

# Less regulation, or more? Recent trends in Finnish local government steering

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# 1 Introduction

Regulatory reforms have been a topical issue for several years in countries around the world. The aims of these reforms have not just been to reduce regulation but also to improve the quality of regulation. The effects of regulatory reforms on business sector have been evaluated extensively and generally the results support the view that reforms will be beneficial: less or better regulation has been found to improve productivity, boost innovation, increase investment and entrepreneurship (OECD, 1997).

Deregulation that concerns the public sector itself seems to have been less of an overall policy issue, however. The same applies to central government regulation targeted at subcentral level. This is somewhat surprising, taking into account that the trend in many countries has been towards decentralization and delegation of powers from central to subcentral level. Overall, it seems that in many countries the steering of subcentral level by central government has increased considerably over time (Hood et al., 2000; Ministry of Finance 2013 and Sørensen 2014). Still, the effects of regulation reforms concerning public sector have not been much studied or discussed, at least from the macro perspective. This is despite the fact that the need for such reforms have been identified in several countries (Hood et al., 2000, Sørensen 2014). This is not to say that there is not a large economics literature on the benefits and costs of regulation concerning single public services, for example class size in education (see, for example Fredriksson et al. 2013, Chetty et al. 2011) or waiting times in health care (Siciliani 2013). But since the empirical evidence of the effects of various regulatory reforms has often been mixed, and because the evidence has often been case specific, it has been difficult to make clear policy recommendations.

The traditional fiscal federalism literature perspective to norms and regulation is that in case of local public goods there is no need for central interference. This is mainly because there are no important benefit spillovers (Tiebout 1956). On the contrary, each municipality ought to be allowed to choose its own level of public services. The model has been later extended to apply also a case of impure local public good (Oates 1972). But in many countries, especially in the Nordic countries, the local service menu consists not just of the local public goods but also of redistributive tasks and merit goods, that have been delegated to local government (Rattsö 2002, Moisiö 2010). One of the main objectives of this “administrative federalism” has been the efficiency of service production, that is largely based on service responsiveness to local needs and preferences. It has also been argued that the decision-making at the local level is more transparent to taxpayer/citizens, and that the voter participation in elections and political activity in general would be greater in decentralized systems. But the flip side is that decentralization of redistributive public services has created a need for central government to steer the local governments in service provision, mainly because of equity concerns.

This paper describes the ongoing measures by Finnish government to reverse the trend of continuously growing delegation of tasks from the center to local governments, and to reduce the norms and regulations concerning the service tasks. The paper makes an effort to classify the five hundred municipal tasks and nearly a thousand norms and regulations that steer these tasks. The ultimate aim is to identify regulation of municipal services that creates an unnecessary burden to municipal decision-makers, i.e. “red tape”.

The paper proceeds as follows. The second section describes briefly the Finnish version of decentralization and tries to briefly answer questions such as: “Why, how, and for what purposes education, healthcare and social expenditures have been decentralized?”, and “What are the driving forces behind decentralization?”, that were put forth by the 2015 Copenhagen seminar organizers. Section three focuses on the future

prospects of Finnish local government, discussing especially the recent central government policy to tighten the fiscal rules, loosen the service regulation and to reduce service burden of municipalities. Section four summarizes and concludes.

## 2 Decentralization: the Finnish way

### 2.1 From past to present

The foundation of modern municipal government in Finland dates back to 1860s and 1870s, when the first laws on rural municipalities and towns were enacted and local authorities gained the right to levy taxes. Another major legal landmark was some 50 years later, when the local self-government was included in the first Finnish Constitution in 1919. The inter-governmental cooperation, which is important especially in the Finnish context, was added to municipal legislation in 1932.

In the early days, most rural municipalities were poor so the first municipal services consisted of simple tasks such as road maintenance, basic education and income support for the poor. The cities and towns were wealthier and took care of more tasks. Only a few municipalities were able to offer some health services to their inhabitants, for example by hiring their own doctors and even by founding municipal hospitals. But the need for local health services was obvious because of long distances and poor road access to nearest towns. Although the central government maintained a regional hospital network, the role of municipal hospitals increased rapidly. By 1920s there were altogether 236 hospitals of which 142 were organized by municipalities and 60 were private. This development was seen more or less a necessity, as the central government was not able to secure services in all parts of the country. The municipalities therefore took a voluntary lead, although reluctantly, in developing not just health but also education services to their residents. Later, central government often formalized the situation by enacting a law on the services that the municipalities had first started based on their own initiative (Manninen, 2010).

