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Mechanisms behind privatization: A case study of private growth in Swedish elderly care

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ABSTRACT

For many years the Swedish Welfare State has been associated with a welfare model in which the public sector dominates both the provision and financing of the elderly care system. However, influenced by the ongoing trend of New Public Management, the past 15 years have been characterized by governmental regimes encouraging competition and as a result there has been a substantial increase in private providers. This case study on elderly care in Sweden provides new insights into the mechanisms behind the spread and growth of privatization. Our results show that in 1990 only 1% of the labour force in the elderly care sector was employed by private organizations, in comparison to 2003 when the private share had increased to 13%. The accompanying organizational changes have been controversial and are often criticized. In general, left-wing politicians have frequently defended the traditional welfare model dominated by public providers, whereas right-wing politicians have urged for a larger share of alternative providers. In this study, statistics between the years 1990 and 2003 were used to model the relationship between privatization and a number of economic, political and social/demographic variables. The results from regression and diffusion analysis imply that privately managed elderly care has established itself mainly in metropolitan areas dominated by right-wing regimes. Surprisingly, neighbouring municipalities tend to follow these pioneers irrespective of their political colour or economic situation. In fact, after shifting political power many of those neighbouring municipalities dominated by left-wing regimes not only maintain an abundance of private contractors but also encourage a continued process of contracting out publicly managed elderly care units. As a result, clusters of municipalities with an increasing degree of privatization arise despite political and economic differences. In conclusion, geographical proximity seems to be an important variable in addition to population density, ideology and financial situation when privatization reforms are implemented in the Swedish elderly care system.

Introduction

In the past 20 years, the capitalistic welfare states have been characterized by an increasing involvement of private entrepreneurs in the public sector. This article addresses the mechanisms behind the spread of privatization using the Swedish elderly care system as a case study. Historically, the Swedish welfare state has been synonymous with an extensive public sector with governmental dominance. Not long ago, private alternatives were strongly discouraged or even prohibited. In contrast to this background, the past decade has been characterized by a rapid growth of privately provided elderly care.

Despite the number of theoretical articles about privatization of social services, few scholars have measured the growth of privatization in Sweden and how the actual privatization process has been carried out. This paper aims at (1) investigating the growth and scope of private elderly care, (2) investigating the variation of privatization between different municipalities and (3) explaining the causes of this variation from different political, economic and social/demographic variables.

The paper starts with a theoretical discussion concerning the ongoing trend of privatization, which is followed by an empirical section focusing on the growth of and motives behind this phenomenon.

Contracting out as a way to privatize

In Sweden as well as most of the developed world, the major mechanism behind the introduction of private alternatives in the public sector has been called "*contracting*" or "*contracting out*" (Trydegård, 2001; Young, 2000). In essence, contracting could be described as a process by which public agencies delegate

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responsibility to private organizations for running services such as elderly care or health care. Only the production of services is delegated to the private provider, financing and regulation remain within the public agency. Private firms compete for contracts in a tendering process and, in the end, the public agency chooses to contract the private care provider offering the best price and quality.

An interesting question is why so many Western countries started to contract out public services to private providers during the 1990s. This development is linked to broad transformations in society. After the oil crisis at the beginning of the 1970s, with worldwide declining economic conditions and rising unemployment, growing criticism emerged of a public sector swallowing more and more resources. The stagnating economy facilitated the breakthrough of neo-liberal ideas in North America and Western Europe. Inherent in neo-liberalism is a belief that the public sector is inefficient *per se*. Instead, neo-liberalists recommend deregulation, privatization, low taxes and economic competition. These new liberal winds materialized into a set of ideas that are often referred to as *New Public Management*, *NPM*, (Megginson & Netter, 2001).

Since the 1980s, NPM has received increasing interest and NPM-reforms have had a substantial influence on organizational issues in welfare sectors all over the industrialized world (Green-Pedersen, 2002). These reforms have been variously labelled managerialism (Pollitt, 1993), market based public administration (Lan & Rosenbloom, 1992) and entrepreneurial government (Osborne & Gaebler, 1993) but the contents are remarkably similar.

