Rescaling Social Welfare Policies in Finland

National report provided by
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Stakes

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Introduction

Finland is politically and culturally part of the Nordic camp of European welfare states. Also in terms of welfare state regimes we have been located in the social democratic north-west corner. The basic landmarks of the Scandinavian Model are well known. They are equality and full employment as policy goals, public responsibility of welfare, almost public monopoly in service provision, clear emphasis in services that are tax-funded over transfers and – of course – universal nature of social, health and educational services (i.e. public, high quality services for all in need, not only for the poor). On the outcome side the key characteristics are profound redistribution of income via transfers and progressive income tax.

How clearly the Finnish welfare state meets this criterion is an empirical question. Basing on the most recent comparative analyses (Kautto, 2005) it seems that in many respects Finland is closer to the EU-15 averages than the Nordic mean.

In Finland, the level of social expenditure was close to the EU-15 average in the early 1990s but after 1993 the expenditure share declined sharply (Table 1). Although the GDP share of social expenditure started to grow in 2001 it is still below the EU-15 average. In Finland, the GDP share of social expenditure was 26.4 per cent, the EU-15 average was 28 per cent and it was 32.5 per cent in Sweden and 30 per cent in Denmark in 2002. Finland is closer to the Greek (26.6%) and Italian (26.1%) level than other Nordic countries’ level (Stakes, 2005: 182).

Table 1 Expenditure on social protection in 1980-2003

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<tbody>
<tr>
<td><strong>Per capita in PPS</strong></td>
<td>1696.6</td>
<td>3067.5</td>
<td>4020.8</td>
<td>5108.7</td>
<td>5750.4</td>
</tr>
<tr>
<td><strong>As % of GDP</strong></td>
<td>18.5</td>
<td>23.0</td>
<td>25.1</td>
<td>31.4</td>
<td>25.3</td>
</tr>
<tr>
<td>On family/children</td>
<td>9.8</td>
<td>11.0</td>
<td>13.5</td>
<td>13.4</td>
<td>12.5</td>
</tr>
<tr>
<td>On old age and survivors</td>
<td>30.9</td>
<td>30.4</td>
<td>33.8</td>
<td>32.8</td>
<td>35.8</td>
</tr>
<tr>
<td>On labour policies</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>2.882</td>
</tr>
<tr>
<td>On active labour policies</td>
<td>1.0</td>
<td>0.9</td>
<td>1.0</td>
<td>..</td>
<td>0.772</td>
</tr>
<tr>
<td>Unemployment covered</td>
<td>..</td>
<td>..</td>
<td>..</td>
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<tr>
<td><strong>GMI for 1 parent+1 child PPP</strong></td>
<td></td>
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<tr>
<td><strong>Replacement rates of unemployment benefits</strong></td>
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<td>APW</td>
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<tr>
<td>% on social assistance</td>
<td>..</td>
<td>8.0</td>
<td>11.5</td>
<td>12.1</td>
<td>13.1</td>
</tr>
<tr>
<td>% on contributory based policies</td>
<td>8</td>
<td>13.7</td>
<td>12.1</td>
<td>10.9</td>
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Sources: Stakes (2005), Statistical Yearbook on Social Welfare and Health Care; OECD (2004), Social Expenditure Database (SOCX); Statistics Finland; Note: (..) Data not available or too uncertain for presentation.

In literature Nordic countries has been described as countries which use a lot of money both to the cash benefits (transfers) and benefits in kind (services). Public provided services are possible to keep features that most distinguished Nordic countries from other countries. However the statistics from 2002 do not support the idea that there exists an individual and coherent Nordic model. In 2002 the share of benefits in kind of GDP in both in Sweden and Denmark are above 10 per cent %, but in Finland the same share is below 9 per cent. The share of cash benefits of GDP is in Sweden 18.2 per cent and in Denmark 17.6 per cent, but in Finland 16.7 per cent. Related to the share of cash benefits and benefits in kind of GDP Finland is near the EU-15 means (17% and 8.8%) and Greek and Portuguese level (Kautto 2005: 29).
It is a general view that employment rate is high in countries where also the GDP share of social expenditure is high. Denmark and Sweden stand out again as similar countries from the rest of EU-15 countries. In 2004 the unemployment rate was 6.3 per cent and the long-term unemployment rate was 1.0 per cent in Sweden. The same indicators at the same time in Denmark were 5.4 per cent and 1.1 per cent. Finland differentiates again from other Nordic countries: the unemployment rate was 8.8 per cent and long-term unemployment rate was 2.3 per cent in 2004. Related to these indicators Finland is closer to EU-15 countries averages (8.1%/3.4%) as well. The nearest point of comparison in unemployment rate is Italy and in long-term unemployment rate Portugal (Eurostat 2005).

However related to poverty rate (60% of the median equivalent income of the population) Finland can be seen to belong to the Nordic camp of European welfare states. In Nordic countries the poverty rate was clearly below the EU-15 countries average (15.2%). In 2002 the poverty rate was 11 per cent both in Sweden and Finland and 10 per cent in Denmark (Eurostat 2005).

Table 2  Poverty, competitiveness and social values between 1980s and 2005

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<tr>
<td><strong>Poverty</strong></td>
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<tr>
<td>60% median pre-transfers</td>
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<td>..</td>
<td>..</td>
<td>..</td>
<td>19</td>
<td>42 2004</td>
</tr>
<tr>
<td>60% median post-transfers(^1)</td>
<td>11.0 (-81)</td>
<td>8.2 (-87)</td>
<td>7.9</td>
<td>7.3</td>
<td>11</td>
<td>11 2004</td>
</tr>
<tr>
<td>Gini index(^1)</td>
<td>20.5 (-81)</td>
<td>19.7 (-87)</td>
<td>20.2</td>
<td>21.7</td>
<td>24</td>
<td>25 2004</td>
</tr>
<tr>
<td><strong>Competitiveness</strong></td>
<td></td>
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<tr>
<td>Growth-ranking</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>2 2002</td>
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<td>Business-ranking</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>2 2002</td>
</tr>
<tr>
<td>GDP development</td>
<td>..</td>
<td>..</td>
<td>-0.6</td>
<td>3.5</td>
<td>5.3</td>
<td>1.3 2005</td>
</tr>
<tr>
<td>Public deficit(^2)</td>
<td>11.8</td>
<td>..</td>
<td>14.3</td>
<td>57.1</td>
<td>44.6</td>
<td>45.1 2004</td>
</tr>
<tr>
<td><strong>Social Values</strong></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Indicator on values</td>
<td>..</td>
<td>..</td>
<td>20.5</td>
<td>43.7 (-99)</td>
<td>51 2003</td>
<td></td>
</tr>
<tr>
<td>Indicator on scalar</td>
<td>..</td>
<td>..</td>
<td>32.5</td>
<td>36.3 (-96)</td>
<td>48.2 1999</td>
<td></td>
</tr>
<tr>
<td>dimensions</td>
<td></td>
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<td></td>
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<tr>
<td>Indicator on networks</td>
<td>..</td>
<td>..</td>
<td>23.5</td>
<td></td>
<td>19.9</td>
<td>1999</td>
</tr>
</tbody>
</table>

Sources: Moisio (2005) unpublished; Statistics Finland. Notes: (..) Data not available or too uncertain for presentation; \(^1\) Post-transfers and Gini index include calculated housing benefit and since 2000 the information is not fully comparable with those published earlier; \(^2\) In national accounts calculations, EMU deficit corresponds with the net borrowing/net lending of general government exclusive of net payments relating to swap and forward rate agreements, which in EMU deficit reporting are entered as interest expenditure (deficit), but in national accounts as changes in derivative liabilities (with no impact on deficit). In Finnish national accounts, these swap interest payments were deducted from central government interest expenditure from year 2003. The reported EMU deficit corresponds direct with the national accounts deficit before year 2003.

General conclusion: Finland is approaching the European Social Model and taking distance from the Nordic Model in respects of social expenditure and the share of benefits in kind of all social expenditure.
What then are the key issues in public policy debate when it comes to welfare policy? Surely they are the following three: (i) economic sustainability of the welfare state policy; (ii) rapid ageing of the population and its social and fiscal consequences, and (iii) employment scenarios and before all, persistent unemployment attached to low income amongst certain groups like single parent households and low-skill workers.

1   Changing contexts: demography, economy, society, politics

1.1   Socio-demographic patterns and trends

In Finland – as well as in other industrialized western countries – is in progress a demographic change: the life expectancy is growing and the birth rate is decreasing. This so called process of ‘population ageing’ goes ahead slowly but inevitability. The number of children and working-age population are decreasing while the number of 65 years old and over is growing. In the long run this kind of development process will die down the growth rate of population although in 2004 the increase of population in Finland was more than year 2000. Increase of population can be partly attributed to an increase of immigration. The share of net immigration has almost tripled in the last four years. The share of foreign-born immigrant population has also nearly quadruple from 1980 to 2004 (Table 3).

In Finland the change of the age structure of population has been underway already a long time. Even though the population has increased over 400 000 persons in the last 25 years, there was over 600 000 children under 15 years of age less than 25 years ago. At the same time the number of working-age population has grown around 400 000 persons. There is now above 250 000 more 65+ than in 1980. The fastest growing age group has been persons’ over 80 years old in the last 25 years. This means that the dependency rate of elderly has increased one third between 1980 and 2005. ‘Population ageing’ will significantly affect the need for social and health care services thus increase social protection expenditure. In Finland social expenditure on old age and survivors has six folded from 1980 to 2003.

At the end of 2004, the population of Finland was 5 236 611. Men accounted for 48.9 per cent. In 2004, 65+ accounted for nearly 16 per cent and under-15s accounted over 17 per cent of population. It is estimated that the percentage of 65+ will be nearly the same for 2010 as what the percentage of under-15s is at the present. Even though Finland’s total fertility rate has increased a little bit, the rise is not enough to prevent birth decline. Deliveries totalled nearly 56 900 in 2004 which was eight per cent less than in 1980. Three quarter of the decrease can be attributed to the fact that the number of women of childbearing age has decreased as the small age groups in the 1970s have reached that age (Statistic Finland).

The number of marriages declined in 1980s and 1990s, but in the last four consecutive years their share has increased. In 2004 was entered into matrimony over 29 300 couples. The number was bigger last time in 1983. The number of divorces was 13 200 in 2004. It was 300 less than in the previous year. The trend that began in the end of 1990s continues (Table 3).

At the end of 2003 there were 1,416 000 households in Finland. In 2003 77.4 per cent of the Finnish population belongs to a family. The proportion was at its highest in the 1960s and 1970s, when 87 per cent of the whole population belong to a family. The most common type of family is still the married couple with children of some age living at home although the number of this type of family is falling continually. Instead the number of cohabiting couples with children began to rise fast in 1990s and it seems to continued in the first years in 2000. This development means also that the number of births out of wedlock has been increased (Families 2003: 47-48).
Table 3  Socio-demographic indicators and their trends 1980-2004

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<tbody>
<tr>
<td>Population, total (million)</td>
<td>4.8</td>
<td>5.0</td>
<td>5.2</td>
<td>5.2</td>
</tr>
<tr>
<td>Persons 0-14, %</td>
<td>20.2</td>
<td>19.3</td>
<td>18.1</td>
<td>17.4</td>
</tr>
<tr>
<td>Persons 65+, %</td>
<td>12.0</td>
<td>13.3</td>
<td>15.0</td>
<td>15.9</td>
</tr>
<tr>
<td>Persons 80+, % (f/m)</td>
<td>0.8/0.3</td>
<td>2.1/0.8</td>
<td>2.5/0.9</td>
<td>2.8/1.1</td>
</tr>
<tr>
<td>Dependency rate of elderly</td>
<td>17.8</td>
<td>19.8</td>
<td>22.1</td>
<td>23.7* (-05)</td>
</tr>
<tr>
<td>Life expectancy (f/m)</td>
<td>77.6/69.2</td>
<td>78.9/70.9</td>
<td>81.0/74.2</td>
<td>82.3/75.3</td>
</tr>
<tr>
<td>Live births per 1 000 mean population</td>
<td>13.2</td>
<td>13.1</td>
<td>11.0</td>
<td>11.1</td>
</tr>
<tr>
<td>Fertility rate</td>
<td>1.63</td>
<td>1.78</td>
<td>1.73</td>
<td>1.80</td>
</tr>
<tr>
<td>Births out of wedlock</td>
<td>13.1</td>
<td>25.2</td>
<td>39.2</td>
<td>40.8</td>
</tr>
<tr>
<td>Share of immigrant population (foreign-born) of population</td>
<td>0.8</td>
<td>1.3</td>
<td>2.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Net immigration/1000 mean population</td>
<td>1.4</td>
<td>0.5</td>
<td>0.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Increase of population / 1 000 mean population</td>
<td>3.6</td>
<td>4.5</td>
<td>1.9</td>
<td>3.2</td>
</tr>
<tr>
<td>Marriage</td>
<td>29 388</td>
<td>24 997</td>
<td>26 150</td>
<td>29 342</td>
</tr>
<tr>
<td>Divorces</td>
<td>9 464</td>
<td>13 127</td>
<td>13 913</td>
<td>13 234</td>
</tr>
<tr>
<td>Share of one person households</td>
<td>27.1</td>
<td>31.7</td>
<td>37.3</td>
<td>39.2</td>
</tr>
<tr>
<td>Share of &gt;5 persons households</td>
<td>3.6</td>
<td>2.3</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Child in single parent family</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- mothers with children</td>
<td>1.4</td>
<td>1.4</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>- fathers with children</td>
<td>1.3</td>
<td>1.3</td>
<td>1.4</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: Statistical Finland. Notes: (1) Definitions: Year 1985 includes persons whose citizenship is unknown; years 2000 and 2004 include those persons who immigrated to Finland prior to the dissolution of the Soviet Union is still Soviet Union; (2) Household is a unit which consist of permanent occupant of a dwelling; (*) preliminary data.

The number of ‘mother and children’ families has increased in 1980s and 1990s, but their number has declined in 2000s. ‘Father and children’ families have been and still are rare. Their relative proportion was 1.4 in 1980 and 2.5 in 2003. Corresponding relative proportions for mother and children were 10.9 in 1980 and 17.4 in 2003 (Families 2003: 48).

The average size of a family at the end of 2003 was 2.85 persons, 0.3 persons smaller than in 1980. The number of children in single parent family has changed hardly at all in the last decades. The number of child in ‘mother and children’ families has grown from 1.4 to 1.6 and in ‘farther and children’ families from 1.3 to 1.4 (Table 3).

The number of household-dwelling units has grown by 620 320 from 1980. The number of one-person and two-person household-dwelling units has increased, others decreased. The number of one-person household-dwelling units has been highest since year 1980. The number of over five-person household-dwelling units began to decrease fast in 1960s, but in 1980s their number decreased even more, by 67 437. In 2004 over five-person household-dwelling units’ share of all household-dwelling units was half of what it was almost 25 years earlier (Statistical Finland).

