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# *Markets: source of efficiency or costs? An analysis on the production of public services in Finland*

JOONAS RAHKOLA

## **INTRODUCTION**

Public services are among the key mechanisms of social risk management. It is evident that one needs much understanding on the nature of public service provision and on their broader political significance in order to assess and evaluate the politics of social risk management comprehensively. For building such comprehensive account, it is at minimum necessary to understand the basic institutions and political characteristics of public service delivery systems addressed. Most importantly, one must understand the broader political role of social risk management mechanisms like public services. The purpose of this chapter is to discuss these basic issues in the context of public services provision in Finland. The chapter starts with an overview of the relationship between public services and one major political issue – income inequality – after which I will discuss the organisation and financing of public services in Finland in more detail. Of course, income inequality as such may be an important topic in debates on social risk for a number of reasons. Many

studies have for instance found strong correlations between income equality and longevity or health. The purpose here is not, however, to discuss the relationships between income inequality and social risks but only to show that social risk management should be regarded not just as isolated mechanisms tackling individual social risks but as a part of broader political questions like equality.

## **PUBLIC SERVICES AS PART OF THE INCOME REDISTRIBUTION STRATEGY**

Income disparities have substantially increased in Finland over the past 15 years, resulting in aggravated social inequality. While only seven per cent of Finns lived below the poverty line in 1995, by 2009 their share had hiked to 13.1 per cent according to Statistics Finland.<sup>7</sup> As worsening income inequality has gained considerable political attention, voices calling for a change of direction abound. In this section, I will discuss some of the mechanisms behind income inequalities in Finland and the means with which the problem could be ameliorated, focusing especially on the role public services.

The level of income inequalities depends on three fundamental factors: firstly, on the number of people receiving factor income (income based on labour or capital); secondly, on the distribution of income between labour and capital; and thirdly, on income redistribution through taxation and transfers. When people talk about reducing income disparities, however, they often tend to focus only on redistribution through taxes and income transfers. Indeed, they play a major role. For example, the Gini coefficient<sup>8</sup> for factor income in Finland in 2008 was 0.46. This figure describes the level of income inequality without taking into account taxes and social benefits. After taxes and wealth transfers the figure came down to 0.27, which is to say that taxes and benefits had a considerable impact.

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<sup>7</sup> *The poverty line in Finland is 60 per cent of median income.*

<sup>8</sup> *The Gini coefficient measures the equality of income distribution. Smaller values mean more equal distribution. A value of 0 signifies total equality, and a value of 1 means that one person gets all the income.*

In absolute terms, the most important taxes and benefits that reduce income inequality include state and local income taxes, earnings-based pension, basic pension, unemployment benefits, health insurance allowances and income support for the poorest. In a macroeconomic analysis, redistribution through other tax and benefit systems is of little significance for the amounts thus allocated are smaller. This does not mean, however, that these other systems would not have important social impacts. Decreasing income transfers (in relation to income levels) and a decline in the tax system's effectiveness to even out income differences have contributed to increasing income inequality since mid-1990s. The policy conclusion to be drawn out of this development is that income redistribution should be augmented and taxation should be made more progressive in order to decrease income inequalities.

However, a more even income distribution cannot be achieved solely by means of taxation and income transfers. Debates on enhancing income transfers for instance largely deal with improving basic social security. Yet raising the Finnish basic security allowance by 100 euros per month would lead to a change of less than 0.02 in the Gini coefficient<sup>9</sup>. That measure alone would thus have only a minor effect on income disparity. This does not mean that the basic social security should not be raised – it most definitely should. Its present level does not suffice to cover even the most vital expenses of daily life and thus any increase would alleviate the plight of the poorest.

With regard to taxation, there is much talk in Finland about steepening the progression of income taxes and making taxes on capital gains progressive as well. Both of these are easy ways to affect income distribution, but on the macro level they would produce only mild changes in income inequality. For example in 2009 the capital gains tax brought in 1.5 billion euros in revenue while Finland's national income was 179 billion. So even a radical tightening of taxes on capital gains would not result in substantial decreases in income inequality at the macro level. For the sake of fairness and social justice capital gains should of course be taxed progressively and with higher rates than what is the case today.

