

Summary

SNS Economic Policy Council Report 2019. The Future of Swedish Municipalities

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English summary of a report in Swedish with the title “Kommunernas framtid”.

Swedish municipalities are facing major challenges in the future. An aging population implies an increased demand for care services. At the same time, a decreasing number of people of working age will have to provide for an increasing number of people who do not work. Furthermore, Sweden has undergone a significant process of urbanization that has led to substantially different conditions for urban and rural municipalities, respectively. In addition, Sweden has received a large number of refugees, many of whom are young, which entails challenges for the education sector.

In the *SNS Economic Policy Council Report 2019*, we assess the existing Swedish municipal model and analyze to what extent it is capable of addressing the challenges ahead. Does it deliver a reasonable foundation for providing citizens with important welfare services, such as education and elderly care? In specific, we focus on the following three issues:

1. How to guarantee high-quality municipal services at an equal level across the country?
2. How to finance the welfare state in the future?
3. How to ensure that local politicians can be held accountable?

The Swedish municipal model, in which municipalities are responsible for providing local collective goods as well as important welfare services, contains an inherent contradiction. On the one hand, municipalities are self-governed and they are supposed to adapt the range of services to local preferences and conditions. On the other hand, national politicians have high stakes when it comes to welfare services, since there is a general understanding that individuals should be offered similar service levels regardless of where they live.

Demographic changes and growing differences between urban and rural areas

Municipal costs are highly dependent on the age composition in the municipality, since education, healthcare and care services are primarily used by the young and the elderly. Demographic conditions also affect municipal revenues, as the bulk of these originates from the municipal income tax, which, in turn, depends on the number of people of working age as well as on their earnings.

On paper, growing municipalities are in a good economic position. They enjoy a favorable age structure and a strong tax base. However, they need to expand municipal services, infrastructure and their housing stock as the population grows – in addition to integrate a growing proportion of immigrants who frequently choose to live close to their compatriots. The challenges facing shrinking municipalities are different in nature. They risk



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missing out on economies of scale and they face difficulties in recruiting specialists and other professionals needed for ensuring the quality of the welfare services offered. Rural municipalities, as well as some metropolitan municipalities, receive grants from the Swedish state and from other municipalities in order to compensate for their weaker tax base and higher structural costs. Being highly dependent on grants is problematic, since it might induce municipalities to spend too much, given that some of the costs are borne by citizens of other municipalities.

Municipal services under pressure

In addition to the increasing demand for elderly care caused by a growing number of older individuals, people's expectations on the quality of service tend to rise when their incomes increase. Furthermore, productivity in labor-intensive service production typically develops slower than productivity in the manufacturing industry, implying that wages need to increase more than productivity in order to attract workers. Combined, this leads to increasing future costs in the provision of municipal services.

The two sectors education and elderly care make up almost half the costs for municipalities. Both of these sectors will need to recruit new personnel in the future and in order to succeed, they may need to improve both the working conditions and the work environment. Our overview of the education sector points to possible differences in quality between urban and rural areas, whereas we notice no systematic tendencies in the elderly care sector. For this sector, the challenge instead lies in financing the increased demand.

The municipal sector is subject to a large number of targeted state grants; something that not only impedes the planning undertaken by municipal politicians but also the ability of municipal voters to hold their elected politicians accountable.

Different financial challenges in the short and long term

The demographically driven financial challenge may be divided into a short-term and a long-term part. The short-term part is due to a particularly sharp increase in the proportion of older individuals during the next two decades and will create a deficit in municipal finances if current levels of activities are to be maintained. There

are different ways of addressing this financial challenge. First, there is a potential for raising user fees, primarily in preschool, but also to some degree in elderly care. Furthermore, digitalization and the use of new welfare technology could be one way of boosting productivity. As far as it relates to tax increases, it is preferable to rely on property taxes, an underutilized tax base in Sweden today, and environmental taxes, as opposed to increases in the local income tax, which is already high.

There is limited scientific evidence that policies in the form of location marketing, "flagship projects" and municipalities sponsoring elite sports teams are capable of generating increased revenues for the municipality. In the long term, it is possible to address the financial challenge by means of postponed labor market exits.