The increase of one-person household-dwelling units has meant that the portion of those living alone of the total population has grown from 11 per cent 15 years ago to 18 per cent today. In percentages, 24 per cent of all women and 19 per cent of all men aged 15 or over live alone (Families 2003:59).
1.2 The State, its organisation and normative foundation

The current understanding in Europe is that the Nordic countries have the lowest level of poverty, a highly equitable income distribution and advanced equality (gender, regional etc.) as a result of a conscious policy of distribution.

One other characteristic of the Nordic thinking is the importance of services in social policy. One can, however still question whether the State has increased its response in the care market at the same pace as the family has withdrawn from there.

The normative tradition of the Nordic model is based on a set of ideological commitments which have throughout the decades and to some degree also irrespective of the political coalitions guided the policy.

- universal social rights;
- the large responsibility of the public sector for people’s well-being;
- ongoing discussion about the limits in Finland now;
- it endeavours to achieve equality between the sexes as well as regionally and in terms of income distribution;
- major difference to many other European countries when it comes to political rhetoric;
- full employment and a high labour market participation rate as goals.

On the basis of the above principles, the Nordic countries have been considered to form a welfare regime of their kind.

At this point it is sufficient to say that the clearest departures have taken place regarding the last two principles above, i.e. equality (regional and income distribution) and employment.

Repeatedly there have been notions in public debate that an increase in the income disparity would be beneficial for the efficiency of the economy. And further, compromises made regarding the goal of full employment are reflected not only in empirical reality but also in the objectives set for economic policy.

Perhaps more even fundamental cultural factors than the normative tradition in Nordic countries have been the strong Lutheran ethos and Social Democratic heritage.

It has been said that Lutheranism places a strong emphasis on individual responsibility. Furthermore, and perhaps in contradiction with the above, it has been stated that the Lutheran ethos in the Nordic countries also means a firm sense of responsibility for the well-being of other people as well as internalisation of the goal of equality.

Social Democracy has been the ruling political movement in the Nordic countries, albeit to a lesser degree in Finland. It is the Social Democratic ethos that has been considered to entail the ideal of a strong state committed to the redistribution of wealth. In practice, this has meant a strong and centralised state apparatus, which has planned and also in part distributed the fruits produced by the market economy. Nevertheless, the Social Democrats both in Finland and in other Nordic countries have adapted their economic policy rhetoric to the external prerequisites of economy, including the European economic integration. Thus, concepts such as decentralisation, income and poverty traps as well as incentive to work belong to the daily rhetoric of Social Democracy.

We can divide the welfare provision into two major parts – public welfare services and social transfers (social security). On the whole, the former contains one third of the total public welfare spending and the latter two thirds (Stakes 2005). The guiding principle or regulatory model is that provision of welfare services (health, social, education) is extremely decentralised, i.e. it is the statutory obligation of local governments (municipalities). The central regulation of ser-
vice delivery, quality and related things is rather weak. This also means a remarkable variation of accessibility, quality etc. We come to these later in details. Statutory social benefits are centrally regulated – even if all of them are not insurance based (some are tax financed). Very often after some consensus between negotiations employers and unions it is the parliament that decides about the levels, qualification criteria and duration of social security benefits (unemployment, disability, sickness, parenthood, child care etc.) and the implementation of various schemes is uniform in all parts of the country.

The role of the public sector in welfare provision is dominant. In the legislative framework this can be derived from the constitution that was reformed in the 1990s. Formally speaking the public care responsibility goes prior the private one, i.e. over the family responsibility. The role of the third sector is complementary. No part of the basic welfare obligations can be given to NGOs only. A different issue is however that local governments can purchase elementary services from any qualified NGO.

The major funding strategy of services is taxation, i.e. local municipalities finance their services from three sources – municipal tax revenue, subsidies from the State and user fees. Use of private health services is partially funded by the sickness insurance as well. When it comes to cash transfers, the picture is different. The relative proportion of expenses is roughly as follows: the State 22%, municipalities 2%, employers 54% and employees (insured) 13% and 9% by funds (Ministry of Social Affairs and Health 2006, unpublished).

The use of public-private partnerships has been in increase in two meanings: municipalities tend to sub-contract provision of certain services to private providers and then the use of service vouchers has been politically favoured. About the total volume of health services delivery and apart from that also social services delivery the share of private sector is about 20%. The internal structure is however different. Two thirds of private social services are those by non-for-profit NGOs and minority work in the market whereas 2/3 of private health services are run by market-based firms (Kauppinen and Niskanen 2005: 6).

1.3 The Market, commodification and labour market performance

Traditionally the employment rate in Finland has been high. Before the 1990s recession, in 1990, the rate was 75%. Since then it approached the level of 60% in 1993-1994 and then reached the level of 68% in 1999. The male employment rate was in 2004 smaller than in 1980, but the female employment rate is nowadays almost the same as 25 years ago. The youth employment rate was around 50 per cent until early 1990s, but in the last ten years the rate has varied between 30 per cent and 41 per cent. Respectively, unemployment rate was at the level of 3.5% of the labour force in 1989-1990 but then skyrocketed to 17% in 1994. Since then it sank below 10% being now (2005) 8.2% according to the OECD standard. Male unemployment rate was higher than female in 1980s and 1990s, but the situation has been changed in the early 2000. Today female unemployment rate is higher than male. Youth unemployment rate is still the worst of all unemployed although it has improved in the early 2000s (Table 4).

The negative legacy of the 1990s was persistent and growing log-term unemployment. In 2000 the figure in Finland was 47% (at least 6 months) and 29% (at least 12 months). The most recent (2004) figures are 57% and 28% (Income Distribution Statistics). Respective shifts have taken place in the benefit profiles. Until 1998 the major sort of unemployment benefit (for majority of jobless) was earnings-related benefit whereas after that point of time more than a half of the unemployed are living on the flat-rate, partially means-tested benefit. For some long-term unemployed means-tested benefit is not enough to secure their living and they have to turn to social assistance. Among other things this means a slow impoverishment of a rather large group of active age population. This means also that the social protection expenditure on social assistance is still over 10 per cent.
Finland is shifted piecemeal over some 30 years from industrial to service society. New jobs are provided employment in service sector and jobs have been decreased most in manufacturing. This means that most of Finns are today employed in the service sector. More in details: financial and business 14%, trade and hotel 16%, miscellaneous services 32%. Industry employs 19%, agriculture and forestry 5% and transport, communications and construction the remaining 14%. This change has also influenced employees’ status in labour market. Although nearly three fourth of employees are still doing continuous, full-time work, the proportion is continuously decreased. Of all employees nearly one fifth had fixed-term jobs. In 2003 the number of fixed-term employees was bigger in the public sector than in the private sector.

### Table 4 Indicators related to labour market performance

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<tr>
<td><strong>Employment rates</strong></td>
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<tr>
<td>Male (15-64)</td>
<td>75.6</td>
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<td>76.7</td>
<td>64.2</td>
<td>70.1</td>
<td>69.7</td>
</tr>
<tr>
<td>Female (15-64)</td>
<td>66.0</td>
<td>69.7</td>
<td>71.5</td>
<td>59.1</td>
<td>64.3</td>
<td>65.5</td>
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<tr>
<td>Youth (15-24)</td>
<td>49.9</td>
<td>49.5</td>
<td>51.3</td>
<td>29.8</td>
<td>41.1</td>
<td>39.4</td>
</tr>
<tr>
<td>% of fixed term contracts²</td>
<td>11.0 (-82)</td>
<td>11.0</td>
<td>11.9 (-89)</td>
<td>14.1 (-97)</td>
<td>16.3</td>
<td>16.1</td>
</tr>
<tr>
<td>% small sized firms (&lt;15 employees)</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>26 (-98)</td>
<td>34.5</td>
<td></td>
</tr>
<tr>
<td>% employed in industrial sector</td>
<td>33.8</td>
<td>31.5</td>
<td>30.1</td>
<td>27.1</td>
<td>27.7</td>
<td>25.8</td>
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<td>Employment impact of parenthood</td>
<td>..</td>
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<tr>
<td><strong>Unemployment rates</strong></td>
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<tr>
<td>Total unemployment rates (15-64)</td>
<td>4.7</td>
<td>5.1</td>
<td>3.2</td>
<td>15.4</td>
<td>9.8</td>
<td>8.4</td>
</tr>
<tr>
<td>Male (15-64)</td>
<td>4.8</td>
<td>5.5</td>
<td>3.6</td>
<td>15.7</td>
<td>9.1</td>
<td>8.2</td>
</tr>
<tr>
<td>Female (15-64)</td>
<td>4.7</td>
<td>4.6</td>
<td>2.7</td>
<td>15.1</td>
<td>10.6</td>
<td>8.4</td>
</tr>
<tr>
<td>Youth (15-24)</td>
<td>8.9</td>
<td>9.7</td>
<td>9.3</td>
<td>29.9</td>
<td>21.4</td>
<td>20.7</td>
</tr>
<tr>
<td>Long term (15-64)</td>
<td>26.0</td>
<td>35.0</td>
<td>7.0 (-89)</td>
<td>..</td>
<td>2.8</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Sources: Labour Force Statistics, Statistical Finland. Notes: (1) Information since 1995 is not comparable with those published earlier; (2) Fixed term full-time work; (..) Data not available or too uncertain for presentation.

### 1.4 Concluding remarks

The Finnish welfare state is committed to the Nordic Welfare Model although it is common to say that the Finnish mode is a kind of “poor man’s version”. The legitimacy, i.e the public support to the large public welfare responsibility is continuously strong. Even the most recent research report (Kautto 2006) reveals that almost 90% of Finns see that it is the obligation of public sector to produce the main part of welfare services. There we have some sort of split between the population and ruling elites.

Also the Finnish population is ageing. This trend has been recognised by the politicians and more importantly also by the leading economists controlling public spending. Therefore the common argument “Finland is ageing faster than any other population comparable to us” has been used widely as the key argument to limit social spending. Mostly the worries expressed have dealt with pensions and care related expenditures. Here we have much rhetoric and controversial claims.
What is then fast ageing? The share of 65+ is now (2004) 16% and that will be 23% in 2020 and will reach the level of 26% in 2030. The question is how much is much. The most recent sustainability calculations show e.g. that (i) the share of all public spending in relation to the GNP is now (2005) 51% and will rise to the level of 58% by 2030. Within that the share of age-related expenditures will rise from the current 24% to the level of 29%. Can this kind of expansion be sustainable and can it be met if most of the relevant parameters develop positively?

Persistent unemployment is one of the most remarkable social and political problems in Finland. But at the same time there appears to emerge a growing shortage of labour force in many areas of production. This is true also in the area of care work.

The total unemployment rate is now (2005) about 8.7%. The proportions of long-term unemployed are respectively 25% (of all jobless) and that of youth unemployed is about 12%.

According to the most recent comprehensive study on the wellbeing of Finns (Kauto 2006) it seems that labour market positions is the main factor explaining other parts of welfare and also maintains the distinction within the population. Those who are more or less excluded from the paid labour are facing more problems and deficits in their wellbeing than working part of the population.

2 Institutional analysis: actors and governance arrangements

2.1 Identification of the territorial institutions and their development

In Finland the territorial institutions are based on bipolar system between central government and municipality. Central government is constructed from parliament, 12 Ministries and other units of central government. Under the Constitution of Finland, the unicameral Parliament exercises supreme legislative power in Finland. It also decides on State finances. The Parliament’s 200 representatives are elected by directly referendum and the electoral period is four years. In 2005 the biggest political parties in the Parliament are Centre Party of Finland (55 representatives), Social Democrats Party of Finland (53 representatives) and National Coalition Party (40 representatives).

Each Ministry is responsible for preparing legislation on their sphere of authority to the Council of State. The most significant regional civil service departments in social and health care policy area are provinces and The Employment and Economic Development Centres (T&E Centres). Until September 1997 there were 11 provinces in continental Finland plus the autonomous Province of Åland Islands. Number of provinces was decreased by the new Act of Provincial Government (Act 22/1997). There are now five provinces in continental Finland plus the Province of Åland Islands. The Provincial State Offices are regional government expert authorities of the state. It is a joint local authority of seven ministries which contribute to the implementation of central government’s nationwide and regional targets. From 1982 to 1992 the Provincial State Office was responsible for revise and co-ordinate the National Plan of social welfare and health care and guidance and supervision of the social welfare and health care in the province. They also had power to decide how resources were allocated between municipalities within province. After reform of the Act on Planning and Government Grants for Social Welfare and Health Care (Act 733/1992; in future is used abbreviaton VALTAVA), the Provincial State Offices lost their regional planning and allocating power to municipalities. The social welfare and health departments and education departments in the Provincial State administrations guide, supervise, develop and evaluate the social welfare and health care in the provinces, permit to a private services producer for practise 24-hours social services and have worked on issues related to exclusion and long-term unemployment.
The central authority in the field of labour policy is the Ministry of Labour. It is responsible for the labour and immigration policy guidelines and their implementation. On the basis of the Provincial State Office management reform implemented in 1997 was established new co-operative structure at regional level. The regional administration of the Ministry of Labour consists of fifteen regional Employment and Economic Development Centres and their Labour Force Departments. T&E Centres are institutions which combine regional tasks of the Ministry of Trade and Industry, the Ministry of Agriculture and Forestry and the Ministry of Labour. The objective of the Centres is to create closer, more co-ordinated co-operation between administrative sectors within a view to achieving the objectives set down in employment policy. The employment department’s tasks include managing employment offices, developing services, directing training, encouraging and developing entrepreneurship and improving regional co-operation (Heikkilä and Keskitalo 2002).

The local administration of the Ministry of Labour is employment offices which number are 147. There is no employment office in every municipality. The employment offices are responsible to implement employment services and provide job for unemployed. The local actors also include the employment service centres which are joint service centres of the employment offices, municipalities and the Social Insurance Institution (Kela). There are so far number 29, but their number will reach 40 by the year 2006. The employment service centres produce services for those most difficult to employ.

The central authority in the field of social policy is the Ministry of Social Affairs and Health. It guides and directs the development and policies of social security, social welfare and health care services. It also defines the main course of social and health policy, prepares central reforms and steers their implementation, and handles the necessary links with the political decision-making process.

In Finland the social protection system consists of two parts: social insurance and social and health care services. Production and executive power of social insurance belongs to central government and there to the Social Insurance Institution of Finland (Kela). Kela operates under the supervision of Parliament. Kela is responsible for the National pension insurance, the National health insurance and the basic unemployment benefits and the labour subsidy. Benefits under insurance schemes are uniform. They are based on centralized standards and are guaranteed for all persons resident in Finland. Everyone has the right by the Constitution of Finland to get basic security in the event of unemployment, disability and during old age as well as the birth of a child or the loss of a provider (Act 731/1999 19 §:1). Pension insurance companies instead are responsible for earnings-related pension insurance schemes and different kinds of unemployment funds are responsible for earnings-related unemployment allowances. These institutions are not defined as the central government institutions.