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<sup>9</sup> *The newly elected government in Finland has announced that it will raise "basic security" by 100 euros in January 2012. With the term basic security the government is referring to basic unemployment benefit and labour market support.*

### **The division of factor incomes must change**

In the present situation, the most effective way to reduce income disparities in Finland is to change the distribution of income between labour and capital. The first thing to consider is to make sure that wage differences do not get out of hand. Finland has a pretty good track record in this regard: for decades, a sense of solidarity has prevailed in Finnish incomes policy, resulting in exceptionally equal wage distribution in international comparison.

Secondly, functional distribution, or the division of factor income between labour and capital income, must be reasonable. Much of the growth in income disparity experienced during the past 15 years can be attributed to changes in functional income distribution: the share of capital income (of national income) has gone up while the share of wages has gone down. As income on capital is largely concentrated among the wealthiest, any increases in its share will boost income inequality. The relative share of capital gains has in practice increased in all industrialised countries. Two common trends have contributed to this development: globalisation has weakened the bargaining power of wage earners, and national tax policies of most countries have followed similar paths. In Finland, the 1993 tax reform, which separated capital and labour income taxes from one another, seems to have been a major watershed.

When the tax and redistribution systems even out income disparities sufficiently, and income is fairly split between labour and capital, one other means of improving income equality remains: we must make sure that as many people as possible earn factor income. In practical terms this means that people are employed and do not need to resort to transfer payments. To an unemployed person, a job is a much more significant income boost than improvements in unemployment benefits. Therefore the most important means of curtailing income inequality is to get all those who are of working age and fit to work to work. This is where services that can ameliorate a person's possibilities in the society and the job market play a key role.

## Services and income disparity

Services provide means to increase the share of people who earn their living from work. When work income is the primary source of income, the need for income transfers is smaller and the distribution of income more equal. When they function as they should, social and health services balance the income earning possibilities of the entire population by supporting citizens' capacity to work, by preventing exclusion from the job market, by helping those already excluded to return to work and by making it possible for all adults or the only adult in a family to work. Accessible, high-quality education assures that all citizens are given equal chances to succeed in the labour market and earn income. Services must guarantee each person's ability to function as a member of society.

Perceiving welfare services as one component of the income redistribution strategy is also efficient in economic terms: redistribution through taxation and income transfers alone is considered to create negative incentives for the demand and supply of labour. Such problems can be mitigated with public services. First of all, public services are labour intensive and thus have a direct impact on the demand for labour. Secondly, many public services, such as day care, complement and increase the supply of labour. In addition to directly addressing the underlying causes of income disparities, services smooth out differences in standards of living also by reducing social inequality caused by income disparities: the better individuals can satisfy their needs through public services outside the markets, the less their disposable income matters.

Equal schooling lays the foundation for each person's ability to be a full member of society. With regard to children and the youth, the quality of the Finnish educational system is relatively good. The main problem is that a considerable proportion of young people continue to lack adequate basic training – more than 10 per cent of each age cohort does not complete secondary education. The position of these people in the labour market is often permanently weak and other social problems tend to concentrate among them as well, also later in life. Social and other problems in the family often contribute to a premature termination of studies. Thus a low socioeconomic status is easily passed on from one generation to the next. Day care plays a pivotal role in

identifying such problems and its role as supporter of families with children should be strengthened.

In theory, difficulties caused by the lack of education are easily fixed: just make sure that everyone receives secondary education that allows them to succeed in today's job market. Standard school style learning does not suit all people, however. Therefore reaching the objective calls for a multiplication of different methods of learning tailored for different needs, workshop-like activities and so on. The so-called "schooling guarantee" – making sure that there is a place in an upper secondary school, vocational school or some other education institution for all those who have completed their nine years of basic education – much favoured by politicians is not enough: we also have to see that everyone is given the necessary support to be able to advance in their studies. If problems at school are linked to other problems, they must all be addressed simultaneously.