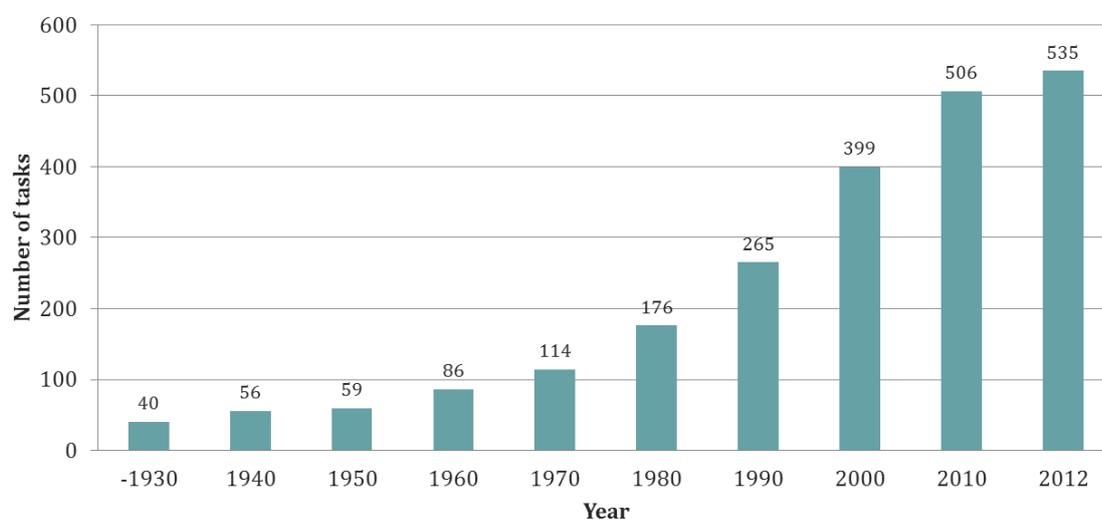
By the end of the 1950's it had become a common practice for central government to assign new or existing statutory tasks to municipalities. For instance, state owned general hospitals were transferred to local government ownership in 1956. According to the law, the hospitals were to be operated by joint municipal authorities, these were organized through 20 hospital districts. Each municipality was obliged to belong to a hospital district. In education, similar development was seen, as many private and central government run comprehensive and upper secondary schools became municipal schools.

Central government funded part of the expenditures first by earmarked grants. In some cases the poorest municipalities received slightly higher amount of grant, but mostly the grants were the same for all municipalities. By 1960s it had become evident that differences in municipalities' ability to raise revenues should be taken into account in some formal way in the transfer system. As a results, a classification of municipalities into 10 groups according to their economic situation was developed. Between 1960s and 1990s most grants were matching grants and grant rates varied according to the classification so that rates were highest in class 1 (poorest municipalities) and lowest in class 10 (richest municipalities). Gradually, the grant system was used as an incentive for municipalities to expand their services. But along the years it became clear that the matching grant system was boosting municipal expenditure, and so in 1993 the matching grant system was replaced by a formula based block grant system. The grant formulas have been updated several times since then. The latest grant system reform was done in 2014, with the aim to

simplify the formulas and make the system more transparent. Still, several need and cost factors are taken into account by the formulas.

The enlargement of local government tasks (education, health and social services) was especially rapid in 1970's and 1980's but the growth has continued until these days (Figure 1). At present, practically all basic social and health care services and most education (all except tertiary education) is provided by municipalities or by joint municipal authorities (Table 1). The present government (in power since May 2015) has made a promise not to increase municipal tasks during its four year term. In fact, the new government plans to reduce the number of municipal tasks. Also the norms and regulations concerning the tasks are to be eased. This is discussed in more detail in section 3.

