

## SHOULD WE ALLOW A PROFIT ON SOCIAL SERVICES PROVISION?

Every now and then, a discussion is brought up if private for-profit organizations providing social services should be allowed to make a profit from their services.

In 2022 European Commissioner Schmit questioned private companies making profit on public services. *"I think we are now in a process where finally the real idea of neoliberal capitalism has lost some attractiveness,"* Schmit told EURACTIV, referring to the neoliberal economist Milton Friedman. In a 1970 essay, Friedman famously claimed that *"the social responsibility of business is to increase its profits."*

*"You cannot make money on this kind of social services," Schmit said, arguing that private businesses should not replace public services.<sup>1</sup>*

Why are private companies and the owners/ investors behind them providing public services in Europe and should they be allowed to make a profit using public funding? Let's just comment that they are not making profit every year and if so – the profit they make is a kind of pay off of their initial investment.

Generally, the private sector in public services is growing – we can see it especially in social services. We can find some countries in Europe where so-called marketization and privatization of social, especially long-term care services for older persons is been growing. And we can find some evidence in the KPMG report that was made for the EC in 2022.

Over the last three decades, more market-based provision through private actors (both for-profit and non-profit) could be observed. At the same time, for-profit providers have also emerged or increased their presence in other Member States, even in the absence of similar policies.

*The structure of long-term care provision is changing. Privatization and marketization are a growing trend in most of the analyzed EU countries – particularly with regards to providers of residential and semi-residential long-term care services. According to data from analyzed Member States, the share of privately-owned providers is growing, while the share of publicly owned entities is decreasing. In Germany, for example, not only the number of privately-owned nursing homes is growing, but also the share of profit-oriented providers is growing.<sup>2</sup>*

Private for-profit companies are to be found in a wide scale of public services. Let's just name the most common ones like public transportation, postal services, water and waste management, health care, education, culture and social services in particular long-term care and children's care.

<sup>1</sup> <https://www.euractiv.com/section/economy-jobs/news/commissioner-schmit-you-cannot-make-money-on-social-services>

<sup>2</sup> *Final Report, Study on the long-term care supply and market in EU Member States, European Commission, 2022*

And these can be provided either by the public providers (founded and managed/ under political control by state, regions, municipalities or other public bodies), or private companies either non-for profit or for profit (that can be also divided by private owned or stock-owned companies). And we also know models of for-profit companies shared or fully owned by the public sector providing hospitals, for example Czech regions owning for profit hospitals.

So why do we at all have for-profit companies delivering and providing public services? It's mainly for two reasons.

The first – and from my point of view the main – reason is that governments are failing to provide public services at the requested and needed volume, structure and quality to its citizens. And that is a political choice. The current COVID-crisis has showed that money is not the issue, but its destination. Instead of healthcare and social services, money in the form of staid aid was spent on business.

Another reason is that public administration is very slow in developing adequate strategies, making decisions, and their investments take years. They are not affected primarily by the outcome and given goal but more on other influences, changing public opinion, elections and environment. Public administration and political leadership is not flexible in changing and/or modifying plans, aims and decisions. And finally public administration is definitely not efficient.

There are studies indicating that private (and especially for-profit) companies can build and start public services 3 times faster, and being up to 300% more efficient/cheaper. Sometimes public bodies are also lacking investment resources. After all that's why we also have public-private partnership projects. Public providers on the other hand are directly or indirectly driven or at least influenced by public/politician decisions and not for profit organization are granting to use their possible profit (which is not very often) back into their core activities.

The main criticism of for-profit companies besides whether it's moral to make a profit off their activities, for example, health or social care (and one might say – if it is more efficient it makes sense that they make profit) is the question of quality. And this is not so much about in which sector is the quality generally better but more about in what sector we hear more often about some scandals, criminal cases linked with abuse, frauds, etc. (like the 2022 Orpea issue in 2022).

Needless to say, the one responsible for regulations and quality supervision in public services (including social services) is once again the public administration. So, if it comes to these sad cases it's a second failure. Failure of insufficient regulatory frameworks, inspections models, etc.

So let's conclude with a question – is there a solution? Kind of. Public administration will not (for many reasons) stop failing at securing the needed and accurate provision of public services to its citizens and voters. It can define, refine and enhance the regulatory and quality frameworks. But the future of public services and especially in social services and long term-care services for older persons lies not in the question whether we should have public OR private providers. The issue is what about profit, and what

profit is acceptable? If the profit is re-invested in the amelioration of the provided social services, it stays in the social services sector, and hence there is no leak. And that is what it is all about.

The future lies in reasonable and accepted combination – public AND private (for and not for profit) and in making a regulatory and quality framework that will save us similar future discussions and will ensure good public services enabling.

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