### **More flexibility**

Of course, income redistribution is not and should not be the main goal of all public services. The purpose of elderly care, for example, is simply to enable senior citizens to lead a dignified life. A civilised society has to provide all its members with the means to live in dignity, and it is clear that services are about a lot more than improving people's labour market status. Moreover, citizens are not merely targets of the service system or passive clients who are provided with whatever it is the system happens to produce. In the worst case, when a person using public services feels like her daily life is a constant struggle in the abyss of bureaucracy, the services have completely failed to enhance her capability to act independently. The social goals that are the *raison d'être* of services should be made more visible in their provision and production. For example, the objectives of social empowerment and strengthening people's ability to act as members of society should be stressed more in all social services.

On many occasions, the need for public services is determined too late and too bureaucratically, often only when the need is already great. At worst, different problems like the lack of social capabilities, substance abuse or mental

health issues have already intermeshed and developed into a complex snarl by the time the person becomes a user of social services. At that point it is much more difficult to ameliorate her situation and to support social mobility than it would have been at an earlier stage. At the present, services are doing a particularly bad job in preventing social exclusion from the labour market and early intervention. All too often social services become available only when the problems have already developed too far. This applies to both health and social problems. In order to prevent such problems, persons in need should be reached early enough and provided with the type of service that addresses their problem(s). It is the service system that must show flexibility vis-à-vis people's needs, not the other way around.

Social work should be directed towards people with both economic problems and the kind of social problems that make employment difficult. The right types of services must be provided at an early stage so that the problems do not become a permanent barrier to entry into the active workforce. Since the 1990s it has become common in Finland to support employment through various activation programmes. The main incentives for participating in them have been sanctions triggered by non-participation. While the idea itself may be good, such forced activation has not proved very effective in practice. The quality of the programmes has been anyone's guess and their impact on real employment chances often negligible. In addition, people undergoing activation programmes have often experienced them as humiliating. So, at worst, when the targets of activation feel like they are forced to dance to bureaucracy's tune, they become even more passive and suspicious of society.

### **PRIVATE OR PUBLIC SERVICE PROVISION?**

Privatising the provision of public services and inviting companies to tender are often justified with enhanced efficiency. Judging solely by short-term costs and quality – with the focus often heavily on the former – it may sometimes seem that private suppliers do a better job. Nonetheless, there exists no generalisable or universal proof of the superiority of public or private service provision. There are good and bad experiences of both. It usually does not

matter much to the user of the services whether they are being produced by a public or private entity.

The problem with opening public services to competition is fragmentation. Outsourcing and shopping around require detailed “productisation” of the services. When a person has multiple needs and no single service product meets those needs, there is a problem. As services are organised through pre-determined and strictly defined products, comprehensive long-term service becomes more difficult. Service chains break and overall responsibility is obscured. Naturally these types of difficulties emerge without outsourcing as well, for the public sector is also perfectly capable of creating unreasonable service systems.

Turning services into products, opening the provision of these products for tender and outsourcing them take up a lot of administrative resources. Slashing bureaucracy is sometimes presented as a reason for privatising but in reality the shift towards private production of services has made their administration heavier. Procurement contracts, invitations to bid and the court processes related to them, and monitoring private producers all create new administrative responsibilities that do not exist when the services are publically produced. In some cases even the user of the service has faced increased bureaucracy.

Outsourcing and various purchaser-provider models require a lot of expertise from the buyers. They must possess complete information on the content and quality of the services. If this is not the case, they are buying a pig in a poke. All too often Finnish municipalities and their joint bodies lack adequate purchasing know-how which inevitably leads to unpleasant surprises.

It is often the case that when private production is argued for on the basis of its lower costs compared to public production, the costs are assessed through a very narrow lens. In reality the costs at a single point in time tell nothing about the long-term evolution of the cost structure. This problem can be addressed by signing only short-term procurement contracts that allow for a re-evaluation of the situation if it changes, but this reduces predictability and stability, resulting in uncertain “stop-go” provision of services that does not benefit any of the parties concerned. Problems due to fragmentation also increase. Fragmentation problems can be avoided by long-term cooperation

between the public sector and its private contractors. There have been good experiences of such collaboration. Private production does not always have to lead to a fragmented service system.