**Figure 1** Number of statutory municipal tasks, 1930-2012



The left panel of Figure 2 shows the main expenditure types (current expenditures and investments), the middle panel describes the shares of main task categories and the right panel shows shares of main revenue types from total municipal revenues. As can be seen from the figure, the most important expenditure type is wages, followed by purchases of services and investments. About one half of municipal sector expenditures are formed in the health and social services. Municipal sector fund the bulk of their expenditures with own source revenues, the main revenue being income tax revenues (not shown in the figure). Grants cover only some 17 percent of municipal revenues, although for small rural municipalities the share is much bigger.

Municipal finances and service provision were monitored by the so called Advisory Board that consist of representatives from both the central government and the Association of Finnish Local and Regional Authorities. The Board has economic and assessment sections for preparing matters. Until 2015, the Advisory Board prepared the Basic Services Program and Basic Public Services budget. (The new monitoring system is described in section 3). The Basic Services Program and Basic Public Services Budget were introduced in 2003 (but these procedures were given legal status since 2008), and the purpose of these instruments were to achieve better balance between financial resources and the tasks and obligations of municipalities. The Advisory Board prepared an annual budget review (as part of Basic Public Services budget) and the service assessment. The aim of these were to monitor changes in the local government

operating environment and in municipalities' statutory duties together with the developments in local government finances (tax revenue, central government transfers) and expenditure. The Board was to make proposals to enhance local government revenue and expenditure and measures to meet productivity targets for the municipal sector. In practice, the Municipal Department of Ministry of Finance prepared the matters for the Advisory Board.

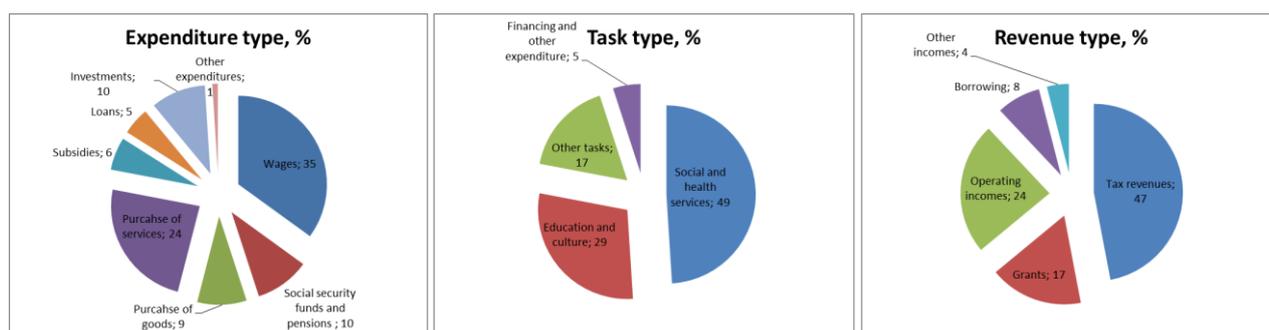
The financial control of municipalities has been carried out using grant system, altering revenues bases and tax rates, fiscal rules and setting norms and regulations concerning the tasks. Municipal grants have been altered mostly in procyclical manner. The tax rate regulation has been applied only to property tax rates (there are upper and lower bounds), but one must note that property taxes are only a small portion of tax revenue for municipalities. The central government has altered municipal corporate tax revenues by adjusting the municipal share of the revenues. The fiscal rule has meant the balanced budget rule, which stated that municipalities were expected to balance their budgets within a four year planning period. Until 2015 there has not been a sanction for not following this rule, however. There has also been a so called "Crisis Municipality Procedure", which used several criteria to define municipalities that are suspected to have economic problems. The municipalities that entered this list, were closely examined by a group of external experts, who made recommendations for the municipalities to improve their situation. In 2015 a new system to monitor and steer the municipal finances was introduced, this is described in more detail in section 3.