An important feature of Finland’s Constitution is its tradition of local self-government. The unit of local government is municipality. Each municipalities consists of an elected council, under which operate a number of politically representative local boards governing different sectors of the local administration such as education, health, social welfare, land use and town planning. Number of municipalities has decreased from 1980’s 464 to 324 in 2005 (Sotkanet 2005).

The responsibility to guarantee for everyone adequate social welfare and health care services has been given to public authorities under the Constitution of Finland. Actual provision of social welfare and primary health care services is regulated to municipalities by three skeleton laws: the Social Welfare Act (710/1982), the Primary Health Care Act (66/1972) and the Municipal Act (365/1995).

Municipalities are responsible for providing services to their residents, but depending on the nature of the service, a municipality can do it in many several ways. It may decide to provide the service itself, buy it from another provider, or unite with other municipalities or buy it from
other public or private services producer (Act 733/1992 4§). Municipalities provide the majority of social welfare and health care services themselves.

In 2005 there are 250 joint authorities in Finland. They are independents legal public entities governed by municipal legislation. These joint authorities produce services which are especially expensive. The most prominent joint authorities are hospital districts for organizing special health care (Act 519/1977), districts for care of the mentally disabled (Act 519/1977) and joint authorities to perform functions related to public health and education. In 2005 the number of hospital districts was 21, districts for care of the mentally disabled 17 and the numbers of joint authorities related to public health were 66 in which are 214 municipalities (www.Kuntanet.fi).

In 2005 are begun two legislations on experiment in Finland. The Act of Administrative Experiment of Kainu (Act 343/2003) is accompanied nine municipalities and its last from 2005 to 2012. The Act of the Cooperation Experiment of Region’s (Act 560/2002) is applied to 51 municipalities and its period of validity is from 2002 to 2012 (Act 63/2004). The aims of both experiments are to find new ways to organize social welfare and health care services through sub-regional co-operation, secure availability of public services and strengthen municipal self-government. The chosen method is the same. Delegation of decision-making and financing powers related to social welfare and health care services from municipalities to sub-regional institutions (council of province or council of region). These sub-regional institutions are not however public administration institutions.

Summary

It is possibly to find clearly two-phase development in the social welfare and health care system in Finland over the past 25 years. The number and extent of social welfare and health care services were increased in 1980’s, whereas in 1990’s and early 2000 the politicians have concentrated to fine-tuning the system. In 1990’s the aim was to shape the quality of existed services better and in the early 2000 to make the provision of services more efficient and more productively. In 1980’s the state channelled subsidies to municipalities to guide the provision and ensure a certain level and quality of services, as well as to even out regional differences (Kautto 2000: 49). Municipalities self-government concerning provision of services decreased. In 1980s the social welfare and health care system was quite centralized and municipalities’ self-government concerning how services within their area were arranged was minimal.

Preparation of the new Act of Government Grants for Social Welfare and Health Care (in future is used abbreviation VOS) began the process of decentralisation in the mid-1980s. It was thinking that a municipality knows better the needs of its residents than the central state and there are regional differences in needs. The central state’s traditional responsibility for welfare politics, the decisions concerning it and its implementation were shifted to municipalities. By this thinking also was laid a base on chancing service structure. Process to shift from standardised services to individual services began.

In the 1990s municipalities found themselves with considerable more powers to decide on service provision, but economic crises in the early 1990s, lasting long-term unemployment, population ageing, cuts in state subsidy and globalization have made the social security system’s financial ground weaker. These things have substantially affected the financing base of municipalities and their potential to provide services for their residents. The question how to secure basic social welfare and health care services to all in the future has emerged as a central challenge to central government. Re-centralisation of the provision of social welfare and health care services from municipalities to sub-regions has been one solution. Instead in labour policy the main actor is still the public government. The central state manages and delivers the services. However it seems that there is happen some kind of delegation concerning policy implementation from central government to regional level.
2.2 Changing institutions

In Finland the main regulatory change in social policy was occurred in 1993. The VALTAVA (Act 733/1992) came into operation. This change meant huge Up-Down power shift from central government to municipalities.

From 1983 to 1992 the central state’s direct and meticulous steering of social welfare and health care occurred through the Provincial State Offices. Municipalities had to prepare a social welfare and health care working programme on aims, activities and operating cost for each five-year-period. This programme was submitted to the Provincial State Offices which had to confirm it unchanged. After 1992 the financial administration steering of the Provincial State Offices and the contextual guidance of the central state were shifted to the municipalities. The role of the central government is now advisory and bases mainly on recommendations.

Before 1993 the government grants were paid to municipalities according to the realized operating costs. Municipalities were categorized in ten classes by financial capacity classification. The bigger was a percent of government grant the worse was the financial capacity classification of the municipality. After 1993 the government grant’s accounting method was changed. A municipality will get a certain amount of money to provide social welfare and health care regardless of how it will arrange services for its residents. This means that the grants have nothing to do with the actual social welfare and health care expenses of the municipalities. Even though the central government lost its steering power the system is still a political instrument. The aim of the system is not consolidate the municipality’s present cost structure but decentralize the financing and regulating power from central state to local authorities.

Present government grant system did not been ready at once in 1993. It had been amended twice. In 1996 (Act 1147/1996) financial classification of municipalities and supplement of tax revenue were compensated for equalization of theoretical tax revenue of municipality. The next amended was in 1997 (Act 1271/1996). The government grants for social welfare and health care is determined so that from municipality’s imputed costs is reduced the proportion of self-financing. The proportion of self-financing per residents is the same in every municipality.

The theoretical government grants for social welfare and health care are determined by such factors as the unemployment rate, number of unemployed, number of children, the proportion of employed in process and service field, population density, surface area and the age structure (0 to 6 years, 7 to 64 years, 65 to 74 years, 75 to 84 years and over 85 years). Age is calculated separately in social welfare and health care. Municipality’s age structure influences most to the calculated expenses (average 84 %). Sickness rate determined about 13 percent of them. Archipelagic conditions or lonesomeness increased the calculated expenses 5, 10 or 15 percent.

The new government grant system of the social welfare and health care does not succeed to equalize all risks and respond to all special conditions. In Finland this problem has tried to solve by using different kind of financing methods alongside the central state subsidy system. Method of distribution of high cost of special health care is managed by the way the hospital districts have agreed free of the central government grant system. Method of distribution of high cost of child welfare is financed via the state’s budget from 1999. Added to these it has shifted from government grants system small amount of earmarked grants in certain need. To which need the earmarked grants will be allocated is proposed by the Parliament. It has directed earmarked funding towards mental health services of the under age in years 2000 and 2001. The important earmarked funding in central state’s budget also has been the substitution for scientific research activities in accordance with special health care and training expenses of dentist and physician. The latest financing method that has been introduced in Finland during the last three years is a project grant. The project grants are assignment to limited development’s projects and the amount of grant is maximum 80 per cent of the total development’s costs. The project grants are based on the decision of the Council of State.
Summary

By the new Act of VALTAVA the regulatory, finding and implementing powers have been shifted from the central state and Provincial State Offices to municipalities. This reform has meant a huge Up-Down decentralization process. In this process the Regions (Provincial State Offices) have been the main losers. They lost their regulatory power to municipalities. The municipalities are now the main authorities to make decisions concerning regional social welfare policy. Local authorities have an entitlement to decide how they will distribute the government grants for the social welfare and health care and how they provide services. Decision concerning the government grants has given the municipalities power to control over financial resources. At the same time municipalities also have gained power to control over the cost of federation of municipalities. Before the reform the government grants were paid direct to the federation of municipalities but now they are paid to the municipalities. The central state delegates financing power concerning federation of municipalities cost to municipalities. The municipalities instead have not gain more power to decide what kind of services they want to provide because most of the social welfare and health care services are statutory.

These new power shifts lay a foundation for de-monopolisation and privatisation of welfare services because each municipality has now the right to decide how to arrange the services. In the care for the elderly this has meant for instance that the support services such as catering, cleaning and transport services have been shifted from local authorities to other actors for example non-profit associations and private enterprises. This and a decision concerning the distribution of government grants promote individualised services development because now a municipality can pay attention to its resident’s special needs or areas special conditions. In the care of the elderly this has shown in support for informal care system. From 1993 it is obligatory to associate in the support for informal care agreement also a care and a service plan. In this plan must determine the number and contents of necessary services for the cared. In the field of income support there are regional differences concerning supplementary allowance. The local authority has a power to decide if a claimant’s need is possible to solve by preventive income support.

2.3 Resources flows among territorial levels

In Finland the public expenditure consist of three different kinds of expenses: central state, municipalities and social security funds. From 1980s to 2004 the public spending has almost sixfolded to 76 455 million euros. The financing structure of public expenditure has changed in last 25 years. The central state’s share of public expenditure has been decreased and is now about one third. The share of municipalities’ has been varied from two fifth to over one third and the share of social security funds has been increased from one fifth to one third. The social security funds’ share is now bigger than the share of the central state (Table 5).

Even though the financing structure of public spending has not changed the expenditure has developed differently in different kind of territorial level. In 1980’ the central state’s share of public expenditure decreased: economic growth was good, industrial and trade activity was high, public service sector was expanding and the public indebtedness was low. Central state faced financing with a situation where both expenditure and revenue increased. In the early 1990s the situation changed rapidly: revenues declined while expenditures increased. Unemployment meant that more people were in need of financial assistance and at the same time there were significantly fewer people in employment contributing to the public purse. The central state tried to solve the imbalance with loans (Kauto 2000: 32). From the 1995 to millennium in Finland occurred favourable developments in employment and economical situation: economic growth is quite rapid and employment picked up which consequently increasing tax revenue substantially. These improvements improved central state finances and made possible for the central government to pay off the central state debt. At the same time the central state made cut-
backs in social welfare, increased taxes and introduced new payments of tax nature. With these measures the central state managed to achieve decreased expenditure.

The trend in local governments has been a little bit different. In 1980s the share of public expenditure increased because the municipalities built and expanded the social welfare and health care service sector according to the Plan for Social and Health Care. In the next decade municipalities’ expenditure decreased almost over nine percent even though the recession. The financing of unemployment expenditure belongs to the central state and the income support to those unemployed who have not a right to unemployment benefit belongs to the municipalities (Table 5).

Table 5  Financial indicators on revenues and expenditure, Finland 1980-2004

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<tbody>
<tr>
<td><strong>A</strong> Public expenditure$^1$</td>
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</tr>
<tr>
<td>A1 As % GDP</td>
<td>40.6</td>
<td>46.9</td>
<td>48.6</td>
<td>59.1</td>
<td>48.8</td>
<td>51.1</td>
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<tr>
<td>A2 Central public expenditure</td>
<td>38.5</td>
<td>35.1</td>
<td>34.4</td>
<td>34.2</td>
<td>32.8</td>
<td>30.2</td>
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<tr>
<td>A3 Local public expenditure</td>
<td>40.8</td>
<td>41.1</td>
<td>40.8</td>
<td>31.7</td>
<td>35.7</td>
<td>37.8</td>
</tr>
<tr>
<td>A4 Social security funds</td>
<td>20.7</td>
<td>23.8</td>
<td>24.8</td>
<td>34.1</td>
<td>31.5</td>
<td>31.9</td>
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<tr>
<td><strong>B</strong> Local revenue$^2$</td>
<td></td>
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<tr>
<td>B1 Own taxes$^3$</td>
<td>39.5$^4$</td>
<td>39.4$^4$</td>
<td>/ 48.0$^4$</td>
<td>56.5$^4$</td>
<td>46.6$^4$</td>
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<tr>
<td>B2 Transfers$^5$ from the national government</td>
<td>18.2</td>
<td>20.7</td>
<td>23.0</td>
<td>/ 30.0$^4$</td>
<td>19.6$^1$</td>
<td>16.1$^2$</td>
</tr>
<tr>
<td>B3 Other sources$^6$</td>
<td>41.6</td>
<td>39.8</td>
<td>37.6</td>
<td>/ 22.0$^4$</td>
<td>23.9$^1$</td>
<td>37.3$^2$</td>
</tr>
<tr>
<td><strong>C</strong> Transfers from the national government, € mil.</td>
<td>124.9</td>
<td>266.3</td>
<td>470.4</td>
<td>/633.4$^4$</td>
<td>3 350$^4$</td>
<td>6 376$^2,8$</td>
</tr>
<tr>
<td>C1 of which earmarked grants</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>.. ..</td>
<td>..</td>
<td>6.3</td>
</tr>
<tr>
<td>C2 of which block grants</td>
<td>.. ..</td>
<td>.. ..</td>
<td>..</td>
<td>.. ..</td>
<td>..</td>
<td>2.1</td>
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<tr>
<td>C3 of which other types</td>
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<td>9.2</td>
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</table>


The category social security funds include Employment Pension Institutions, Social Insurance Institution (Kela) and unemployment benefit funds. The Employment Pension Institutions are responsible to manage for earning-related pension security. The pensions are financed with employees and employers security payments and the investments incomes of the funds. The central state contributes to finance sailors, entrepreneurs and agricultural entrepreneurs’ employments pensions. The central states own employees earning-related pensions are financed from the central government budget. The Social Insurance Institution is responsible for basic security (e.g. sickness benefit, basic unemployment allowance, rehabilitation subsidy, home care subsidy etc.) and the unemployment benefit funds are responsible for earnings-related unemployment secu-
The expenditure of Social Insurance Institution is financed by insurance contributions, central state’s portion and also partly by municipalities’ portion. Two thirds of expenditure is financed by the central government. The earnings-related unemployment benefit is financed by employees and employers insurance contributions, the central states portion and a little bit by membership fees of unemployment fund.

Since 1980 the share of Social security funds of public spending has increased substantially. In 1980s the growth was moderate, but in the next decade the growth accelerated (Table 5). Ageing, better employment situation, new labour market subsidy and reforms in child home care subsidy system partly explained the growth of funds expenditure.

National government funds its expenditure by different kind of taxes. The first group consist taxes on income and property. These kinds of taxes are income and property tax, withholding tax on interest and inheritance and gift tax. The second group includes taxes and levies on turnover. These kinds of taxes are value added tax, tax on certain insurance premia and pharmacy fees. The third group includes excise duties on tobacco, alcoholic beverages, soft drinks, energy and tax related to environmental guidance for beverage packaging. The fourth group includes motor car tax, motor vehicle tax, property transfer tax, lottery tax, vehicle tax and waste tax. Besides these taxes central government finance its expenditure also with other revenue equivalent to taxes. These kinds of revenues are last fees, rail tax, and communications market fee, telecommunications contracting fee and information security fee and oil waste fee.

The Provincial State Offices as regional governments fund their activities mainly by transfers from the national government. In the state budget is defined certain budgetary appropriation for every government departments (ministries). The Provincial State Offices financing belongs to the Ministry of the Interior. Besides budgetary appropriation the Provincial State Offices fund their activity by selling different kind of developing services.