In addition to trying to estimate what is effective and efficient, the criteria of “good” and “just” must also be put on the table. The development of services and their production is ultimately about political choices. Nobody would disagree that the aim is to produce high-quality services with as little costs as possible, but how this double objective can best be achieved is not a technical question that can be resolved with a set of correct answers. This tends to be forgotten in debates on service provision. Huge and often conflicting interests are vested in the development of services. The users of the services, the employees providing them, private companies and many other stakeholders are directly affected by the choices made in the process. The needs and goals of different interest groups should be analysed more carefully than what has been done. More often than not the needs of some interest group underlie any proposal to improve the production of services. It is important to recognise this. Arguing about the superiority of one procedure over some other is pointless unless the interests at play are identified.

Once the various interests at stake have been identified, services should be developed so that they best suit the needs of their users and advance the social goals that are their ultimate objective. All other interests are secondary. Service production should never be turned into an instrument of industrial policy, for example. Of course, it is not always easy to assess whose interests are ultimately served by which proposal.

### **Profit seeking and social goals**

When reforming public services, one should be cognisant of the reasons for their existence and the social ends that they are meant to promote. The logic of the reforms must be built on this foundation. It cannot be copied from some other context. During the past two decades, however, there has been a strong tendency to develop services according to principles borrowed from business management and the corporate world. Efficiency gains have been sought by separating the purchasing and production of services. This has also

enabled their privatisation. In the public realm, copying micro-level incentives from private companies has been perceived as a way to promote efficient use of resources. Such practices have originally been tailored to serve completely different ends than those of the public sector. When the models and measures of the private sector are used as a yardstick for public sector reforms, attention is easily drawn to the wrong things and not enough consideration is given to the social character and functions of the services. Consequently the role of the public sector as the guardian of the ends particular to it is blurred and social expertise makes way to business practices.

The operational logic of private production differs fundamentally from that of public production. The key question is: what is the true motivator? Among private actors, the answer is almost always profits. If the social objectives of the services in question do not fit nicely into a company's profit function, they are usually excluded from the company's decision-making. It is extremely difficult to construct service production agreements between public and private actors in such a manner that they encompass the ends society strives to achieve through the services.

When the focus lies on profits, it is all too easy to concentrate on minimising costs and maximising income and not pay enough attention to quality issues. One thing should always be borne in mind when contemplating different ways of producing services: in all circumstances the method of production must be compatible with the quality requirements and wider social goals of the service. Quality control is often quite expensive. Food service in day care centres provides one example of this. Especially in the bigger Finnish cities it has been outsourced to the private sector with the hope of cutting costs. Indeed, the costs have often decreased, but so has quality. Finnish media have reported on several cases where nurseries have repeatedly run out of food, the food served has not been what had been ordered or the quality of the food has deteriorated. This type of "increased effectiveness" could probably have been achieved without outsourcing as well – although minimising expenses at the cost of quality is admittedly easier for profit-seeking companies.

Even though it is in practice difficult to include quality issues in corporate decision-making, no matter how carefully drafted the purchase agreement,

a common argument for privatising public service production is improved quality. After all, private medical clinics often have much more comfortable waiting rooms than public health centres, right? In reality, high quality is not a natural characteristic of either sector – it is the result of a sufficient amount of human and other resources. They may exist on both sides.

One threat posed by privatisation and market competition is that all services may be organised and priced in such a way that committed, long-term efforts to promote the common good become impossible. Then we will have entered a greedy man's market – the opposite of responsible public service provision. In order to reap the benefits that privatisation and marketisation yield in theory, there must be enough producers on the market. Without genuine competition the benefits will not materialise. Paradoxically, during the entire period when the role of the private sector in service provision has been increasing, we have been moving into the other direction. The service market is controlled by fewer and fewer actors. This has happened especially in countries where marketisation has been taken further than in Finland. In Sweden, for example, the care market is heavily concentrated in the hands of a few companies. The position of small enterprises and associations seems to have weakened, while large corporations account for an ever-increasing share of the pie. The role of institutional investors in the service market has also grown. Given the high yield demands they have for invested capital, the public sector may be turning from a promoter of social ends to investors' profit machine.