Table 1

Summary of municipal tasks (Moisio et al. 2010)

<b>Education</b>
Comprehensive and upper secondary schools
Vocational institutes
Polytechnics
Adult education
Basic music and art education
<b>Culture</b>
Libraries
Other culture services (theatres, museums, orchestras...)
<b>Health care</b>
Primary care
Specialist care
Dental care
Environmental health care (health protection)
<b>Social services</b>
Child day-care
Elderly care
Care for disabled and the mentally handicapped
Child protection and welfare
Income support
Welfare for intoxicant / drug abusers
<b>Public utilities</b>
Water and energy supply
Waste management
Street and road maintenance
Environmental protection
Public transport
<b>Sports and leisure</b>
Parks and outdoor areas
Sports facilities
<b>Other</b>
Land use planning and building supervision
Promoting commerce and employment
Municipal housing, public building

**Figure 2** Municipal expenditures, tasks and revenues (per cent of total), 2014



Until these days, there have never been any serious political plans to add (intermediate) layer of government between municipalities and central government. As a result, inter-municipal cooperation has had an important role in the Finnish way to organize and provide public services. The most common form of inter-municipal cooperation in Finland is the joint municipal authority. Joint authorities are set up by two or more municipalities mainly for tasks that require a larger population base than the small municipalities can have alone. Membership in a joint authority is voluntary except for hospital services and regional councils, where each municipality is obliged by law to belong. Joint authorities are solely financed by member municipalities. The joint authorities are run by council, whose members are nominated by the member municipalities. Joint authorities have helped the municipalities to solve the problems of benefit spillovers, economies of scale and equity of service provision. This situation is about to change as the government plans to transfer the social and health services to a new intermediate level of government (regions).

## 2.2 Municipal services in Finland<sup>1</sup>

### 2.2.1 Health services

#### Primary health care

At present, the primary health care services are provided by health centres, which are operated either by single municipalities or by joint municipal authorities. In 2010 there were 194 health centres<sup>2</sup>: 130 of these were operated by single municipalities, 38 were run by joint municipal authorities and 26 by “host municipal” arrangement. Each member municipality pays for their agreed share of the costs, mostly according to service use by their residents. In the host municipality situation, one municipality arranges health care for two or more municipalities.

Compared to primary health care arrangements in most other countries, the Finnish health centres provide a large variety of services. In addition to basic primary care, the health centres offer also maternal and child

<sup>1</sup> This section follows closely the description provided in Moision et al (2010).

<sup>2</sup> A health centre may have one or more health care stations. Typically in rural municipalities the health services have been concentrated in one health station but in big cities there are number of health stations and other health care facilities.

health care, cancer screening services, community nursing, school health care, dental care, physiotherapy and occupational health care. They also usually have inpatient departments, with typically 30-60 beds, which are occupied mainly by elderly and chronically ill patients.

In addition to municipal health care, there is an occupational health service system, financed by employers and the State, which is responsible for much of the health care for the workforce.

Contracting out in primary health care to private producers has been a growing phenomenon. In some small municipalities there is no other alternative but to contract out because of difficulties in attracting doctors to permanent (or even temporary) positions in municipal health centers.

## **Hospitals**

Finland is divided into 20 hospital districts that run the hospitals in their area. Every municipality is required by law to be a member of a joint municipal authority administering a hospital district. These public hospitals run by joint municipal authorities provide about 95 per cent of all specialist medical care. The rest is provided by the private sector and this is mostly concentrated in the biggest cities.

### **2.2.2 Social services**

Social and welfare services consist of care for the elderly, child day-care, care for the disabled, child protection and income support for the poor.

The care for the elderly is a combination of home-help services, various support services, informal care allowance, housing services and institutional care. Client fees cover about one tenth of the cost of services. One of the aims of the central government has been to cut down the institutional care. For municipalities, institutional care is very expensive despite the fact that the user fee for the long term institutional care is 85 per cent of the clients' incomes, which lowers the net expenditure.

Municipalities also provide child care services. Finland was one of the first Nordic countries to introduce public child care provisions (the Act on Child Day Care in 1973). By law, all children under school age are entitled to municipal day care, when maternity leave ends. As an alternative, local authorities can pay a home-care allowance to the families with children under three years who are looked after at home or private care allowance for children under school age who are looked after at private day care centres. Two-thirds of day-care places are at day-care centres. Children's day care is subject to a fee. The fee charged is determined by the family's income. Income from such fees covers approximately 15 per cent of the overall cost of services. Before starting school, six-year-olds are to attend pre-school in day-care centres or at comprehensive schools.