Local authorities fund their expenditure by taxes, transfers from other government level and other sources. The biggest share of the tax revenues of municipalities is municipal tax. Central state grants are transfers from national government. The other sources include other taxes as real estate tax, dog tax, and share of profit on community tax, profit on sales (internal income) and other taxes which are impossible to specify from official statistics. In this category belong also payments of social welfare and health care services. The central government decides the maximum service fee, but the municipalities have a right to decide what the minimum service fee is or are they collecting service fees at all.

There are four kinds of state grants (transfers) from national government to local authority. The main state grants are calculated grants for social and health care and for culture and education (see 2.2). These grants are called state grants of current finances. In 1980s state grants grow fast, but in the end of 1990s their growth slowed down. At that time the state grants system was amended twice and the national government made cuts in the social security system by reducing state subsidies to local governments.

Second kind of state grants or subsidies are discretionary state subsidies. These subsidies are given to those local authorities who have troubles to fund social and health care services or who have special circumstances which involve extra costs. According to the statistics from 2000 to 2004 the amount of municipalities who apply for discretionary state subsidy is growing and the number of those municipalities who were granted the subsidy is reducing. At the same time the total amount of discretionary state subsidies is increased from 42 million euros to 48 million euros. This development shows that the original aim to support municipalities in trouble is shifting to permanent financing method for some municipalities. This development also means that municipalities in need require all the time more and more extra money to secure their residents the same social welfare and health care services as elsewhere.
Third kind of state subsidy is for investments for instance building schools or day-care centres or repairing old-age homes. Fourth group of state subsidy consist of earmarked grants. These grants are not permanent. Local authorities or joint authorities can have them only in certain period and for organizing to a particular activity. With these grants national government wants to develop areas that it decides important in social welfare or health care sector (e.g. child welfare), tries to solve problems (e.g. children and young’s psychiatry, short care queues), contribute to financing new statutory services (e.g. rehabilitated work activity), compensates local authorities for organizing certain action(s) (medical and/or dental education) or for certain implementation costs (e.g. immigrants compensations) and supports municipalities’ reunion.

The national government tries to maintain the division of social welfare and health care cost between central state and municipalities. In the Act of VALTAVA (Act 733/1992) was determined that share of municipalities was 67.01 percent and share of the state was 32.99 percent. This division of cost has to check up every fourth year. The percent of state grant is 33.32 percent in 2006.

In Finland we have compensatory measures between rich and poor areas. Poor municipalities, whose tax revenues are small, get financing from rich municipalities. Economical equalization is implemented inside the state grant system. An equalization of tax revenue regulates more strongly flow-of-funds than the determined factors of the sector-specific government grants. The equalization of tax revenue system guarantees to each municipality a minimum 90 percent from all municipalities’ average imputed tax revenue per residents. If a municipality’s tax revenue is below 90 percent equalization limit, a municipality is guaranteed a supplement of equalization which is the difference between equalization limit and municipalities own tax revenue. If a municipality’s tax revenue exceeds the equalization limit, its imputed government grants will reduce an amount that corresponds with the equalization of tax revenue.

Summary

Rescaling has also happened in welfare services funding. Central state has moved more financial responsibility for welfare services to local authorities. The local authorities have now the right to decide how they divided the state grants between social welfare and health care sector and to which service(s) they want to put more money. The local authorities have now also to take account more precisely the production cost of welfare services. They have to manage to organise services with the taxes and state grants. The possibility to get more money (discretionary state subsidies) from the state has decayed.

Financial responsibility has meant that local authorities try to find new cost effective ways to produce services. They rearranged services, put up services fee or services which before were free are now subject to fee. The aim of cost-efficiency has also meant that many services for instance in the care for the elderly have now produced in private sector. Rescaling of financial responsibility from state to local authorities has laid down a base to de-monopolisation of welfare services. At the same time rescaling has continued the shift from standardised services to individual ones. Even though the name of the service is same in different municipalities the contents of the service, its producer and the payment could be different.

2.4 Horizontal institutions and actors (subsidiarity) at each level

Employment policy

The most important actors engaged in employment provisions at the national level are Ministry of Labour and employer’s and employee organisations. At the regional level the most important actors are Employment and Economic Development Centres. At the local level the most significant actors are employment offices. When we are discussing of unemployment the most impor-
tant actors at national level are the Social Insurance Institution and authorised pension providers.

Regulating of employment policy belongs to the central state. The central state is responsible for employment services and basic security. Statutory employment services; criterion’s to get them and level of benefits is legislated by national government. It also regulates rates of pension and social insurance contributions of employers’, wage earners’ and pensioners’. Central state share of funding of employment expenses is defined in budget. Management of employment services belongs to labour administration (Ministry of Labour and under its order are fifteen T&E Centres as regional actors). Basic security is managed by the Social Insurance Institution (Kela).

Kela is independent social security institution which is surveillance by the Parliament. It has own legislation, economy, administration and nationwide office network. Kela’s degree of freedom of management of social insurance is quite big, but degree of freedom of implementation of benefits and pensions is quite narrow. Kela is responsible for paying national pensions concerning old-age, early old-age, disability, unemployment, individual early retirement, partial disability and part-time. It also pays different kind of income maintenance benefits for families (e.g. maternity grant, child day care subsidies, family allowances and child disability allowances), basic income security benefits for the unemployed (e.g. basic unemployment allowance, labour market subsidy, labour market subsidy in combination with a wage subsidy, job alternation compensation and labour market training subsidy), benefits for students, disability benefits, general housing allowance and rehabilitation. Kela gets its funding from employers, wage and salary earners and pensioners.

Authorised pension providers are responsible for handling employee pension insurance. Their activities are defined in law. They collect insurance payments and manage funds. Authorised pension provider can be a pension insurance company, a company pension fund, an industry-wide pension fund or an industry-specific pension provider. They do not deliver services.

In Finland wage and salary earners’ have right to join in about 80 different kinds of labour unions which have been organized in three central organizations: SAK, STTK and AKAVA. Labour unions are independent organizations with a right to decide the level of membership fee and to allocate unemployment benefit for applicant. They pay earn-related unemployment benefits but they don’t have a right to decide its level. Unemployment benefits level is determined by law (the Parliament).

In Finland also employers organize them selves in their own trades’ employers’ associations. Each employer’s sector has its own central organization. There are two in private sector (TT and PT), one in state sector (VTML) and municipal sector (KT) and the church has one (KiSV) too. Employers’ have not their own production of services.

Labour market organizations’ impact and significance are important. They influence contents of legislation when taking part in negotiations concerning social security and labour market development. In Finland reforms in labour market are implemented co-operation with employees associations, employers’ associations and central state.

At the local level the most important actor is the employment office. It serves either one municipality or more than one municipality. Employment offices are subordinated to Employment and Economic Development Centres and get funding through the Ministry of Labour. Employment offices are responsible for delivering of employment services and implementing of labour policy. They serve both the unemployed, job seekers and enterprises.

Traditionally administration of labour (employment offices at the local level) has been responsible for the unemployed but by the law of rehabilitating work experiences in 2001 (Act 189/2001) responsibility for a long-term unemployed who gets either labour market subsidy or income support is shared between administration of social welfare and health care (social office at the local level). This means that the administration of social welfare and health care has to
participate partially in financing of unemployment expenditure. At the same time administration of labour shifts responsibility of those unemployed which are difficult to employ for social welfare sector. Management of difficult employed unemployed belongs now to administration of social welfare and health care. Social offices are responsible for delivering services for them instead of employment offices.

Social and health care policy

At the national level the most important actors in welfare provision are central state/Ministry of Social Affairs and Health and the Social Insurance Institution. There is no important actor in welfare provision at the regional level, but at the local level there are quite many important actors. These are above all autonomous municipality, central hospital network, voluntary organizations and Finland’s Slot Machine Association. Production of services is only at the local level.

Legislation of social welfare and health care politics belongs to the central state. Central state regulates for maximum client payment of statutory welfare services and qualification requirement of personnel. It also regulates statutory welfare services, criterion’s to get them and level of allowances. Central state share of funding of welfare services (percent of state grant) is enacted by the Act of State Grants for Social Welfare and Health Care. Percent of state grants is revised in every four years.

The Social Insurance Institution’s role in welfare provision is financing mainly services that are meant to complement public services for instance home care allowance or maintain person’s independent living for example general housing allowance.

The most important actor engaged in welfare provision at the local level is the autonomous municipality. The responsibility for managing, delivering and funding social welfare and health care services lies with the municipalities, but the system is now undergoing a process of structural change. By the new Act of VALTAVA (Act 733/1992) the local authorities were granted the right to decide how they will implement and promote the welfare policies in their area. By this law the local authorities’ degree of freedom concerning economical resources, allocation and way of actions increased, but the decision concerning aims, contents of social welfare and health care policy and to whom welfare services are meant for remain furthermore on the central state. Municipalities have to provide all those services the central state legislates, but without fully or partially financial compensation from the state.

Central hospital network consist of 20 hospital districts and in each district are more than one hospital. Every municipality must belong in federation of municipalities of hospital district and each federation of municipalities has to belong in one hospital district. Hospital district provide special health services for its membership municipalities. Hospital districts activities are regulated by law. Hospital district receives funding from each membership municipality according to the provision of treatment. At the national level state is responsible for control, steering and planning in general and at the regional level the state provincial office is responsible for control, steering and planning in its own area. At the local level the central council of hospital district’s federation of municipalities manages and delivers services.

Nationwide non-profit, non-governmental and voluntary social welfare and health care organizations are also important actors in production of social welfare and health care services at the local level. During the last ten years organizations importance has increased. These organizations deliver services for certain population groups (e.g. the deaf, visually or mentally handicapped, the aged) and for those people who suffer from certain disease (e.g. rheumatism, heart diseases). Organizations receive funding for the provision of treatment or care services mainly from municipalities and through national funding such as Finland’s Slot Machine Association and the Ministry of Social Affairs and Heath.
Municipalities purchase services from private organizations and companies with payment agreements or outsourcing service agreements. In some municipalities the whole primary health care services and the services for the elderly (e.g. Karjaa) or some primary care services (e.g. Lahti) have been outsourced to a private for-profit organization in 2000s. It also seems that proportion of social welfare services provided by private for-profit organizations are becoming general in Finland. Proportion of social welfare services provided by private for-profit organizations was about 24% in 2002. The corresponding share of health care was almost the same, 22% when calculated from costs (Kauppinen and Niskanen 2005:5).

An important actor to finance public social welfare and health care services at the local level is also Finland’s Slot Machine Association (RAY). RAY was established to raise funds through gaming operations to support and development Finnish health and welfare organizations and their activities. RAY is an independent public association with 98 organizations operating in social welfare and health care fields. Its activities are regulated by law.

RAY provides funding for activities targeted at helping the most deprived groups (e.g. the disabled, substance abusers, elderly, the homeless, long-term unemployed, young people at risk of marginalization and immigrants), preventing problems (e.g. combat intoxicant abuse, cardiovascular diseases and mental problems) and promoting independent activity (e.g. support housing for groups with special needs, day centres for people living at home and activities to maintain their functional capacity, crisis care, and camp and holiday activities). In 2005 funding assistance was granted to 1 145 organizations and it will be used in 2 433 activities and projects (RAY 2005).

RAY’s degree of freedom concerning distribution of funding and funding objectives is based on annual negotiations with the Ministry of Social Affairs and Health. The final decision on the funding distribution is taken by the Government. The Government also selected seven representatives for the Board of Administration (one of two decision-making bodies) (Ray 2005).

Summary

The base on the structural changes in welfare policy was laid down by the new Act of VALTAVA in 1992. The new law was not a political solution to the impaired economical situation. On the contrary new definition of social welfare and health care politics was prepared mainly already before depression, in the late 1980s. The depression changed the political atmosphere and in consequently of this the new definition of politics is made politically possible and necessary (Lehto and Blomster 1999: 215). In practice the new definition of social welfare and health care politics above all meant that responsibility and freedom was shifted from central state to local authorities. Every municipality is given freedom to provide services within statutory law but at the same time they have to take responsibility for financing and managing them.

Responsibility for financing welfare services means that central state’s share of funding has decreased and municipalities’ have increased. This does not mean that central state is withdrawing from its responsibilities. Central state continues to support all municipalities equally but now with government grants which financial amount do not fit the real word. At the same time population is ageing, unemployment is still high and costs of welfare services keep on growing. Local authorities have to think more carefully than before the costs of services because their possibilities to get more revenues are limited. Municipal taxes growth is linked with amount of employed working-age population and maximum social welfare and health care fees are enacted by law.

Because most of the welfare services are statutory, only solution for local authorities is to operate cost efficiently. But it seems that only until end of 1990s municipalities really began to change their way of provide services although the Act of Social Welfare in 1982 gave them the right to decide delivering of social welfare and health care services. Local authorities try to get cost-effectiveness by rearranging activities. They seek solutions from new providing models:
purchasing all or certain services from third sector, organizations or companies in contrast to
provide those selves. In these new organizing models local authorities are clients and third sec-
tor, organizations and companies, are producers. These arrangements are presupposed to bring
savings or at least slow down cost growth. Purchasing-providing-model will tear down the mo-
noplisation of public provided services and increase private for-profit provided services. Ac-
cording to the statistics this kind of service providing is become common during last ten years
in Finland. Purchasing-providing-model will also decentralize surveillance of services’ produc-
ers from provinces to municipalities.

Other way to operate cost efficiently is to decrease the number of unemployed. This will in the
long run increase municipalities’ tax revenues and decrease central state unemployment expen-
diture. Because the labour force administration has not succeeded to reduce the number of long-
term unemployed with its employment services it has been concluded that employment services
do not suit for them. The solution is searched for co-operating with administration of social wel-
fare and health care. This means delegation of financing, managing and organizing of services
related to the unemployed from central state to local authorities. Employment offices (state) take
decisions related to education and job seeking problems of the unemployed and welfare offices
(municipalities) are responsible for decisions concerning their health, rehabilitation and control
of life.

Structural changes are also a way to increase people’s responsibility for financing of social wel-
fare and health expenditure. When services is provided by outsourcing agreements or vouchers
local authorities pay only certain sum of money for certain service. If the service cost is more
than the sum of voucher then people has to pay the difference. Peoples’ share of financing of
welfare services is possible to increase without amends a law.

Structural changes in employment and social welfare and health care sectors promote regional
differentiation. Aims of labour and social welfare and health care policies are nationwide but at
the local level theirs implementation is varied. This means that in Finland we are shifting from
standardised service structure to more individualised one.

2.5 The model of regulation: how does coordination take place?

The model of regulation at the state level

In Finland vertical regulation model is based on relationship between the central state and the
municipality. The central state lays down the universal goals for social policy and takes part in
financing income transfer and social welfare and health care service’s system. Local authorities
both implement aims and financing service system. In Finland is however different kinds of
horizontal cooperation form both at the central state level and at the local level.