To some extent, the Finnish public service provision has also been delegated to non-profits, especially care services for the elderly and disabled. Associations are not like companies, for their operational logic and objectives are not focused on profit: they exist to advance certain social goals or to help certain groups of people. Thus the social character of services is the major determinant of their activities. This combined with the strong expertise one often finds in associations usually makes them good service providers.

In a privatised service sector it is possible to seek profits by focusing solely on the types of services that are easy to produce. This is called 'creaming off'. Privatisation is most attractive in the services that are the most profitable, simplest to define and easiest to organise. Still, any mistakes that occur in

their provision are ultimately left at the public sector's responsibility – the private producer has in any case already made its profit. Even when a service has been privatised, public authorities are always responsible for prevention, handling complications, costly specialised services and crisis preparedness. Maintaining them separately is often expensive and difficult to organise.

### **Production method and legal protection**

Public and private sectors differ considerably in their ways of dealing with a service user who is not pleased or disagrees with the service producer. When problems arise, a user of a service is in a stronger position and enjoys greater legal protection if the service is publically produced. The activities of the public sector are regulated by detailed laws that are meant to reinforce preventive legal protections, avert arbitrariness, promote appropriate and professional conduct, and prevent corruption. Regulations also cover retroactive legal protection and the procedures related to it. Some of this heavy juridical regulation admittedly smacks of unnecessary bureaucracy.

The activities of private actors are regulated much more light-handedly. At best this may mean smoother practices and service, but at times of trouble the user of the service may have weaker legal protections and find it harder to get help. Lesser regulation can also mean more inequality and more possibilities for abuse. In the private realm, the limits of lawful conduct are not easily breached: sometimes it takes even abandonment or bribery before a service provider must assume its responsibility.

In terms of transparency and openness, public and private provision of services differs considerably. More transparency is required of public actors. All their expenses and finances, for example, must be made public. Private actors do not face similar requirements, nor do they wish to disclose their finances in detail to the public. This is a key difference from the perspective of democratic control. Yet, outsourcing services is sometimes justified by increased transparency: when a particular service is purchased from a provider, the real costs of the service become visible and we know exactly what it is we are paying for and how much, the argument goes. However, there is no special link between the production or purchase method of a service and the

transparency of its costs. Since public finances are by definition public information, the cost structure of a service can be determined without outsourcing.

## **FUNDING**

It is important to reinforce the Nordic principle of universality whereby all persons covered by the legislation are regarded as potential users of the same system and specialised services are resorted to only when special needs cannot be met otherwise. The ultimate goal of public services – increasing people’s ability and scope for action and wellbeing – must not be forgotten. Shared responsibilities guarantee that each one of us has a chance even when facing difficulties. However, it must not be forgotten either that the financing of public services is always subordinate to all these goals as well.

The funding for public services may be raised by taxation, public social insurance or private insurance schemes. Public services can be produced privately or publically. In the Nordic models, the universal public services are funded primarily by taxes: everyone pays and everyone benefits. This principle has proven its economic efficiency. Public services in the Nordic countries are generally of good quality, they have extensive coverage and their costs are quite moderate in relation to the benefits. High quality and universality are also preconditions for the broad political support they enjoy.

At the moment, the most burning financial issues have to do with health-care. The problems of multichannel funding are widely recognised. From an economic perspective, the most efficient and unambiguous system would consist of public services funded by a single payer alongside private services that do not receive any public funding. It seems that taxes are the most efficient means of public funding and superior to models based on public insurance, for instance. In the latter, costs get more easily out of hand than in a tax-funded system in which public authorities can directly control the supply of services. Public control is more difficult in insurance-based systems and can only be exercised by managing the range of choices offered to service users. This is prone to lead to bureaucratically heavy structures with rising costs. The best example of this is the US healthcare system. Based on private insurance plans, it is extremely expensive compared to public systems. Yet a large

proportion of the American population had no access to healthcare before the most recent reforms. To some degree, continental European systems with their mandatory health insurances have faced similar problems of spiralling expenses. It would thus appear that tax-funded health systems produce reasonable results with the lowest costs.