It is worth mentioning that many local governments use contracting out and competitive tendering in some (especially in services such as care for elderly and care for handicapped) social and welfare services.

Municipalities provide also income support for persons who cannot earn a reasonable living. The income support is based on case evaluation by municipal authorities. Half of the municipal income support expenditures are financed by central government with specific grant.

### 2.2.3 Educational services

#### **Basic education**

The Finnish school system is based on universal and uniform 9-year compulsory basic education provided by comprehensive schools. Most comprehensive schools are municipal institutions but there are also a few privately run comprehensive schools. Municipal schools are financed by municipalities and with state grant (non-earmarked block grant). Private schools get their funding directly from central government. All education is free for student.

Finnish basic education ranks among top twelve countries in international comparisons of learning performance (OECD PISA, 2013). International comparisons have also shown that the costs of education per pupil are close the average of OECD countries (Moisio et al., 2010). One reason behind the good results may be local self-government, which has made it possible to organise basic education so that the needs of pupils in all age groups are met. Also, the high-level pedagogic standards for teachers and the relatively uniform quality of schools regardless of location may explain the good performance. Teachers with permanent position are municipal civil servants who must have a Masters level academic degree. Teachers must also pass practical training in the field before obtaining the qualification.

#### **Upper secondary education**

After completing the basic education, students can apply for upper secondary education through a joint application system independent of where they live. The upper secondary education is divided into general upper secondary education and work-oriented vocational upper secondary education (the so called dual model of upper secondary schooling). Both routes of education provide eligibility for higher education such as polytechnic and university studies. The majority of upper secondary and vocational education is provided by municipalities or joint municipal authorities. Vocational education, especially, is often provided by joint municipal authorities. The responsibility for financing is shared by central and local governments.

#### **Polytechnics**

Polytechnics provide professionally oriented higher education that prepares students for professional expert work and research. Polytechnics are involved in research and development based on regional development needs. Most polytechnics are municipal institutions or owned by joint municipal authorities. There are also some private providers.

#### **Adult education**

Adult education services include, for example, open higher education, language proficiency certificates, personnel training, vocational continuation education, training for immigrants and general upper secondary education. Adult education is provided by adult education centres, located in nearly all municipalities, and by summer universities. Adult education centres are mainly run by municipalities or joint municipal authorities.

## **2.2.4 Other municipal services**

### **Libraries and cultural services**

Library services are available in every municipality and they are free of charge to users. About 80 per cent of residents use the library services. Local authorities also run art institutions and museums, provide art education, support art and cultural heritage and provide opportunities for cultural and artistic activities. There are also municipally run theatres and symphony orchestras.

### **Sports, leisure and youth policy**

There are around 30,000 different sports facilities in Finland, the majority of which are owned and maintained by municipalities. Non-profit sports clubs often operate the sports activities and the services are usually subject to a fee. Youth facilities, camps and other leisure activities, workshops for those requiring special support, and various groups and channels for influence and participation are available for the young.

### **Land planning, infrastructure and housing**

Municipalities are responsible for land use planning in their area. Local policies in land use affect settlement structures, location of businesses, residential areas and transportation. Municipalities are also responsible for building supervision; they grant environmental permits, monitor the state of the environment and control functions affecting the state of the environment.

Municipalities are responsible for street maintenance and the maintenance of parks and outdoor areas. They also organise public transport in their own area. Municipalities are responsible for municipal waste management in their areas.

Municipal utilities owned by the municipalities and, more rarely, private corporations are responsible for the water supply and sewage systems. Almost 90 per cent of the population has access to municipal water supply. The residents pay water and sewage charges which cover the costs. In many areas, municipalities are responsible for the distribution of electricity and district heating. The biggest cities may have their own energy production companies.

## **2.3 The main challenges to local public sector in Finland and recent attempts to solve the problems**

Finnish economy struggles to recover from the economic slump it entered in 2009. Public finances have remained in deficit for six consecutive years now, and in 2014 the Finnish general government deficit breached the 3% of GDP reference value. The present weakness of the economy and structural problems are the main problems of Finnish economy. As the economic growth is expected to remain sluggish also during the next few years, the economic growth cannot alone correct the imbalance in public finances or to turn the debt-to-GDP ratio onto a downward path. This situation emphasizes the need for structural reforms in labour market and public sector.