At the central state level the social dialog traditionally has been very important especially in
employment policy. In the last decade its importance has grown in social policy as well. With
the European Union the NGO’s significance in political preparation process has been increased.
Cooperation with ministries has also changed. In the early 1990s it was still typical that political
reforms and modifications were prepared in different ministries without cooperation, but nowa-
days new reforms are prepared with multisectoral governance. These policy-making actors are
not new, but now they have been included more and more in different political processes. The
NGOs have possibility to participate in preparation (social) political matters and other ministries
than the Ministry of Social Affairs and Health take part in promoting and implementing social
welfare and health care aims. At the same time the central state has taken the decision to step up
its cooperation with public sector trade unions with a view to implementing productivity re-
forms.
The model of regulation at the state level is not a pure corporatist but a mixture of corporatist and managerial models. The governing relations base on negotiations such as government negotiations (negotiations between different political parties), negotiations between employers’ and employees’ associations (collective bargaining) and intergovernmental agreements (between EU’s member states). The NGOs formal role in preparation political matters is linking in corporatist governing relations also features from managerial model of regulation. Consensus building by politicians and labour market organizations reflects the governing logic of corporatist model, but from the early 1990s civil servants role in national and EU politics decision making has increased. Civil servants connect managerial model’s features to corporatist model. Finnish Governments political orientation is above all corporatist. Politicians have committed to promote Lisbon Strategy’s objectives: promote growth and employment to ensure economic stability and the sustainability of public finances. To reach these objectives are provided to improve the productivity or efficiency of public sector (public services and administration).

The model of regulation at the local level

Although it was already in 1980s possible for local authorities to organize services in multiple ways (Act 710/1982), they began to use this opportunity only in 1990s. Different kinds of organizing methods have widened regional differences regarding services and their quality. Multiple ways to organize services have also changed local authorities’ role. They are not anymore just a service producer but more like a service purchase and a controller.

At the local level the NGOs have traditionally have important and unique role in Finnish society. Their development has reflected challenges that at a certain time have been demanded answers. The NGOs have answered these challenges but also formed developments of society. From the 1980s NGOs activities have diversified more and more and vendible service activity for public sector has been widened. After the reform of government grant system in 1992 the NGOs’ regional and local activity has received larger significance than before. Since then services and support production have been greatly depended on local resolutions and local authorities expecting more than before that NGOs organize services (Särkelä et al. 2005: 18-19).

In 1990s the number of private social welfare and health care providers has grown. For instance social welfare service units have more than quadrupled and the number of health care providers has been growing at an average rate of 120 annually. In 2002 their number was almost 3 000. In 2002 private providers’ share in private health care services was considerably higher (just under 12%) than in private social services (nearly 6%) (Kauppinen and Niskanen 2005: 14).

Local authorities provide services also in co-operation with other municipalities. In some areas special legislation obligate municipalities to participate in joint authorities. Joint authorities are independent legal public entities governed by municipal legislation. Local authorities can also agree on how functions are performed without a need to form an organisation. This kind of cooperation bases on contracts.

Some municipalities have also adopted new cooperative methods from business world to increase public sector productivity. They have transformed civil service departments and agencies into unincorporated municipal enterprises and private companies and have established a corporation with private partners.

At the local level can be seen more clearly only one model of regulation in contrast to the central state level. All elements except the political objectives are based on managerial mode of governance. The governing relations between municipal council and municipal executive board are formal and bureaucratic and the relations between local authorities and NGOs have always based on mutual agreements. Today local authorities have increasingly turned to the practice of contracting out certain services to private social welfare and health care providers/enterprises to organize public services more cost-effective and to achieve savings in social expenditure. As the key decision makers the politicians and civil servants make authoritative decisions related to
services: what kind of services, to whom, at what prices and who is arranging them. The local authorities’ political objectives are based on corporatist mode of governance and are the same as the central states: to curb local government expenditure, to secure welfare services for residents and to increase public sector productivity.

**Managerial mode of governance: a solution to growing local government costs**

In Finland changes in social welfare and health care system have been implemented as a part of general administration modernization and rationalization than actual objectives of social and health care policy. The real aim is economical. To ensure that Finland continue to fulfil the requirements of the budgetary discipline in Economic and Monetary Union (EMU). In the future this is more difficult because the population is ageing. Ageing causes growing expenditure pressures in pension and welfare services, but at the same time the growth of national income and tax base is slowing down as the labour supply decreases (Ministry of Finance 2005a: 11). This will require cautious expenditure policy also in local government finances, because local government expenditure has been growing much faster than expected. This growth is a threat to the balance of general government finances (Ministry of Finance 2005b: 26).

In Finland differences in the financial situation between municipalities are significant, and growing number of municipalities are running a permanent deficit. In order to restore economic balance, local authorities have to make decisions on concerning their service structure and productivity that will keep the increase in operating costs within the confines of their tax revenue and central government transfers. The Central Government launched on May 2005 a municipal and service structure reform which aim is to make sure that there is strong enough structural and financial foundation for the production and provision of basic services that are currently the responsibility of the local municipalities (health care, social welfare and basic education) in the future (Ministry of Finance 2005b: 26-27, 30).

The project is charged with drafting the principal and necessary legislative changes related to municipal service provision which concern the tasks and funding of municipalities, the organisation of municipal services, levels of cooperation between municipalities, the existing local authority boundaries and the revision of those boundaries. In the end of 2005, the municipal and service structure task force drafted a proposal concerning the tasks and responsibilities that shall be transformed from local to central government. According the proposal the health care costs of persons who are living abroad will be transferred to central government. The task force did not propose to transfer special welfare services to central government (See [http://www.intermin.fi](http://www.intermin.fi)). In May 2006 the Government will make its decision on future structures for financing, organisation and production of services.

**Problems related to the new model of governance**

During the autumn 2005 it has been discussed actively about what will be the right population foundation to produce social welfare and health care services cost-effectiveness in Finland. In the public has been discussed mainly on three different models. The objective of all these models is to achieve maximum efficiency by establishing larger units (Sosiaali- ja terveyspalveluiden valmistelutyöryhmän – 2005).

In the basic municipality model the municipality is responsible for organizing and financing primary health care and social welfare services, but the special health care is organized by hospital districts. This model of governance is the same as current but it is expected that in minimum two thirds of local government mergers. This model includes decentralization and delegation. The central state has delegated implementing and financing powers related to primary health care and social welfare services to local authorities. Concerning special health care the municipalities have delegated them to hospital districts. This model creates possibilities to come in line new organizing methods and increases social welfare and health care sector’s coopera-
tion with other sectors for instance education. This model doesn’t solve the financing problems. Even though the municipalities merge to area of minimum 20 000 to 30 000 residents, the population foundation is insufficient to the capital and organizing bases for the special health care.

In the district model the responsibility for organizing social welfare, primary health care, special care and special health care services will be shifted from municipalities and joint authorities to the social welfare and health care district. The number of districts will be about 20. The social welfare and health care district finances services by collecting a fixed charged from a municipality. Charged bases on foundation of resident. This model does not expected changes in the municipal structure, but above all coordination between municipalities.

This model delegates decentralized power of municipalities and joint authorities to the new semi-autonomous actors. The problem in this model is that other basic services of municipalities are situated in different organization than the social welfare and health care. Good in this model is that the responsibility for organising social welfare, primary health care and special health care is with one organization instead of three. While the social welfare, primary and special health care are under the same guidance, the allocation of resources is possible to make more fair both inside the organization and between regions. It is also possible to lighten administration, pull down ineffective and overlapping structures. The services could be secured by using different kind of arranging methods also in regions where the population development is worst.

In the regional municipality model the regional municipality is responsible for organizing and financing social welfare, primary health care and special health care services. This model differs from the district model primarily in aspects of financing. The regional municipality has a taxing power and the state grants are paid to it. Local authority’s position is changed to so call neighbouring municipality. In this model decision making and financing power related to certain services are re-centralized from municipalities to the new semi-autonomous regional actor.
3 The process of rescaling in the three policies in Finland

3.1 The territorial organisation of the three policies involved

A remarkable decentralisation in overall service policy took place in 1993. The development before and after that point of time can be described as follows.

The time of 1970s and 1980s was that of building up the modern welfare state and its infrastructures. The major means were (i) reformed legislation; (ii) centrally organised compulsory planning system and (iii) exceptionally generous state funding (subsidies) for municipalities in charge for providing health, welfare and basic education services. Results of this centralised policy were impressive. A relatively high quality network of public services on universal accessibility was created covering the whole population, even the sparsely populated areas in the north and east. State authorities (ministries, national boards and regional administration) had powers and ability construct a sort of “service state”.

In 1993 main parts of the central regulation machinery were dissolved. The norms safeguarding the quality were abolished or transferred into the existing frame legislation. The system of subsidies was changed so as to cut off the link between state funding and the real costs of service delivery for the municipalities. The explicit idea was to give more degrees of freedom for local governments to implement their own policies and solutions. In fact the local governments got more autonomy which was justified by the maturity of the welfare state. The basic infrastructures were already there.

The unexpected and deep economic recession in 1992-1994 however eroded the service systems and also forced the State to cut down its funding to welfare. As a consequence of these differences between municipalities in service level (quality and quantity) started to grow.

Not earlier than in 2002-2003 the national government launched two major programmes, one for health and the other for social welfare, to revitalise, reform and develop the basic services. A remarkable amount of new public funding (State subsidies, both ear-marked and general) was allocated to health and social sectors in 2002-2007. The regulative means did not, however, change. No new binding norms were launched. The official policy is based on the concept of “information steering”, i.e. recommendations, best practices etc.

The most recent policy shift has been favouring new type of legislation, i.e. stipulating about maximum amounts of days within which certain services are to be provided for people in need. Also other strategies to strengthen the position of clients and patients by law have been implemented. The fashionable word in this new policy is “service guarantee” or “social guarantee”.

Social assistance represents a sort of politically approved poverty line. Until 1983 the level of social assistance was up to the local decisions more or less. In the late 1980s the basic norm for this benefit was gradually made more and more universal and general and the local discretionary power was reduced. In 1995 the right to basic decent minimum was taken as a paragraph into the constitution (19.1§) and it became a strong, i.e. subjective right.

Employment policy including the various activation measures have been a central state responsibility since the 1960s. Municipalities have been more or less free of these obligations. The network of employment offices covering the whole country runs the services and measures. In tandem with the growing persistent unemployment the demands to get also the local governments involved in combating this form of social exclusion have been steadily growing. And a remarkable policy shift to this direction took place in 2006. This will be explained later in detail.
3.2 Social assistance and local policies against poverty

The issue of economic poverty was re-invented in Finland in the late 1980s. This was not because of any major changes in economic policies or material living conditions of households but because of the return of poverty research in the academic community. The concepts of marginalisation, social exclusion and relative (income) poverty were introduced not only to the academic discourse but to the political debate as well. Increasing interest towards empirical poverty research (regarding the scope and nature; i.e. how many? and why?) emerged. In the late 1980s poverty rate in the country varied between 3-4 % depending on the operational threshold applied (mostly 50 % of median and social assistance norm). This was seen rather moderate and empirical reports had no remarkable policy implications.

The situation changed radically in the mid-1990s when the Finnish economy faced the most severe recession since the 1930s. The value of GDP dropped in two consecutive years and unemployment rate skyrocketed towards a level never seen before. Using macro indicators (GDP change, public sector balance etc.) the period of economic recession was limited to the years 1992-1993 (1994 and onwards annual GDP growth has been rather solid) but its consequences when it comes to general employment/unemployment and material hardships on household level continued years after this.

The three most important indicators demonstrating the development in the 1990s and beyond are (a) relative income poverty rate, (b) social assistance dependency rate and (c) income disparities, in this case the relative proportion of the lowest decile of the total income. These are shown in the following table (Figure 1).

Figure 1 Poverty indicators in Finland, 1989-2003

<table>
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<th>Years</th>
<th>Share of social assistance recipients (%)</th>
<th>Relative poverty rate (%), equivalized income below 60 per cent of the national median</th>
<th>Share of income of the lowest decile</th>
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Sources: Stakes 2005; Register of Social Assistance; Income Distribution Statistics.

Income poverty as well as essential measures to tackle it have been and still are by nature national issues. Valid and strictly comparative statistics on poverty (also child poverty) on local level, i.e. in different municipalities is a rather new thing (first local statistics published in 2005). The clearly most relevant local indicators have been (i) number of jobless people (and amongst them the long-term unemployed) and (ii) number (and type) of households dependent on the last-resort benefit, social assistance.
Vital parts of any anti-poverty policy are thus macro and micro economic measures and policies and then social protection related corrective or relieving measures. Macro economic policy measures rarely are in the hands of local government. Therefore local policies to tackle poverty have mostly been about to maintain or increase local employment (and affect local labour market) and provide material support to those in need.

The three most relevant types of benefits (forming the lowest safety net, GMI) in Finland are social assistance, housing allowance and unemployment benefit. Of these only social assistance is in the competence of local government. Unemployment benefits (both the earnings related and the flat-rate) are nationally regulated and even the delivery is centralised. The same goes for housing allowances as well. Also the funding of these is a national issue, i.e. by the state (except the earnings-related one). From the local budget’s point of view social assistance is the most important one. But even here the level of benefit as well as the eligibility rules are national issues and thus centrally fixed. In Finland social assistance is based on its own legislation, it is a statutory task of municipalities, level of benefit in terms of euros is stipulated by the Parliament and finally – by the constitutional law it is a strong, i.e. subjective right of all legal residents. This means that local degrees of freedom in social assistance policy are extremely limited.

One important distinction is to be made regarding local policies against poverty.

In Finland the statutory task of taking care of unemployment (including design and delivery of cash payments and any activation measures) has since 1960s belonged to the State. This system is centralised and run by the ministry of labour (plus Kela). This means also that the basic income maintenance of the unemployed is in the hands of state authorities. In the time being the monetary amount of the last resort (flat-rate) benefit has been lagging below the “statutory minimum” of social assistance which represents the national (and administrative) poverty line. As a consequence of this development big part of long-term unemployed receiving labour market support (unemployment benefit) also are entitled to small complementary additional part of social assistance (top up). This creates a sort of double clientism and dependency on two separate social security organisations. So, de facto, municipalities are in partnership with the state authorities combating persistent structural poverty. This tendency was in fact even strengthened from the 1st January 2006 when municipalities became co-funders with the central state of the basic unemployment benefit “labour market support”. In practice this means that local governments are now sharing also the fiscal burden of chronical unemployment. This is new and is meant to be a new and effective incentive for local policy makers to increase their efforts as well.

At the end we can conclude that

- local policy to combat income poverty has not gained remarkably more importance, whereas
- local efforts to tackle persistent joblessness are becoming more central.

### 3.3 Employment policies

Employment policy in Finland means efforts and selective measures used to promote the operation of labour market. It comprises passive (unemployment benefits) and active elements. In Finland, employment policy is seen as having three basic tasks: (i) counter-cyclical, or related to economic policy, (ii) structural, or related to trade policy, and (iii) redistributive, or related to social policy. Employment policy performs its economic policy task by clearing recruitment obstacles and professional bottlenecks and by facilitating the supply of a qualified labour force in growth areas. Its role is to exert a stabilising influence on economic development in general. Employment policy performs its trade policy task by shaping labour force qualifications to the demands of trade and industry. It performs its social task by improving the labour-market status
of disadvantaged individual and groups. Part of this task is providing for the subsistence of un-
employed people (Heikkilä and Keskitalo 2002).