Models that shift the financial burden more upon individuals via care insurances or private accounts have also emerged in the funding debate. The resulting reductions in public responsibilities would be met by service users' increased dependency on the markets and their families and friends. This would aggravate inequalities, undermine the insurance character of social security and be in direct contradiction with the mechanisms that have made the Nordic model such a success. In and of themselves, private accounts do not include any risk-sharing mechanisms. The Nordic model, on the contrary, is based on shared responsibility: everyone pays a share of the costs and the risks, no matter who they fall on, will not result in unreasonable economic burdens on those suffering from them. This principle has proven its economic and social effectiveness, and we should hold on to it. Private accounts would mean a step in the opposite direction.

It must be noticed that problems related to multichannel funding cannot be solved simply by switching to a system with only one funding instrument (taxes). It is also vitally important to make sure that the regulative limitations of and between various branches and budget articles, even when under one public authority, do not hinder effective provision and organisation of services. No public sector actor should ever face a positive incentive to juggle service users or costs onto other government branches or units. Within the Finnish tax-funded public sector, perhaps the most difficult problems have to do with the boundaries between state and municipal responsibilities. Sometimes these administrative barriers make it impossible to create sensible service systems. For example, municipal social and health services and the regional Centres for Economic Development, Transport and the Environment – charged with managing the regional implementation and development of state administration – should really step up their cooperation in the provision of services aimed at improving people's ability to succeed in the labour market.

## User fees

With regard to equal and universal accessibility of services, fees charged from users are of particular importance – fees must not create a barrier to service use. Compared to other Nordic countries, user fees comprise a relatively large part of the funding of Finnish social and health services. Take the municipal health services, which are of key interest due to the Finnish decentralised model of national public service provision. According to the Association of Finnish Local and Regional Authorities statistics, in 2009, they totalled 1.5 billion euros and covered slightly over seven per cent of municipal social and health expenses. As a percentage of overall service production costs, user fees play the biggest role in day care and home services, the smallest in specialised medical care.

The explicitly stated policy goals of user fees are to fund services and to manage the way they are used. Both goals are somewhat problematic. The actual share of user fees in the funding of public services is quite modest. Although they amount to over seven per cent of the production costs, they do not lead to a corresponding decrease in public sector expenses. There are several reasons for this. The poorest people cover their user fees with income support. Fees paid are also included when assessing a person's eligibility for care and disability allowances, thus transferring part of the payments to the Finnish Social Insurance Institution (*Kela*). So, in practice, user fees lead to money being moved from one public institution or budget article to another and do not cut public funding responsibilities as much as their nominal value suggests.

Likewise, the rationale for viewing user fees as instruments to shape behaviour is also questionable. The goal here is to decrease the use of services. This will inevitably worsen inequality, for low-income people will be hardest hit. Fees may even prevent someone from seeking a service she would need. The behaviour of those with higher income, on the other hand, will not change much because of a fee. These observations apply mainly to fixed fees but also, though to a lesser extent, to income-dependent fees that are used primarily in healthcare, institutionalised care and home services. There is empirical proof that user fees postpone the decision to seek treatment, which ultimately

increases rather than decreases costs. User fees also seem to have a considerable impact on health differences between different socioeconomic groups.

### **Service vouchers**

Increased freedom to choose and efficiency gains from more market competition are often stated as benefits of service vouchers. In principle, these are sensible goals: why force people to use a service decided on by a public authority when they might as well decide for themselves? In practice, however, the additional freedom to choose may be ostensible. If a service user does not possess sufficient resources to make an informed decision, the freedom is merely an illusion. It may be difficult for an ordinary citizen to acquire sufficient information on the real content or quality of the services of different producers. Genuinely relevant information is often revealed only when the service is being used. In such a situation the “choice” may in fact resemble gambling. If you do not have luck placing your bets, it may be difficult to rid yourself of the consequences later on.