For the local government, the gloomy prospects for economy mean that the starting point for preparing for future ageing population is worse than was thought a few years ago. Therefore, the need to advance in the preparation of structural reforms in local government sector is more important than ever.

The government is therefore presently preparing several reforms that concern the local government. The most important reforms at the moment are the health care reform (which the previous government failed to accomplish) and reform of local government tasks and regulation. The already completed reforms include the reform of Local Government Act, intergovernmental grant system reform and new system of fiscal steering of municipal economy by central government. Some of the reforms that were previously on agenda are now on hold or postponed: the metropolitan governance reform and municipal merger reform are not high on present government's agenda. In the following, two recent failed attempts for reform are discussed.

### **2.3.1 Municipal merger reform**

Already in 2005, the government launched a PARAS reform, saying that in order to be able to provide health services, the provider (single municipality or joint municipal authority) should have a population base of at least 20 000 inhabitants. Since in 2010 only a quarter of municipal health providers had a population base of more than 20 000, this threshold meant quite a radical reform. The reform gave some room for manoeuvre for municipalities as they could freely decide whether they reach the minimum population bases with municipal mergers or with enhanced cooperation. As a result, in health care and social services, altogether 67 new cooperative areas were started by the end of year 2013. PARAS-reform promoted also voluntary municipal mergers with special merger grants. The minimum population requirement and merger grants jointly resulted in several mergers so that by the end of 2012 the number of municipalities was reduced by 96 municipalities.

The following government (in office between 2011 and 2015) had even more ambitious plan for municipal mergers. The aim of the government was to reduce the number of municipalities from 320 to about 100 municipalities. The reform has not been successful however, as only a handful of mergers have been agreed. The reform faced strong resistance from the municipal sector, and the process slowed down considerably during the municipal hearing process. Also, the decision to bundle municipal reform with social and health care service reform turned out to be a mistake. The political quarrelling between the main parties was also one reason behind the failed reform attempt. When it became clear that the municipal sector resisted the large scale merger reform, the government proposed that only municipalities with population of 50 000 or above would be entitled to provide advanced social and health care services. But the problem in this plan was that the smallest municipalities would have been obliged to pay to the "host municipalities" for the services used by their residents, without being able to participate in the decision-making. This situation was considered to be against the constitutional autonomy principle and the Constitutional Law Committee of the Parliament rejected this plan. A third plan was then announced. The social and health services would be transferred from municipalities to five regional providers, who would get their funding from the central government and from the municipalities. This proposal meant in practice that the municipal reform was abandoned.

### **2.3.2 Health care and social services reform**

The reform was started by the government in 2011. In the first phase, as mentioned above, the health care reform was bundled with municipal merger reform. The idea was to create very big municipalities, that would be strong enough to provide most social and health services without need for municipal cooperation. Only the most advanced and costly health care would in this model be concentrated to a few national units. But when it became clear that municipal merger reform would not advance as planned, the plan was altered so that the provision of main social and health services was to be given to the so called "host municipalities". The host municipalities would have been municipalities with above 50 000 inhabitants and they would have provided most health and social services for their smaller neighbouring municipalities. But as mentioned above, this plan was found to suffer from constitutional problems. The third plan was then presented, this was based on a model of five regional providers (organised as joint municipal authorities). This plan was problematic, because due to the political disputes, the provision and production was to be separated. In practice, in addition to the five regions, the plan was also to have 19 smaller joint municipal authorities that would be in charge of production of the social and health care services. These 19 joint authorities would receive their funding from the five regions. The funding of the regions were to be organised through municipalities, who would still collect tax revenues and receive central government grants. Municipalities would have paid their share of the social service and health care expenditures to the region, and the regions would then "buy" the services from the producer units. Moreover, the Constitutional Law Committee of the Parliament eventually (in March 2015) rejected this plan for being unconstitutional. This was because the Committee saw that the decision-making power of single municipalities was too small. This decision meant that the preparation of social services and health care reform was postponed to the next Parliament and next government.