In Finland, the Ministry of Labour is the highest authority regarding labour market policy while
the Ministry of Social Affairs and Health is responsible for developing unemployment and so-
cial security benefits. The Social Insurance Institution (Kela) branch at the local level and it is
responsible for paying basic unemployment allowance to those persons who satisfy the em-
ployment condition. The unemployment funds are responsible for managing and paying earn-
ings-related unemployment benefits. Kela gets its finance from state budget and unemployment
funds receive their funding from their members.

3.3.1 Employment policies in the 1980s

1980s employment policies were formulated in the national context. Employment policy was
seen primarily as a part of economic policy. At the beginning of the 1980 the aim of the eco-
nomic policy was to improve employment, to reduce youth and long-term unemployment and to
decrease regional differences of unemployment. Employment resources were directed towards
employers. Measures comprised different kinds of public investment aid, employment subsidies
and employment services. The aims of these economical measures act as incentives to employ-
ers to employ working-age people and unemployed persons. Employment measures concerning
training such as vocational training, apprenticeship schooling and practical training were
directed to unemployed to provide them with the needed working skills. Social welfare policy’s
task was to help unemployed by unemployment benefit to maintain their lives at the time when
they are seeking work.

In 1980s the employment policy was designed by broadly-based committees. Member of these
committees represented labour market organisations, different ministries and NOGs. Employ-
ment policies were also modified by tripartite agreement. Tripartite agreement came into extent
in 1968. In tripartite agreement the central state, employees’ and employers’ organisations make
up with certain things. Most of the social welfare and health care reforms have been realized
with a part of the general incomes policy settlement (TUPO). These social welfare packages
have been developed and put into action by central state. The state has offered to employees and
employers particular things to reach certain social welfare and health care aims. Some of the
committees’ proposals and decisions made in general incomes policy settlement was realized in
government programme.

The employment services were financed from the central state budget. This means that the
insured (members of unemployment funds) and employees finance the employment costs. In the
budget the costs of employment policy is divided between the Ministry of Labour and the
Ministry of Social Affairs and Health. The municipalities have to take part in paying
unemployment costs if employment office has arranged waiting-time for a person who has
refused to fill offered job.

The employment policies began to change in the end of 1980s. In 1987 was enacted a new
employment act (Act 275/1987). In this law were conveyed new aims of employment policies
and employment policy measures. The stated purpose of the Employment Act was to give
Finnish nationals an opportunity to work. Although employment policy was still seen as
economic policy, new law changed several things.

One thing that changed was the role of employment authorities. From them was demanded
activeness, not from job seekers or unemployed. Employment authorities were expected to offer
actively employment services to employers so that they know what kind of workforce is on
offer and to job seekers in order they know work- and training possibilities of labour market.

Number of resources changed too. Employment services comprised employment exchange
services, vocational guidance, labour market training, organizing of relocation, location
guidance, guidance of self-acting employment, international exchange, information service and special services for disability persons. Besides these were still employment subsidies and appropriation to create jobs for public and private employers. The employment subsidies was also possible to use to provide for the subsistence of unemployed person within the time she/he is getting practise for working life in workplace. The aim of these measures was to shape labour force qualifications to the demands of trade and industry.

This law increased also actors in unemployment policy. The Employment Act states the need for co-operation between the authorities in the case of the long-term unemployed. Employment offices have to set up, in conjunction with the education, social welfare and health care authorities, any employment and training prerequisites needed for the long-term unemployed and, if necessary, draw up an operational programme for their improvement. This was first step to see that employment policy interlinks with social policy.

By this law was formalized the experiment of youth community (nuorten yhteiskuntakokeilu). If a 17 to 20 years old person has been registered unemployed in employment office more than 3 months and during this period employment authorities have not been able to address a work or training for him/her, they have to organize a training job for him/her worth six months. If a person is older than 20 years and has been unemployed without interruption 12 months or in the last 2 years has been unemployed total 12 months the employment authorities have to guide him/her to training, to employment or to locate him/her by employment subsidy to work in public or private sector.

The aim of Employment Act was also to maintain regional balanced employment. At regional level this shall be managed by joint economic and employment measures taken by the central state, the local authorities and companies so that unemployment rate in any one area does not significantly exceed the country’s average rate of unemployment. These kinds of measures are employment subsidies to companies and obligation for local authorities’ to employ. Local authorities were also encouraged to employ especially youth and long-term unemployed by state grants. The more a municipality employs unemployed the higher is the amount of state grants for expenses of employment.

It is difficult to say what the outcomes of employment services were in 1980s, because unemployment was not an issue at that time. The labour market pulls very well. At the same time was discussed about labour shortage and was created new pension schemes such as early old-age pension and individual early retirement pension (both came into operation in 1986) and part-time pension (came into operation in 1987).

### 3.3.2 Employment policy from 1992 until 2005

Since the beginning of 1990s employment policy has been formulated in the EU context (see Government programme in 26.4.1991). Though Finland officially joined in European Union in 1995, we had to adjust EU’s regulations and decisions relation to employment policy in our own employment objectives while we are negotiated of membership (see objectives of the Essen European Council on Employment). This has meant that as in European Union also in Finland social policy and employment policy is tied to each other. This has been seen in Finnish government programmes of the end of 1990s. In Prime Minister Paavo Lipponen’s first term (from 1995 to 1999) the activating and encouraging the unemployed was mainly still the task of employment policy. In his second term (from 1999 to 2003) the importance of activating the unemployed was accented in social policy too (Heikkilä and Keskitalo 2002).

Before 1997 the cooperation between European Union’s Member States on employment policy mainly took the form of traditional collaboration between governments within international organizations, but after the European Union’s Employment Strategy (EES) the Member States are encouraged to put into place effective policies which bases on the recommendations of the
Council of Ministers. Since 1998, the Member States have made a European employment strategy each year and this plan defines also a National Employment Policy Plan of Action in Finland. The EES is a key component of Lisbon Strategy in which all the Member States are committed.

EES means that the number of actors in employment policy has been increased in Finland. The aims of employment policy are set down by national government and Council of Ministers. Number of financiers has increased as well. The European Social Fund (ESF) finances the Objective 3 programme and national state, local authorities and private interest groups financed the balance. Increased number of financiers has also meant that the actor managing employment policy has changed. Employment and Economic Development Centres with their Labour Force Departments administer the money flows from EU structural funds. Managers and delivers of employment policy are increased as well. The co-operation between authorities and management of other services is now an obligation, not anymore voluntary: employment, social welfare, and health and education authorities have to co-operate with each other in arranging employment services and implementing related measures (Employment Services Act 1005/1993).

This means territorial rescaling of management of employment policy from national level to local level, but also delegation of unemployment policy. Employment authorities delegate the responsibility for common clients with multiple problems to the local authorities and help only those job applicants whose problems are related to training. Local authorities, Social Insurance Institution or other service organisation are responsible for arranging services for those job applicants who cannot be provided as an employment administration service.

It has made many reforms in employment policy in the last fifteen years. The following reforms are the ones which have changed employment policy most. Some of reforms are not new but they are re-formulated.

**Labour market support system: a way to reduce unemployment costs or early intervention**

Important reforms in unemployment benefits system were carried out in the 1990s. The key changes were the introduction of the labour market support in 1994 and certain restrictions on the entitlement thereto later in the 1990s. The Ministry of Labour is responsible for developing labour market subsidy. The Social Insurance Institution is both responsible for administering labour market support and making payments. Employment offices are charged with processing applicants and recipients of labour market support.

Earlier in unemployment benefits system was not required to have been in a job in order to receive a daily unemployment allowance, nor had there been a maximum time period applied to it. In the reform the conditions for receiving basic daily allowances were brought into line with earnings-related allowances. Minimum amount of work history became a condition of receiving basic daily allowances and a 500 day maximum period became effective. The labour market support was introduced also for unemployed person who did not qualify for other kinds of unemployment benefits after the reform (Heikkilä and Keskitalo 2002:5).

The Labour Market support Act (1542/1993) came into force at the start of 1994. It enacted that the benefit is intended to support the subsistence of unemployed while looking for work or involved in measures taken by the employment administration. In addition, it is meant to promote job-seeking or re-entry to the labour market. By cutting down amount of unemployment allowance is a way to encourage people to employ themselves and thereupon to reduce unemployment costs. Labour market support is intended for unemployed persons who have received either one of the two daily unemployment allowances (basic or earnings-related) for the maximum 500 days, or who do not satisfy employment condition. A general condition in receipt of labour market support is that unemployed person seeks full-time work and is available to the labour market.
All unemployed persons aged 17-64 resident in Finland are entitled to receive labour market support for an indefinite period. Those under 25 years of age must fulfil certain extra conditions. A 17 year-old unemployed person can receive the benefit provided he or she has vocational qualifications or is currently taking part in practical training or working life training. This holds true for 18-24 year-olds too, but extra conditions apply in their case – fulfilment of which will also permit an untrained young person to receive the benefit. The conditions are that they have not refused an offer of work or training, have applied for vocational training, and have not discontinued their duties unjustifiably (Heikkilä and Keskitalo 2002:5).

Persons who become unemployed must register as unemployed job-seekers in the employment office. The labour market support becomes payable after a five day waiting period. Exceptions to this rule are unemployed entrants to the labour market without vocational training who must wait five months before payments begin.

The labour market support is a means-test form of support. This means that the total income of the applicant over a certain sum is taken into account in deciding about benefit requirement. The spouse’s income and assets and some social benefits affected the total amount payable as well. Persons who is entitle to this benefit receive it for the first 180 days, irrespective of need and thereafter based on need. The benefit is paid to people taking part in employment policy training measures, irrespective of need (Heikkilä and Keskitalo 2002:6).

Labour market support is equivalent to the basic daily allowance except when a child supplement is payable. The benefit is taxable and is payable for a five day working week. The amount of the labour market support payable to persons living with their parents is 60% of the total, except when they participate in activation measures in which case benefit is paid full. If a benefit recipient is unwilling to take a work or participate in activation, the benefit can be withdrawn for a fixed period (Heikkilä and Keskitalo 2002:6).

The result of labour market support was that those who have received earnings-related unemployment benefits over 500 days or who are not entitled to other unemployment benefits moved from unemployment benefits system to labour market support system. The increase in high rate of long-term unemployment added also to those in need of social assistance, because the amount of labour market support isn’t enough to ensure living for every one. The amount of persons who at the same time receive labour market support and social assistance increased. This means that local authorities’ share of financing unemployment costs have increased in last years. In addition to this the reform has not succeeded to reduce the overall unemployment and to prevent unemployed becoming long term.

Employment services reform: re-form of active monitoring of the unemployed

In Finland was seen that one way to prevent unemployed becoming long term was to activate unemployment allowance recipients as soon as they loose their jobs. This was seen to requisite in the first place employment offices to work more active way. The employment office service process was re-formed at the start of 1998 (Act 1353/1997). This reform employment office is charged with drawing up a job-search plan for each unemployed person within five months of the time he or she becomes unemployed. Recipient and employment office agree in the plan on the services and measures necessary to return the recipient to the open labour market. After unemployment has lasted 500 days, the unemployed person is entitled to have the job-search plan restructured (Heikkilä and Keskitalo 2002:26).

After the initial interview, the employment office must invite the unemployed person to a job-search interview at predetermined intervals, when his or hers job-search information is checked and added to, the need for services and measures is investigated and implementation of plan is checked. Though completion of the interview and plan is the right of the unemployed person, it is also obligatory and a refusal to comply can lead to withdrawal of unemployment benefit for a given period (Heikkilä and Keskitalo 2002:26). Deterrent of withdrawal of unemployment
allowance act as an incentive to the unemployed person to seek job and for employment authorities it is a way to manage an unemployed person.

**Act on rehabilitating work experience (189/2001); prevent in the first place the youth unemployment**

The Act of Rehabilitating work experience (KUTU) continues and enlarges previous year’s reforms of employment and social welfare policy as be more active related to unemployed. The goal of the legislative reform is to promote of employment and to prevent of social exclusion. The purpose of the Act is to improve the prospects of the long-term unemployed who are receiving labour market support or social assistance which is based on unemployment to find work and to promote their chances of participating in training and to benefit from other measures that promote employment.

The aim of reform is also to advance authorities interfering to unemployment process at individual level, to increase local authorities’ responsibility for activation and to increase labour administration and municipalities’ co-operation for those unemployed which are the most difficult to employ (Ala-Kauhaluoma et. al. 2004:9).

The key reform in the legislation is the activation plan, which labour administration and the local authorities prepare together with the unemployed person. The employment authorities (employment office) do job-search plan and activation plan to those unemployed receiving labour market support and the social welfare authorities (welfare office) do activation plan to those unemployed receiving income support. Action plans review client’s life situations and agree on measures that will improve their employment prospects. Activation plan denotes an overall set of measures, which includes (i) work, (ii) regular measures undertaken by the employment administration to promote employment, (iii) use of social welfare and health services, and (iv) a new element, the opportunity (in certain circumstances, the obligation) to take part in rehabilitative work experience. Guidance towards rehabilitative work experience process is basing on age and the way a persons income is secured during the unemployment. Plan is checked at predetermined intervals.

The activation plan compensates the revisal job-search plan of the clients’ of labour market support. In every case if a job-search plan has not been made earlier, it has to do before drawing up the activation plan. This is a process by which an unemployed client will undergo gradually more intensive action steps within the employment administration.

The authorities are obliged to invite an unemployed person less than 25 years to draw up an activation plan if a person has lived on labour market support 180 day within a year or live on labour market support after 500 days’ unemployment period or a person has paid income support for four months because of unemployment. This enactment has changed in the beginning of 2005. For every person under 25 years of age is organized educational-, practical training or workshop place within three months unemployment.

A activation plan is drawn up for a persons over 25 years of age if they have received labour market support over 500 days or have gotten labour market support for 180 days after 500 days unemployment period or they have received 12 income support because of unemployment. Adherence to the plan is a condition for receiving a daily unemployment allowance and labour market support.

Taking part in rehabilitative work and participating in drawing up an activation plan is obligatory for persons under 25 years of age and a refusal results in the withdrawal of labour market support and a reduction of the social assistance to maximum of 40%. The reduction of the basic portion must be assessed on a case-by-case basis and are meant to be temporary and can be imposed for no longer than two months at a time. Persons over 25 years of age have opportunity to take part in rehabilitative work as voluntary basis.
In activation plan is estimated how earlier measures and drawn up plans have been implemented, is worked up current situation and undertaken measures to promote persons employment. In the first place the employment authorities should check opportunities to offer work or measures to promote employment. If employment authorities estimate that they cannot offer a work or employment services during three months, the activation plan should comprised rehabilitative work experience. Rehabilitate work experience should adapt to persons work – and operational ability so that it is meaningful and demanding enough for accessing to labour market. Rehabilitative work is organized for three to 24 months period at the time. If local authorities (welfare offices) estimates that a person cannot take part in rehabilitative work experience because his or hers work- and operational ability is limited, the activation plan should included in social welfare and health care services.