Accountability in municipalities is obscured

In order for voters to be able to punish decision-makers who have carried out activities in an inefficient manner (e.g., having wasted resources, not kept election promises and/or in different ways abused their power for private gain at the taxpayers' expense), it must be easy to hold them accountable. However, a number of features in the Swedish local political system constitute obstacles for effective accountability. The party systems have become fragmented, local majority coalitions have become more complex, the amount of inter-municipal collaboration has increased and divisions of responsibilities between state and municipalities have become increasingly blurred. In addition, voters tend to have limited knowledge regarding who their politicians are and which services the municipalities are responsible for. Overall, then, it is doubtful whether accountability is effective in Swedish municipalities.

Proposals for reforms

How should one address the significant challenges facing the municipal sector? In this report, we discuss four possible municipality reforms:

- (i) increased inter-municipal collaboration
- (ii) municipal mergers
- (iii) an asymmetric division of responsibilities
- (iv) nationalizing certain municipal responsibilities

These alternatives all have their pros and cons and it is unlikely that the solution to the problems

facing municipalities is to be found in a single model. Rather, the most attractive elements of each model need to be combined.

There may be an as of yet not realized savings potential in increased collaboration in areas of welfare. Voluntary mergers in densely populated areas may be a way to better benefit from synergies and economies of scale, thereby enhancing the attractiveness of these areas and promoting growth. There is less reason to believe that merging municipalities in rural areas will result in substantial savings. Here, distances among the population are great and the democratic costs may be high.

An asymmetric model, where responsibilities for well-defined areas are transferred from small municipalities to the state (or another principal), is worth considering. In such a model, it is possible to retain the proximity and local presence in the responsibilities that remain at the municipal level and at the same time take advantage of economies of scale in the management and administration of the responsibilities transferred from these municipalities. However, in order to implement such a model, one must first identify which areas are to be transferred from which municipalities/ types of municipalities and to which level/unit (neighboring municipality, region/county councils or state/county administrative board).

The division of responsibilities between state and municipalities needs to be clarified. The state should be very restrictive in using targeted grants and instead let the municipal politicians be in charge of municipal priorities. Political accountability in municipalities needs to be strengthened. Here, separate election days may represent a partial solution. This would clarify what the local election issues are and increase the likelihood that voters actually hold local politicians accountable. As different election days risk leading to reduced voter turnout, and as the effects of this are difficult to predict, we propose a new state-sponsored study to thoroughly analyze this proposal. In addition to this, we recommend trials involving municipal parliamentarianism (majority rule in municipalities rather than a municipal executive board where all parties are represented), which is a reform with the potential of clarifying differences in political positions and thus make it easier for voters to demand political accountability.

Finally, the short-term financial challenge needs to be resolved. Possible routes include a higher property tax, increased environmental taxes

and more freedom for municipalities in terms of levying user fees on, for instance, preschool services and elderly care. Furthermore, it is also desirable to raise the efficiency of municipal activities; for instance, by using digital aids to a greater extent. Hopefully, the reforms we have discussed above in the form of a clearer division of responsibilities between state and municipality as well as increased political accountability will also increase the pressure on local politicians to raise the efficiency of their activities.

About the authors

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SNS Economic Policy Council

The SNS Economic Policy Council was initiated in 1974 and has since then brought together leading academic economists to write an annual report with independent recommendations for economic policy.

The SNS Economic Policy Council Report 2019 was launched on January 16, 2019 in Stockholm. Commentators at a conference were Tomas Mörtzell, Chairperson of the Municipal Board of Storuman, and Annika Wallenskog, Chief Economist of the Swedish Association of Local Authorities and Regions. At the SNS Board of Trustees general meeting the same day, Elisabeth Svantesson, Chairperson of the Committee of Finance of the Swedish Riksdag and Spokesperson for economic policy issues for the Moderate Party, commented.

The report has also been presented at SNS local chapters and a number of other arenas. The report has received widespread media coverage.