## **3 Future of decentralization in Finland: discussion**

### **3.1 A trend reversed: tightening fiscal rules and loosening regulation on local public services?**

There is a rich literature on the effects of fiscal rules targeted at subnational government (see for example Borge and Hopland 2014, Blöchliger 2013, Sutherland et al. 2006, Dafflon 2002, Bohn and Inman 1996). Although a detailed summary of this literature is out of the scope of this paper, some findings from the policy aspects can be presented. The main message is perhaps that fiscal rules can be an effective way to steer the subnational government, but implementation is case specific. Moreover, fiscal rules cannot replace a well-functioning subnational government. Nor can fiscal rules work well if there is no commitment to obey the rules at the local level. At central level, the commitment to sanctions and no bailout seems crucial. If there are strong enough incentives to local politicians to follow fiscally responsive policy, and/or if financial markets can have a role in monitoring and sanctioning the subnational governments, there should be less need for strong fiscal rules set by the central government.

As for the normative regulation aspect, there is also a lot of case specific research, but less so from overall policy design point of view. It seems to be largely an empirical question whether, for example, regulation of

staff qualifications is useful or harmful. One way is to classify local government tasks according to fiscal federalism theory and make policy conclusions from that aspect. If, for example, central government regulates services that are clearly in the category of “local public goods”, it should be safe to say that this kind of regulation can be abandoned. The situation in case of redistributive tasks is less clear. Especially in the Nordic countries, but also elsewhere, central government has delegated merit goods to local government. To secure equity aspects and coordination, there is then clearly a need for some kind of norms and regulations. The hard empirical question is then, which regulation is beneficial and which one is “red tape”?

Traditionally, the Finnish municipal sector has been subject to only a mild fiscal regulation but rather detailed service regulation. This may change, however, because since 2015 the central government introduced a new system to steer municipal finances and because the government is preparing measures to reduce municipal tasks and normative regulation. This section describes shortly these two policy changes.

### 3.1.1 Fiscal rules change explained

An important motivation for tightening fiscal rules on subnational government in Finland was the introduction of European Fiscal Compact. Especially the need to be able to steer the public sector as a whole has driven the recent reforms. Until 2015, the fiscal rules that regulated municipal sector were modest. There were no constraints on borrowing, tax revenues (except for property tax) or spending. The budget balance rule was weak because it required the municipalities to balance their budget within a four year period, but there were no sanctions if the municipality failed to do so. Moreover, the rules focused only on municipal accounts. This was problematic from the steering aspect because joint municipal authorities and municipally owned business companies were ignored by these rules. It could then be that some municipalities had substantial guarantee responsibilities in some companies or joint municipal authorities, and these would not have been taken into account when measuring the fiscal health of the municipalities.

Another major disadvantage in the Finnish system prior to 2015 was that the line ministries were able to assign new tasks to municipalities without taking into account the full cost of these new tasks. They only needed to make sure that the new task would fit the central government spending limits. This situation was possible because the grant for new tasks was only 50 percent.

Therefore, the government prepared the “local government finances programme” as part of the general government fiscal plan. The new local government finances programme replaced the previously used Basic Services Programme and Basic Services Budget. In the new system the government will set (yearly) a balance target for local government finances for the next four years, and decide at the same time on the measures required to achieve the target. The balance target is set for medium term (4 years) and measured with the municipal sector “net lending”.

The government will also set a local government spending limit, which constrains central government so that there is an euro limit (for each line ministry) for the change in expenditure arising to municipalities from central government measures during the parliamentary term. In addition, the central government

grant for new municipal tasks has been 100 percent of the expenditures (not at the municipal level but at the macro level) since 2015.