Choosing the best service is especially difficult for a person who is in a weak condition. If not supported by able and well-informed family members or friends, such a person may experience this as an extra burden in an already difficult situation. What is supposed to increase freedom may become a mandatory evil, another seemingly senseless bureaucratic demand. Fortunately the voucher systems presently in use in Finland do not allow problems to develop this far. It is always possible to refuse to accept the voucher, in which case the municipality is obliged to arrange the services needed. This seems somewhat inefficient. On the one hand the municipality offers vouchers and on the other it must maintain an alternative service system.

With service vouchers, responsibilities related to market competition are nevertheless shifted onto the end user. Considering that the municipalities purchasing privately produced services have at times had difficulties managing these responsibilities, it is obvious that all service users cannot handle them much better. In the worst case, vouchers spell more trouble and bureaucratic obstacles to a user of public services.

While individual freedom for all is a fundamental principle of a democratic society, freedom is conceived of in rather narrow terms as freedom to choose if all it means is that a user may choose the producer of a certain service. Services exist so that the freedom of those who have little of it can be augmented and that responsibilities are borne collectively. Reducing freedom to the right to choose a service provider obscures this fundamental premise.

It must be also noted here that the voucher system turns the logic of funding on its head. The logic of Finnish public service fees works so that there is a maximum amount any single user has to pay. Once the total amount of fees paid under a given period reach this threshold, the public sector takes over additional expenses. The aim of this is to guarantee equal access to services and to make sure that each person has a real possibility to use services according to her needs. Vouchers work the opposite way: the public authority pays a certain (fixed) amount and the user's share is the difference between voucher value and the real price of the service. The voucher system also scraps the maximum limit applied to user fees. It goes without saying that vouchers perpetuate inequalities in the use and accessibility of services. They move us closer to the demise of collective responsibility over welfare.

Multichannel funding is widely perceived as a problem, especially in health services. Vouchers add another channel to the mess. In practice they resemble the health insurance compensations used in private healthcare. Careful analysis is needed to clarify whether we really need yet another system that subsidises privatised care with public funds.

Vouchers may lead to public authorities de facto escaping their legal obligations. It is easy to narrow the scope of public responsibility by letting the value of the voucher fall in comparison to the prices of the services it is used to pay for. In the longer run, vouchers may also contribute to polarisation: they become a form of subsidising the private treatment of people with enough money to go private, leaving public services to those who cannot afford anything else. This would further undermine political support for maintaining high quality public services.

## CONCLUSIONS

Extensive welfare services are an integral part of the Nordic welfare model in general and social risk management in particular. Besides tackling social risks, they promote economic efficiency by increasing and redistributing the factors of production available on the market. As they enable each citizen to be a full member of society, welfare services also contribute to social justice. When they function as planned, public services improve the income earning possibilities of the entire population by supporting citizens' ability to work, preventing exclusion from the labour market and helping those who have fallen outside the labour market to return to work. They also provide all citizens with equal possibilities to fulfil their basic needs outside the labour market. The guiding principle of any service reform must be improving the achievement of these goals.

In discussions on reforming public services, their users and broader social objectives often do not get as much attention as they should. As a result, services have been developed in a system-oriented manner in line with principles and models borrowed from the private sector. These models often do not play well with the logic of public services. Thus many reforms have been mere administrative exercises, and services have become fragmented and service systems obscured. In worst cases, users of the services feel like they are fighting an increasingly inflexible bureaucratic machine.

Given all this, services must be made more flexible and user-oriented. Citizens are not mere passive clients who are provided with whatever it is the system happens to produce. It is the system that has to adjust according to the particular needs of each person. This is not easily done in a system consisting of strictly defined service products, all produced by different actors. Sometimes even the legal protection of a service user may be put to test. Production methods do matter as well. Public and private service production is guided by completely different objectives. The production method must always be compatible with the social goals of the service in question. Also, the political and other interests underlying different methods of production must be recognised and included in the decision-making process.

