare enterprises themselves simply for practical, rather than ideological, reasons. But the most worrying trend is that exposure to competition, initially motivated by a need for greater diversity and increased transparency, seems to lead, in practice, to increased standardisation. I see four main reasons for this trend.

1. Politicians' distrust of the motives of the market players, especially when it comes to for-profits.
2. Bureaucratic distrust of the welfare professions and how they operate.
3. The commercial interests of the emerging evaluation industry.
4. The demand for comparability and measurable mandatory requirements in contract procedures.

A functioning market – much like a functioning democracy – depends on trust: trust between consumers and service providers, between citizens and politicians and between politicians and service providers. In this respect competition in the Swedish welfare sector appears to have had an injurious effect. The increase in transparency has made possible quality improvements that would never have taken place except in the harsh light of day, but it has also had other, more negative, consequences. Individual scandals in aged care have damaged faith in private contractors in general, but have also shifted the Swedes' expectations of the kind of care they will receive as they grow older. This culture of distrust has, in turn, led to a demand for regulation that skews the markets even further. In the area of schools, economist Jonas Vlachos has argued that 'there is a risk that a lack of trust in the motives of the provider will lead to highly regulated and standardised schools, which reduces the possibility to adjust them to local conditions' (Vlachos 2012). In the long run, this trend towards standardisation threatens even that which used to give the advocates of privatisation power from below: providing staff and local CEOs with the possibility of creating and innovating. Combined with the very low levels of compensation that have now become common in (for example) aged care, there is also limited economic scope for this kind of innovation.

None of this provides overwhelming arguments against welfare being exposed to further competition; but the current backlash in Sweden against the notion of privatisation illustrates

the importance of making good, long-term decisions. In a 2013 issue of *The Economist*, the Swedish middle way was described as 'The Next Supermodel', illustrating many of the advantages of a system based on an ideological compromise. What wasn't made as clear, however, was that this middle way also has its drawbacks. The choice of New Public Management as the way forward in the 1980s, rather than a more straightforward model of privatisation, gained widespread acceptance for exposing what had previously been considered natural public monopolies to competition. At the same time, however, this meant choosing a model that remained neutral as to the scope of bureaucracy and the role of the public sector, and, more importantly, opting out of a political fight over public financing. As the demographic challenges increase, this is a source of worry, not least because of the limited scope for tax rises throughout Scandinavia. It is very difficult to see how Swedish welfare can meet both growing expectations and increased costs without allowing more ways of financing through top-up solutions and more private consumption.

Today, these Swedish quasi-markets are in great need of reform, but the politicians have become prisoners of their own rhetoric. A compromise presupposes sacrifice and, in the case of the Swedish centre–right movement, that sacrifice has entailed accepting the philosophical justification for the publicly funded welfare state. The gain, on the one hand, is the fact that today's citizens take for granted their right to influence core welfare services – not least the younger generation, who have no memories of the old, monopolistic set-up (Sifo 2013). The problem, on the other hand, is a dearth of convincing counter-arguments when the left claims that it is unjust for welfare entrepreneurs to make a profit, and that 'market logic' is a poorly functioning means of controlling public enterprises.

The latter critique deserves more reflection. Does NPM really reflect market logic proper? Given that public financing remains a condition for exposure to competition, the price lists in care, for example, will offer new possibilities for social engineering as well as for bureaucratic expansion. There are no indications that the system of welfare insurance will undergo any radical change in the foreseeable future, even if the *level* of public involvement might change. From this point of view it appears crucial both to avoid the naivety that characterised, at least in part, the start of the Swedish journey towards privatisation, and to challenge the cynicism that the left gives voice to when it denounces as market failure what is really a failure of regulation.

Notes

1. New Public Management is a school of thought that aims to render the public sector more effective and responsive, by transposing market-oriented ways of managing public services through decentralisation and competition.
2. In 1993 Sweden had a deficit in the public finances that amounted to 13% of GDP.
3. DRG is based on *International Statistical Classification of Diseases and Related Health Problems* (*ICD-10*) *in Occupational Health* (Karjalainen 1999). This system is currently in use in many countries.
4. 'Welfare' here comprises child care and schools (SEK 34 billion), municipal care (SEK 27 billion), and health care provided by county councils (SEK 21 billion).

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