Local authorities organize KUTU by itself or buying it from other municipality, joint authorities, a registered association, non-registered foundation, civil service department or registered religious community. KUTU should not provide from enterprises.

Both the central state and local authorities finance KUTU. The central state (employment administration) finances the labour market support and maintenance substitution to the unemployed person during the KUTU. Local authorities finance the income support and operating costs to the unemployed person who take part in rehabilitative work experience. Besides these the unemployed person has a right to get substitution for travel costs of participation in rehabilitative work experience. Substitution of travel costs are financed by local authorities.

According the results of KUTU the main problem in its implementation was the large number of unemployed persons eligible for an activation plan and the limited number of personnel available. Under these conditions by the end of 2003 somewhat less than half the unemployed persons covered by the Act had taken part in preparation of an activation plan. Results also show that contrary to the aims of the Act, most of those taking part in activation plan were over 25 years old (Ala-Kauhaluoma et al. 2004:10).

The results show that overall; the aims of the Act on rehabilitating work experience are only partly achieved with the measures used. It was not possible by means of activation plans to substantially increase employment of the unemployed on the open job market in a short period of time. However, an activation plan appears to be a measure which encourages the long-term unemployed to participate in employment policy and other activation measures. Expectations regarding the future will however deteriorate if the plans do not lead to employment on the open job market. This will has negative welfare effects such as feeling of inability and poor quality of life (Ala-Kauhaluoma et al. 2004:11).

**Service centres of labour; for difficult and long-term unemployed**

The key project of government’s employment programme (Vanhanen’s government programme 2003) is to reform the structure of public labour services. The goals are to reduce the structural unemployment and to upraise employment rate. The aim is also to decrease the practice that the unemployed has to run from one authority to another. In addition authorities want to piece together situations of the unemployed more extensive way than the employment offices do. In this reform the services and resources provided for difficult employed persons pull together in service centres of labour. These kinds of services are labour services, municipalities’ services, especially social welfare and health care, and the Social Insurance Institution’s services and educational services. Service centres of labour will build in stages so that in 2006 there will be 40 service centers; in September 2005 there were 35.

The service centres of labour supply services which are versatile. Personnel of service centre of labour consist of experts in the different fields and the providers of the services are also engaged
in service centres. Welfare office or employment office refers clients to service centres of labour.

Service centres of labour are not independent offices, but are fixed networks formulated by employment office’s, municipalities’ and Kela’s experts. Network cooperation does not change obligations, responsibilities and job distribution between authorities. Employment office is responsible for public labour services’ implementation and municipality and Kela are responsible for theirs statutory tasks.

Pole of the Ministry of Labour has been quite strong in starting and implementing the plan. Each participant takes part in providing and financing services according the basic job distribution. Municipalities’ and employment offices’ share of operations costs of service centres of labour is equal. Kela takes part in operation with considering input.

According the accounts of state auditors (2005) the customership of service centres was stigmatized and customership was very long term. One key problem was also that there are not enough suitable work- and practical training places. The state auditors emphasized that the main goal of service centres of labour should be centres’ clients employment on the open job market. They thought that it is important to develop other measures which make it possible to promote difficult employed persons occupancy opportunities.

**Security on alteration (Act 458/2005)**

In the collective agreement in years 2005 and 2007 was arranged a new operational model on employment and security for alteration. This reform came into operation in the first of July in 2005. The objective of this reform is to improve the situation of an employee which has been sacked because of productive and economical reasons. The aims of the model are to strengthen cooperation in the work places and with employment authorities and to accelerate sacked employee’s employment.

A person has a right for an employment plan if he or she has minimum three years work history before the end of notice. The right for an employment plan is also for a jobseeker who has worked at the same employer on temporary employment without interruptions minimum three years or at least 36 months during the last 42 months.

The operational model consist of employment plan, paid off for the sacked persons to seek for a new job, intensified information from employers, an action plan which employers make with the personnel and employment plans devised by employment offices. Employer is also obligated to give information for employee about his/ her right to employment plan and employment programme supplement.

Employment office and jobseeker do the employment plan together. The plan compensates individual job search plan. In employment plan is agreed on spontaneous job searching and its supporting and public employment services which best promote jobseeker’s quick and permanent employment on the new work place. Though drawing up a plan is the right of jobseeker, it is also the condition to get elevated unemployment benefit (employment programme supplement), which can pay in all 185 days. Refusal of investigation of plan can lead withdrawal of unemployment benefit for a given period. Employers can take part in make up the employment plan, if the jobseeker permits it. All persons who have participated to draw up employment plan sign the plan. The plan is valid of the time he or she is a jobseeker. The employment plan is terminated when jobseeker’s right to get unemployment benefit expires. If necessary the plan is checked and completed by employment office and jobseeker.

This new kind of operational model means that actors in employment policy are increasing. The new actor is an employer. The central state (employment office) delegates responsibility to employers. Now employers instead of employment office have to act as informants concerning employment benefits, employment services and other employment measures. Employers are
also obligated to take part in planning the sacked people’s future. Besides these the paid off for the sacked person to seek a job increases employers share of the employment costs.

**Activation of labour market support: social guarantee for long-term unemployed**

In the beginning of 2006 was come into force a new labour market support reform (Act 1216/2005) in Finland. The key in this reform is to shift the focus of labour market support from passive support to active. This means that persons who have received unemployment benefit over 500 days can have labour market support only in 180 days. The activation measures of rehabilitating work experience (KUTU) begins straight a way when persons start to get labour market support. If a person who has received labour market support in 500 days or who has right to get labour market support only during 180 days refuses to participate in an measure that promotes his or her changes to get a job, the labour market support is withdrawal until further notice. If a person takes part in employment measures or is working five months, he or she has the right to receive labour market support again. If a person doesn’t succeed to find a work after activation measure, his or her right to get labour market support continues normally (Työministeriö 2005).

This reform means that the right to get labour market support shifts from right to obligation. It also means that unemployed can influence itself what kind of income level he or she has. If he or she doesn’t take part in activation measures then his or her income is secured by means-tested social assistance. This means that the financing of unemployed subsistence shifts from central state to municipalities.

The aim of this reform is also to allocate measures to those unemployed most in need. This is implemented by active period. Measures that promote employment are organized at least two years in a four years period. The central activation measures in active period are work testing, compound support and training, rehabilitating working experience and combination of measures and services (training, rehabilitating, working testing etc. services that promote employment, welfare for intoxicant, mental health services, debt counseling). Entity of activation measures means for some unemployed certain kind of intermediate labour market which will be introduced gradually at 500 days (180 days) stage. For the first time all in Finland the employment, social welfare and health care services have been collected under the same entity and step by step the targeted services increased. The goal of the reform is raise the activation rate from the 20 percent level to 30 per cent (Työministeriö 2005).

In the last decades the central state has paid different kinds of labour costs subsidies for the employers to encourage them to hire unemployed person’s in-worked benefits. Now these kinds of subsidies are connected to one form of support, labour cost support, and the compound support is abolished.

Activation programmes and services are organized in collaboration with central state, local authorities, employment service centres and other actors. This means that central state delegates management and delivering to local authorities. Financing of this reform has been divided between central state and local authorities. The central government finances all costs of labour market support related to activation periods. Local authorities finance services which support activation and rehabilitation. This new financing model brings a strong incentive to increase measures in active period and do it as a local collaboration.

**Summary**

Employment policy has reformed many times in last 25 years. Though the objectives and employment services almost have been the same, the employment policy has been changed. The actors in employment policy are increased. In 1980s employment authorities were responsible
for employment policy. Now education, social welfare and health care authorities are also mobilized to promote employment and employability of unemployed. To promote economical growth and prevent social exclusion are seen to require employment authorities’ collaboration with other authorities.

In employment policy is adopted a new way of action, different kind of written plans: job-search plan, employment plan and activation plan. These plans are seen as a right to an unemployed person but refusal to take part in drawing up and checking them is sanctioned. The last reforms concerning labour market support also showed that means-testing is also becoming in unemployment benefit’s system. Activation in employment policy has meant two things. First the unemployed has to do something: works or takes part in activation measures. Second activation means that authorities control over unemployed has come more effective. Every unemployed person must have a valid plan which is checked at predetermined intervals.

The financing structure of employment policy is changed as well. Local authorities have to finance services which objective is to increase unemployed resources so that they can return back to work market. Employers’ share of financing of employment costs is also increased.

According the result it seems that implemented employment policy has not been very successful in Finland. Though employment policy is reformed continuously, economic growth has been strong and employment situation has been improved, structural or chronic unemployment is still high. Most people who belong in this group are received labour market support.

3.4 Care for the elderly

In Finland the Social Welfare Law (Act 710/1982) constitutes foundation of provision for modern social welfare services. The Law has been supplemented and amended many times. There is no separate legislation for social welfare services for the elderly. There is no any strong service right in the services for the elderly neither foundation for the service right has been unambiguously. It is possible to talk about weak service right model (Heikkilä 2005:35).

It is possibly to find clearly two separate periods in the social welfare system for the elderly in Finland over the past 25 years. The services were increased in 1980’s, whereas in 1990’s and early 2000 the politicians have concentrated to fine-tuning the existing system: to shape the quality of the existing services better.

3.4.1 Aim to create more services to support living at home in 1980s

In 1980s the economic growth was the key factor that created base on develops politics for the elderly. It laid foundation for accept the new Social Welfare Act (710/1982) and Act of VALTAVA (677/1982) in the same time. Both laws came into force in 1984. The new Social Welfare Act did not meant radical changes in services for the elderly but it changed the way how they were implemented. Its significance was mainly that it promoted the social and regional equality. The aim of this law was to ensure that every old person in need of help is eligible for social welfare services regardless of their place of residence or their economical situation. The condition of assess is needs-assessment only. Social welfare services are based on the principle of universal services. The new Social Welfare Act meant also centralization of social welfare services. Services for different kind of population groups which before have organized by separate laws collected now under the same law. The Social Welfare Act is a framework law which regulates municipalities to arrange same services for every old person in need of external help (e.g. Rintala 2003).

The goals of the Finnish policy for the elderly derive from the recommendations of the United Nations given in the year 1982. Since then the general goal has been to promote the well-being of the elderly population. It is seen that the elderly have needs in care and nursing as well as
special needs connected with housing, participation and social relationship. The aim of the social welfare services is to support the elderly to live in their own house as long as they want; to maintain their functional ability and promote their social integration to the word around them. Definition of elderly policy changed. Open welfare services instead of institutional services were considered as main instruments to achieve these goals. In 1980s the Act of VALTAVA was seen to be the instrument to promote this change at local level (e.g. Vaarama and Kautto 1998; Rintala 2003).

One central aim of Act of VALTAVA was to secure the increasing need for services of the elderly and retardation of the social welfare services for the elderly (Valtakunnalliset suunnitelmat – vuosina 1984-1988). The target was to increase social welfare services to correspond with needs and reorganise services so that they build a diversified and alternative aggregate of services which support the elderly to live in their homes. By the Act of VALTAVA the central government regulated implementation and partly financing it; municipalities had to organized services. The municipal self-government of regulating social welfare services was more limited than before. The municipalities are in charge of organising services but they have only a freedom to decide how these services are arranged: it can produce services self, have joint service provision with neighbouring municipalities or buy services from other municipalities, joint councils or private service providers (Act 677/1982). In spite of different kinds of organizing opportunities municipalities provided social welfare services for the elderly mainly themselves. By the Act of VALTAVA was built a nationwide standardised construction of services for the elderly which did not take into account needs in each respective municipality (Rintala et al. 2002:24).

The allocation of care is a responsibility of local authorities. Decisions on allocation are neither made by one official or by a multiprofessional team working in local area. Multiprofessional teams involve usually a GP, a social worker and home help and home nursing professionals (Vaarama and Kautto 1998:33). These multiprofessional teams practise still varies quite much between municipalities in 1980s.

According the Social Welfare Act a municipality is responsible for organising the following services for elderly in need of external help: social work, home help, service housing, residential home and support for informal care. Home help services mean performance of or assistance with functions and activities related to housing, personal care, attendance and other conventional functions and activities in normal daily life. Home help services were divided in home help and support services (Social Welfare Statute 607/1983). Home help are giving in home and are related mainly to personal care, but support services such as catering, cloth care, bathing, cleaning, transport and escort services as well as social relationships promoting services are possible arrange outside home. Dividing home help services in two categories by the type of need meant decentralisation of these services. Social welfare employees working in home help need education of social welfare, but employees in support services don’t. This kind of decentralisation laid ground to move publicly produced and controlled support services to private sector. It also made it possible to involve other actors for example non-profit associations and enterprises in social welfare for the elderly. In spite of these possibilities, support services were provided still mainly by local government in 1980s.

**Service housing system concentrates open welfare services in one place**

Maybe the most significant service that the new Social Welfare Act formalized was service housing with service centre. The idea of service housing was not a new 1980’s social welfare innovation. The first service housing is built already in 1960’s by Finnish Slot Machine Association’s money.

Service housing is a system that could be developed according to the needs of the elderly. The worse is a functional capacity of elderly, the more services he or she can get. The service centre
provides services both to those aged who live in their own homes and to those who live in the service house. This mean that all the aged regardless of needs have right to use service housing services. The service housing system concentrates services in one place. This make it possible to get more resources for those old people who live at home and need plenty services. Centralization of long-term services for the elderly meant also beginning of implicit rescaling. Implicit rescaling of service housing with service centre meant that health care policies gain relative weight within social welfare for the elderly. One of the service provided in service housing is home nursing. Service housing system has increased social welfare and health care personnel’s collaboration in open welfare service for the elderly.

**Institutional care supports living at home**

Institutional care is provided in the case of a person who needs assistance, treatment or other care which cannot be provided or which is not expedient to provide in the person’s own home by making use of other social services. Institutional care is predominantly meant to persons who need continuous and round-a-clock care, but also to persons who need short-term, continuous day or night care. These new services are organized in daily centre which is located in residential home. Daily centre services give possibilities for local authorities to support relatives to begin or to continue a care of elderly.

**Income transfer as an alternative to institutional care**

The support for informal care can be regarded as one of new kinds of social welfare services. It was supported by law in 1982 and the concept covers only the payments made to enable older, disabled or ill persons to be cared for or otherwise looked after in their own homes. The caregiver and the municipality made an agreement on support for informal care. Even thought support for informal care was defined as one of home help services, it was an income transfer. Municipalities paid money for siblings so that they looked after their parents.