Furthermore, the government also altered the fiscal rules applied to the municipalities. First, the rules now apply to the whole “municipal enterprise”, taking into account the companies that the municipalities own or have liabilities with. Second, the joint municipal authorities are now regulated by the fiscal rules just like municipalities. Third, the requirement to balance budget within four years is now binding. Fourth, the criterias for “crisis municipality” procedure were altered. If a “crisis municipality” fails to comply with the recommendations of the external committee, there is a possibility of forced merger at the end of the process.<sup>3</sup>

### 3.1.2 Plans to reduce the municipal tasks and ease regulatory burden

As was described in section 2, there are presently over 500 municipal tasks that are regulated with nearly 1000 norms, most of which have a legal status. The present government has started programmes that aim to reduce the number of municipal tasks as well as to ease the regulation concerning municipal tasks. These programmes are still at early phase, so this section gives just a brief overview of the situation. The aim however is to identify norms that are not necessary or acts as a barrier for efficiency improvement. So far, the only database that can be used for this kind of work is the Ministry of Finance questionnaire that was sent to line ministries in 2013, asking several questions about the tasks and norms/regulations concerning the tasks. At the moment, there is another ongoing questionnaire that has been sent to municipalities, asking the municipal decision-makers’ view on the present tasks and regulation.

For the moment, the only available data is the Ministry of Finance report and the data collected for preparing it. Using a simple approach to classify the tasks into four groups, we can have an idea of the present state of the normative regulation: a) services with spillover effects, b) local public goods, c) services with redistributive effect, and d) private goods.

At the moment we have done a preliminary classification for the 167 social and health services that are listed in the database. We can see that over one half of the tasks have some spillover effects, only nine tasks can be categorized as local public goods and thirteen tasks have been classified as having redistributive effects. There are no services in this group that have been categorized as private goods. In addition, there are quite a few tasks that we have not yet been able to classify. Using this approach, one could immediately say that the nine local public goods could be removed from the regulation because these can be decided solely by the municipal councils. For the rest, more work needs to be done, because with redistributive tasks and tasks with spillovers, we may need at least some regulation to meet the targets set on the services.

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<sup>3</sup> It is still unclear whether failure to follow the recommendations/programme of the external experts will be enough to trigger the forced merger. The law says that if the municipality is clearly not economically viable so that it is unable to provide services to its residents, it can be forced to merge. This decision would not be made by a single ministry but by the cabinet that is led by the prime minister.

**Table 2**                    **Municipal tasks that are regulated by Ministry of Health and Social Affairs (n=167)**

	Number of tasks	Share, %
Services with spillover effects	91	54.49
Local public goods	9	5.39
Redistributive services	13	7.78
Private goods	0	0.00
Unclear (at the moment)	54	16.77

Another way to look at the material is to classify the norms. Using the data concerning the regulation on municipal social and health services, we see that the bulk of regulation is difficult to categorize in any specific category that we have created so far. The biggest groups of norms are targeted at cooperation with other officials, reporting, planning and staff qualifications.

**Table 3**                    **The norms/regulations under responsibility Ministry of Health and Social Affairs (n=525)**

	Ministry of Health and Social Affairs regulation	
	Number of norms	Share, %
a) Number of employees	5	1 %
b) Group size (of service users)	4	1 %
c) Staff qualifications	34	6 %
d) Staff education structure	5	1 %
e) Availability of the service within time limit	18	3 %
f) Obligation of plan making	35	7 %
g) Obligation to cooperate with customers	26	5 %
g) Obligation to cooperate with other officials	50	10 %
i) Obligation to reporting	37	7 %
<u>j) Other</u>	<u>311</u>	<u>59 %</u>
Total	525	100 %

## 4 Summary and discussion

This paper has described the recent developments in fiscal and normative regulation of Finnish subnational government. There is a clear policy to increase fiscal rules and to loosen the normative regulation. It is yet too early to conclude what this means to decentralization in Finland. Local self-government is valued highly in Finland, but the increasing need to coordinate the public finances as a whole may diminish the role of local decision-making. If this development will reduce interest and participation of people in local affairs, it will surely be a defeat for not just local autonomy but the Finnish society in general.

On the other hand, the ongoing reform of social and health services may ease the pressure of the municipalities and preserve the functioning of local democracy. Also the programmes that aim to reduce the overly regulation of municipal services are promising. Of course, as in many other cases “the devil is in detail”, as there seem to be no mechanical or formal way to alter the amount of regulation in public sector. Cutting “red tape” should be based on careful analysis that considers both costs and benefits of regulation. This is no easy task, but one that is surely worthwhile trying.

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