The key concepts were established by Anglo-American governments at the dawn of the neo-liberal era, with Thatcher and Reagan as their most prominent advocates. Classical business and market principles as well as management techniques from the private sphere were embraced and applied in the public sector. In order to facilitate the entrance of market forces, there was an urge to decentralize the hierarchical public bureaucracies and transfer authority to lower-level units. Autonomy of public providers was expected to promote independent problem solving and to be an essential prerequisite for successful competition. The rigid hierarchical bureaucracy was considered obsolete in a dynamic world with a drastically changing economic environment. Whenever possible, the state itself should abstain from production of welfare services in favour of external actors – for example, by contracting out services. Instead, NPM advocates plead, the role of the state should be focused on regulating and financing public activities.

Internationally, NPM-reforms are not only limited to contracting; although less frequent, voucher models based on patient-choice are common in the social services sector. Denmark, the Czech Republic and Sweden are countries that have introduced local models where the elderly, on an individual basis, are offered the option to choose between public and private providers (Megginson & Netter, 2001; NBHW, 2007; Prizzia, 2001). In Denmark, other types of NPM-reforms, such as the delegations of financial authority and global budgets, have also been introduced (Pallesen, 2004). There are also examples of NPM-reforms focusing mainly on decentralization (Pollitt, Birchall, & Putman, 1998).

Policy diffusion and contracting out

Diffusion theory seeks to identify the patterns according to which innovations are spread and the geographic and structural characteristics that might explain them (Freeman & Tester, 1996). The term *innovation* is here simply defined as a program or policy which is new to the organizational body adopting it (Walker, 1969). Besides internal factors within the organization, such as ideology and economic concerns, scholars of policy diffusion underline the importance of external influence. For example, in the USA it has been shown that the decision to privatize and contract out services not only depends on internal structural factors but also the number of a state's neighbours that have adopted a similar policy (Berry & Berry, 1999; Mooney & Lee, 1995). Obviously, there could be a substantial influence from neighbouring governments independent of the political or economic situation. The term "contagion" has been used illustratively to describe this phenomenon (Walt, 2000). Some scholars of policy diffusion separate between the pioneering actors first introducing the innovation and the adopting followers (Walker, 1969). Several factors have been identified differentiating pioneers from followers. For example, organizational size correlates well to innovation (Walker, 1969). On the opposite end, poor education tends to correlate with the absence of pioneering. In this study we will show that the municipal political and economic situation is highly intertwined with geographic proximity in the diffusion process of Swedish elderly care privatization.

Privatization of Swedish elderly care

Since the dawn of the welfare state, the Swedish elderly care system has been a central part of the public sector, with no organizational distinction between service production and the corresponding financing. For decades official policy has focused on home-based care. A special housing accommodation should only be considered when no other option remains and then it should be as home-like as possible and considered as the residents' own housing (Trydegård, 2000). In 2006, 9% of all elderly people (>65 years of age) received public home-help in their ordinary housing. The corresponding figure for special housing accommodations was 6% (NBHW, 2008). A care manager makes an assessment of needs and decides on behalf of the elected social welfare committee what kind of help and assistance the elderly will receive, how much and how often. Parallel with this formal tax-funded elderly care sector there is also a large non-regulated informal service production dominated by relatives receiving no economic compensation. Estimations suggest that the informal sector accounts for approximately 70% of the total production of elderly care (NBHW, 2002), and is steadily increasing. However, the term privatization is throughout this article as well as in most literature used to describe structural changes only in the formal sector. In the Swedish case, privatization is generally synonymous to marketization or contracting out tax-funded public services to both for-profit and non-profit alternative providers.

Organizationally, county councils were earlier responsible for elderly long-term patients, but 1992 saw a decentralizing reform known as the "ÄDEL-reformen" that transferred the main responsibility of elderly care to the smallest unit of local government in Sweden: the municipalities. Although the objectives of the reform were primarily to increase productivity at the hospital level and build an elderly care system based mainly on non-institutionalized social care rather than hospitalization, the very existence of a large number of municipalities and their multitude of different political and economic prerequisites opened up for alternative non-public service providers.

Furthermore, the general economic situation in the Swedish municipalities during the 1990s was alarmingly poor, with net losses throughout the entire decade, and since elderly care represents about 20% (SCB, 2005) of the total municipal expenditures it has been an important target for cost-reduction reforms. With this background, the Swedish elderly care system underwent a series of fundamental changes during the 1990s. In line with the ideas of NPM, a purchaser/provider system in which purchasing was organizationally separated from provision entered the scene and by the