Regulation of support for informal care divided between the central government and municipality. The central government provides the statutory framework for local policies and defines the lowest payment in month. Local level decision-makers decide in what terms an allowance is granted. The terms do not relate to consideration of wealth but a deciding factor is a need of care-receiver. Municipalities also design the system, because they can apply their own payment classes.

The support for informal care system increased actors in the social welfare services for the elderly. The new actors were mainly spouses (Anttonen and Sipilä 1992:440). Although caregivers work compensated a work of social welfare and health care personnel this does not mean that the public sector moves its responsibilities to private sector. Instead in practise a division of tasks between private and public sector is as follows. Practical nursing moves to old person’s care-giver, but guidance and supervision of care remain at social welfare and health care personnel. Division of task, care-giver’s obligations and rights are confirmed in a contract between local authorities and care-giver.

Consequences of the Social Welfare Act were that the expenditure on social welfare services for the elderly increased; the coverage of old-age home decreased while the coverage of service housing and home help services with various support services increased. Although municipalities have the right to charge clients for services either flat payments or proportional payments related to the client’s net income, to other social factors and to the degree of dependency the charges paid by clients decreased both in residential home and home help services (Committee report 1996).
3.4.2 Measures to mobilize non-public actors to nurse an elderly person from 1990 to 2005

Economic crises in the early 1990’s interrupted the strategy to continue the policy for the social welfare services for the elderly. Income transfers and need and demand of services increased at the same time as the social welfare system’s financial ground became weaker (Heikkilä and Uusitalo 1997:211, 213). The social security system was the main target for savings (Kautto 2000:41).

The new situation was considered to demand reallocating of resources, reorganizing of services and strengthening preventive actions (Valtakunnallinen suunnitelma…vuosina 1992-1996; 1993-1996). The methods to reach these aims were seen to reallocate services to the most impaired elderly in need and in the same time continue and speed up the changes of service structure (table 6). In the social welfare and health care for the elderly the question is no more equality between old people and working age but more like justice and prioritization between the elderly. Criteria to get services based on the abundance of needs.

### Table 6 The service profile of the elderly in Finland, 1988-2003

<table>
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<tbody>
<tr>
<td><strong>Clients 65 and over, %</strong></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Home help</td>
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<td>11.8</td>
<td>10.7</td>
<td>10.3</td>
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<td>13.5</td>
<td>13.8</td>
<td>-8.6</td>
</tr>
<tr>
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<td>1.8</td>
<td>2.2</td>
<td>22.2</td>
</tr>
<tr>
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<td>1.9</td>
<td>2.7</td>
<td>3.0</td>
<td>233.3</td>
</tr>
<tr>
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<td>2.4</td>
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<tr>
<td>Health centres, long-term care</td>
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<td>1.8</td>
<td>1.6</td>
<td>1.4</td>
<td>-12.5</td>
</tr>
<tr>
<td>Special health care, long-term care</td>
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<td>0.2</td>
<td>0.1</td>
<td>0.0</td>
<td>-100.0</td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home help</td>
<td>31.5</td>
<td>22.1</td>
<td>19.7</td>
<td>18.7</td>
<td>-40.6</td>
</tr>
<tr>
<td>Support services**</td>
<td></td>
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<tr>
<td>Support for informal care</td>
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<td>2.7</td>
<td>3.0</td>
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<td>6.1</td>
</tr>
<tr>
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<td>3.4</td>
<td>5.1</td>
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<td>161.9</td>
</tr>
<tr>
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<td>6.5</td>
<td>5.3</td>
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<tr>
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<td>3.7</td>
<td>3.1</td>
<td>2.6</td>
<td>-23.5</td>
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<tr>
<td>Special health care, long-term care</td>
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<td>0.2</td>
<td>0.0</td>
<td>-100.0</td>
</tr>
</tbody>
</table>

Source: Voutilainen 2006. Notes: *) Ordinary service housing and service housing with 24-hour assistance. **) Information is collected only from persons who are 65 and over. It is not available to break down in the age group.

Home care merges primary health care and social welfare services together

In 1990’s and especially in early two thousand services which ensure that old people could live in his or her own home was formed home care. Home care is a service which connects social welfare’s and health care services together. As a service home care is not a statutory service but its components, home help and home nursing, are. It is a service packet that municipalities independently have designed, provided and delivered to the elderly who need institutional service or service housing. It seems to be a workable method because Finland’s Parliament enacted an
interim law (1428/2004) in 2004. This law gives a municipality and a joint authority the possibility to rearrange social welfare’s tasks with primary health care tasks in the same functional unit. This service experiment delegates decision-making power in a new way. If the functional unit is situated under the social welfare then home care is defined as a social welfare service. If the functional unit is situated under the health care then home care is defined as a primary health care service. Whatever the truth is this kind of governance means that a role of the health care in the open social welfare for the elderly will continue to grow.

**New variations of institutional care**

In 1990’s institutional services (residential home) were tried to reorganize so that long-term care patients spend shorter time in institutions. Municipalities tried to get more caring places for the elderly in need by developing short-term and rehabilitation care. The new tasks of old-age home increased amount of health care personnel in old-age homes, decreased long-term care places in social welfare and demanded new kind of services that make it possible to keep impaired and ill people in their own homes.

Long-term care facilities were shifted from social welfare to health care by connecting residential home with health centre. This new service is called a nurse unit. This new functional unit mainly belongs under the supervision of primary health care. Residential home places also have compensated for serving housing with 24-hours assistance and normal (no 24-hours assistance). With the service housing, the proportion of social welfare in the long-term care for the elderly has increased in contrast to home care and home help services. Also with the service housing both the private profit and non-profit social welfare producer’s cooperation with municipalities is increased. Municipalities provide service housing by buying certain amount of places from private sector.

In Finland one scenario of future is that institutional long-term care for the elderly would be given mainly in home care units and in serving housing with 24-hours assistance. These services are produced in social welfare sector. This means that the long-term units of the health care sector are going to convertible for more homely care units and on the institutional care are concentrated to short-term care and rehabilitation for the growing number of old people (Vaarama and Voutilainen 2002:359-360).

**New structure of support for informal care**

Support for informal care was revised in 1993 when it was differentiated from home help services as a social service on its own. Its name was changed into informal care allowance and the concept covers now the payment made to enable elderly, disabled or sick persons to be cared for or otherwise looked after in their own homes and the services available for that purpose. The care can now also be arranged in care’s home, carer can be other than a relative or person close to the person to be cared for and it is possible to grant allowance as money, services or both. It is now obligatory to associate in the agreement with municipality and carer also a care and service plan. This plan is made together with care-receiver and carer and it must include carer’s obligations and number and contents of other necessary services for the cared.

In 1998 the law was amended again (Act 1109/1997). The revised law gave the fully committed (continuously or with minor interruptions tied 24-hour care or continuous daily care) carer the statutory right to at least one day off a month if she or he has made an agreement on support for informal care with a municipality. Taking of statutory leave shall not reduce the payment and the municipality is responsible for providing suitable care of the person to be cared for during this leave. This suitable care place during the statutory leave is not necessary free. Municipalities have the right to make a decision regarding this. The law was revised on third time in 2001 (Act 1134/2001). After that the fully committed carer has the statutory right at least two day off a month. By this amended act the concept 24-hour care commitment defined again. A care is
commitment even if the cared spent a little time outside his or her home during a day and use social welfare and health care services. This is also a new way to support carer’s coping with the care work.

The law revisions did not change the governance of support for informal care. The central state controls implementation and defines the minimum payment, but it is possible for municipalities to pay lower payment if the need of care is temporary, insignificant or carer does not want it (Act 166/1997). Municipalities provide it, determine the size of the payment by different scores of functional capacity and decide whatever charging for services under the informal care allowance. The revised law pasted the baton of long term-care for the elderly from social welfare and health care personnel to person’s relatives. The caretakers number increase and for local authorities it is possible to move long term care-receivers homes as home nursing institutions. Relatives of the elderly constitute cheap workforce resource and home nursing institution were much cheaper nursing places than institutions. Charging clients (care-receivers) for services also lowers municipalities nursing costs and increases clients’ obligation to finance their own care.

**Voucher give more choices for local authorities to provide home help services**

By amended of Social Welfare Act in 2003 (Act 1310/2003) the central state accepted a new way to provide home help services for the elderly. A service voucher is meant for a person who needs continuous and regular or temporary home help services. It is also meant for buying care from a private sector. Municipality is an instance which accepts those social welfare services producers who’s delivered services for the elderly with a voucher. However an elderly in a need has a right to decide does he or she want to use the voucher and for what kind of services he or she wants to bye with the voucher for instance home help or support services.

Service voucher weakens municipality’s monopoly for providing home help services and increases customer’s freedom of choice concerning service producers. Voucher increases municipality’s self-government concerning providing and delivering. The municipality has a right to decide if it provides the service itself or allocates a voucher for it. The municipality is still responsible for the co-ordination of the social welfare and health care services for the elderly and for guarantee functionality of service chain.

**Domestic work deduction moves costs from local authorities to central government and clients**

The long term care for the elderly has always belongs to the area of social welfare and the health care politics. However it seems that now we are trying to find new ways to resolve the imbalance between needs and demands in Finland. We are seeking a solution from other policy area; tax administration. In 1997 came into operation a temporary law which concerned only those people whose home municipality belong precede end of the tax year in Southern Finland, Oulu’s or Lapland’s province (Act 728/1997) . If a person has bought household services or health care services which are regulated free from value-add taxes and the work has made in person’s own home he or she can reduce maximum 841 euros per year from state income tax. The law was revised in 2004 (Act 1273/2004). The target of social welfare and health care services was extended. After 2005 it has been possible for a taxpayer to get domestic work deduction from a value-added tax free work which target of services is furthermore taxpayer’s spouse, but also taxpayer’s own parents or present or deceased spouse’s parents (parents-in-laws) or deceased spouse’s great-grandfather and great-grandmother. By domestic work deduction the central state tries to motivate individuals to take care of their relatives and delegate care obligation to them.

This market orientated service is more like a transfer payment than a traditional social welfare service, but domestic work deduction includes nonetheless features that make it possible to think it as a social welfare service. First it covers money as support for informal care. Second it
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is indicated to solve temporary and continuous need of care as home help services. Third it is an alternative to the support for informal care, because it is not allocated to a person who has received support for informal care for the same need. Fourth its aim is to care ill and functional impaired elderly in their own homes. It is an open social welfare service. Fifth it is universal. Everybody can have it if the ‘service’ is provided from profit based private sector. It is financed by tax revenue and organized by the public sector. It is a centralized system.

Domestic work deduction is a method which implementation does not belong to municipalities. The main actor is a state. State governs and finances together taxpayers the system and controls the social welfare producers. Profit making private sector organises and delivers services and service prices are determined on the market. Customs, the elderly, provide services selves from the market.

The care for the elderly has become more at the stake in the last ten years because of ageing. The work contribution of working age will decrease, and the pension and care expenditures will increase. Weaken of productivity is at risk (see Valtioneuvoston kanslia, 2004). However it sees in Finland that the change of age structure opens new possibilities which should be exploiting. The aged are resource for the Finnish society among other things in workers, consumers and giving neighbouring help.

New ideas to organizing services for the elderly

In Finland is now under discussion two proposals concerning financing of services for the elderly and under enforcement is a proposal concerning delivering the services. The question of the first financing proposal concerns on reform of the payment policy and the payment system in social welfare and health care (Mietintö 2005). According the Committee the payment system should be adjusted to the effect that in the future fees could be collected from clients only for those services that are according to the Act on Client Fees for Social Welfare and Health Care subject to a charged. The cost development regarding services should be taken into account in payments through introducing an index-adjustment procedure. This means that the payments will be in future increased yearly. The Committee also suggested that the fee for a visit to a health centre physician should be determined by per visit. The aim is to withdraw different practices concerning health centre payments. In respect of services provided in the home the Committee proposed also shifting the visit-based fees to time-based fees, based on the time of care defined in the individual care and service plan. This suggestion applies to the fee for a service given in housing services and service housing too. In respect of long-term services the Committee suggested raising the maximum fee from 80 percent to 85 percent of user net income. If the fee is determined by spouses’ aggregate income, the fee is raised from 40 percent to 42.5 percent of spouses’ aggregate net income.

The other suggestion concerning financing bases on proposal includes the possibility for close relatives to stay away from work for short periods of time in order to care for an elderly parent. The working life could bend in front of care responsibility and at the same time demand for public care services and institutional care could be reduced or deferred (Työryhmämuitiot 2003). The proposal means that employees’ take part in financing care services for older people and at the same time the children could be responsible for their ageing parents care and nursing. This caring responsibility means also thus a new way to organize services.

Most resent reform came into operation in the first of January 2006 (Bill 95/2005). This new reform gives the right of older persons to an evaluation of their need for care in seven days after their contact with municipality. This right is given to all over 80 years old person who live at home. This new reform does not mean that an elderly has a subjective right to get services even if the evaluation shows that he or she is need of care. Municipality would commit it selves to organize only services that have been write down in the care and service plan, but the municipality has a right to decide how it produces services: by it selves or by allocating voucher for
services. The municipality’s obligation is to advice and refer client to provide other services from other direction for instance from relatives, organizations or private producers at his or hers own charge (Työryhmämäistioita 2003; Bill 95/2005)

Summary

The foundation of social welfare and health care services for the elderly was laid down in 1982 by the Social Welfare Act. The central government was delegated the implementation of services to local authorities. The share of private providers was small. The services were standardised and monopolized by municipalities. The services for the elderly were mainly determined as social welfare services although the share of health care personnel in social welfare services was quite big.

By the reform of VALTAVA the central government decentralized regulatory and financing power to the local authorities. This reform laid foundation of de-monopolization of the services for the elderly but the recession in the early 1990s accelerated this alteration. The local authorities tried to find a solution for the unbalance between increased demand of services and weakened public financing ground. In the early 2000 the problems are still the same. One solution has been to purchase services from the private and third sector and the other has been to improve and upgrade structures and strategies of service provision (e.g. Ministry of Finance 2005b: 28). The first solution has meant that the shares of private and third sector in service production for the elderly have increased and the local authorities’ role is shifting from organizer to purchaser and controller.

Changes in structures and strategies of service provision have meant that the cooperation with social welfare and health care sector have become closer. Service that before has been determined to be as a social welfare service could now be determined to belong to the health care sector. This has meant medicalization of the social welfare services for the elderly.

Maybe the most remarkable change has occurred in strategies of service provision. While in 1980s are emphasized that the local authorities were responsible for organizing services for the elderly, about ten years later the responsibility was trying to shift to the relatives and the elderly themselves. The public sector has tried to motivate relatives to care for their impaired elderly by money and/or services or to buy care from the private or third sector by tax relief. The elderly has tried to motivate to purchase services from private or third sector by service voucher. Local authorities have also adopted a strategy to give public services only to those most in need and have changed institutional care services to open care services.

The changes that have happened during the last 25 years have increased variations in organising methods between municipalities. The name of the service doesn’t anymore tell to anyone what kind of service it is. The elderly are also in unequal position concerning to the client fees and access to services.
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