

Public Sector and Economic Recession – Finnish Experiences

Heikki Joustie

19.08.2009

Flying High

- Favourable economic situation during the late 80's both in private and public sectors
- Massive political support for public sector reforms: Government strategy decision 1988
- Reform activities were piloted and implementation of large-scale reforms started gradually towards the beginning of the 90's

Dark Clouds Emerging

- The liberalisation of the fiscal market caused severe threats by exploding private sector foreign debt
- Domestic costs raised unexpectedly, forming a huge bubble in the house prices – financed merely with foreign currency loans taken by private people
- Private banking sector competed furiously taking not care of proper securities

The Crash

- In September 1991 the most undoubtedly risk taking bank was "nationalised" by The Bank of Finland
- The whole banking sector was in severe problems, so were their customers as well
- The Soviet Union collapsed and caused a rapid chain of bankruptcies in the Finnish retail businesses and severe problems in metal and forestry businesses
- The open unemployment raised rapidly

The Public Sector in a Mess

- State finances were rapidly in a chaotic situation because of dramatically diminishing tax revenues
- Minister of Finance travelled round the globe trying to borrow as much as possible
- The State of Finland was unknown in fiscal market – being a country almost without any foreign loan before the crash
- The "Market" asked for signs of powerful efforts to manage the problems – cuts and savings in public budgets

Impacts to the Public Sector Reform Strategy

- The strategy adopted in 1988 was followed as such by
 - decentralisation of decision making powers towards the front line managers
 - lump sum budgets with heavy output orientation – management by results
 - abolishing of detailed regulation en masse
 - government agencies with chargeable services were moved to the market circumstances as Public Enterprises

Influences to the State Budget

- Cuts in social sector transfers – the biggest items in the budget
- The brand new lump sums of running costs for Government Agencies were cut by ~8% in 1992
- This line was followed in the two following years by smaller cuts until the recovery signalled itself
- Statistics showed a clear productivity rise

Impacts on the Public Service Delivery

- Certain social benefits were effectively lowered and these cuts have to a large extent prevailed until today
- Services produced by Government Agencies kept the former standard of action despite the cuts and even slightly improved their quality, mainly because of management reforms giving far-reaching authority of practical arrangements to the frontline

Years of Recovery

- During the first years of recovery many members of Parliament wanted to go back towards input oriented budgetary decisions, but "achievements" of the recession have proved to be lasting
- We have realised that the recession appeared to be a "booster" in implementing reforms
- We made a leap in the productivity of the public service delivery

Impact on the Society as a Whole

- High prevailing unemployment caused by bankruptcies and big changes in the structures of the Finnish economy
- The risk of a lost generation evident since that
- Burdens of "lifelong" debts for private loantakers and those who went on giving securities for loans - "wounded souls dilemma"
- Market orientation and competitive forms of action emerged to the public service production – "neoliberalism"

Differencies to Today

- Early 90s: recession was geographically limited unlike the present one
- There was a certain amount of global demand for Finnish investment type products – the challenge was to find new customers to replace the disappeared ones
- The emergence and growth of electricity-information-technology solved efficiently Finnish problems as well

How About Tomorrow

- The domestic fiscal market drew a lesson from the events 20 years ago and is now in a reasonably good shape - for the time being
- Unemployment is increasing and the globally very low demand keeps it rising
- Finnish business economy is waiting for positive signs abroad, can not do much itself

Huge Problems for Public Sector

- Tax revenues have dropped dramatically
- This will hit most badly the municipal sector
- Main part of the Finnish welfare society is in the risk zone
- Public debt is rising because of the poor revenues and different vitalization actions - luckily enough Finland is today a well-known borrower on the international fiscal market
- Savings and cuts will emerge in all public budgets for 2010

Public Management Development

- Action programme for enhanced productivity will have a new impetus
- Reasoning behind the program might have a higher stress towards the sustainability of public finances instead of being more based on threatening lack of labour force
- Gaining productivity in public service delivery needs investments to the new technology - the money might be scarce

Towards Elections in 2011

- The new Government is supposed to find the final remedies to this disease. It is difficult to forecast but the following items might be tabled:
 - mergers of municipalities
 - more efficiency and flexibility by contracting out
 - raise in taxation
 - more selfservice in the internet
 - intensified work enhancing the productivity – specifically in the municipalities
 - ugly discussions on public pension schemes and levels

Size of Government

- Highest ever number of employees in the State Administration – **215.000** at the end of 1991
- After Public Enterprise approach – **125.000** during the late nineties
- University reform 2010, cuts of one fourth – **90.000**
- Target of the productivity program 2015 – **~75.000**