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CHANGES IN THE REGULATION OF PUBLIC SOCIAL-SERVICE INSTITUTIONS AS A CONDITION FOR PRIVATE PROVISION OF SOCIAL SERVICES

ABSTRACT

The article deals with the view that public social-service institutions are a barrier to the major development of the provision of private social services in Slovenia. In addition to the public service for which they were intended and created by the state or municipality, they also carry out services in the private sector, in the same way as commercial companies and private non-profit organisations. The regulation of ownership, governance and financial structure of public social-service institutions do not sufficiently take this fact into account, which places these institutions in an unequal position when compared with other providers of social services. They are negatively discriminated with regard to their ownership and governance structures, while their financial structure remains, as a rule, in a privileged position. Such regulation of public institutions impedes the development of the private sector. Furthermore, the vague definition of public services and improper regulations place too heavy a burden on public finances. The author suggests a change in the regulation of public institutions and, consequently, also a change of the role of the state. There will be three models drawn up for providers of social services: state institutions exclusively bound to public services, public and private providers having a concession, and public institutions providing public services, as well as services on the market.

Keywords: public social-service institution, pluralisation, privatisation, public service, state regulation, private profit/non-profit

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Introduction

At the beginning of the nineties the Government of the Republic of Slovenia began restructuring the system of the social services provision:¹ old statutory forms of organisations from the former regime were transformed into public institutions, social property into property of the founder (mostly the state), public financing was changed and there was a shift towards greater market influence.

Subject to the limitations defined in special laws, public social services can be provided by any organisation or private person, regardless of their form of legal organisation. These are: private persons, private or public companies, institutions, institutes and associations. All of them may also provide public social services² if they obtain a concession from the state or municipality, unless the law specifically stipulates that the public social service cannot be provided on the basis of a concession or that the public social service or even the activity itself cannot be carried out in one of the forms of legal organisation.

Social services are mostly carried out in public institutions, both on the level of public services as well as on the market level. At the beginning of 1996 social services were provided by 9,390 operators; 1,420 of these were public institutions, 1,689 were companies, and 6,381 were other entities. At first glance, this may seem to be quite a diverse composition and may lead to the conclusion that a high level of privatisation has been achieved in the area of social services provision and that the immediate role of the state in providing services is relatively small. However, data on the number of employees (12,728 in companies and 93,576 in institutions) and data on the total annual turnover, broken down according to individual types of providers (companies 19 per cent and institutions 81 per cent), show that the proportion of the private sector is relatively small and that public institutions are the predominant and by far the most important framework for providing social services. The Strategy for Economic Development (1995) reveals that this will remain unchanged in the future. A continuation in this direction will influence the pluralisation and the formation of a social services market, as well as privatisation, state regulation and public finances.

The principle of pluralisation and inclusion of the private sector in the provision of social services is envisaged in every piece of recent Slovene legislation. Pluralisation refers to public services and to the provision of non-public services. A public service includes co-operation among various providers in providing clear and unambiguously defined services or programmes in terms of their content, quality, scope and price. Provision of non-public services, on the other hand, means diversity among the services provided (the scope and the type of services are not defined in advance). Individual providers respond to the specific needs of users, and therefore the market. Two questions are of fundamental importance here.

Firstly, to what extent does the state wish and thereby also take the risk to include the private sector in the provision of a public service (quasi-privatisation)? Secondly, to what extent does it wish to encourage private service providers who supplement or upgrade the public service and also exceed it in terms of type, scope and quality? The

connection between public services which should be provided by the state and non-public services is very important.

On average, the network of public social-service institutions meets the needs of public services, although currently valid standards show that certain public institutions are lacking in capacity while others have an abundance of it. There is enough room to include the private sector in the provision of public services insofar as it supplements the lack of capacity in the existing public institutions in specific areas and insofar as the state assesses that it would be useful to transform the property of public institutions into private property.

Public social-service institutions in Slovenia differ from state hospitals, schools, institutes or museums in certain western European nations. An important difference lies in the fact that these are not typical state institutions since they have legal subjectivity, and, in addition to performing the public service for which they were established by the state or municipality, they also perform services for the market, the same as commercial companies and other private non-profit organisations. Thus they compete with the private sector and due to a limited payment-worthy demand hinder its development. This poses the question of to what extent the pluralisation and privatisation of the provision of public social services is possible with a view to the present network of public social-service institutions.

The basic contradiction in the design of public social-service institutions

My presentation of the basic contradiction entailed in public social-service institutions will be based on the “welfare triangle” (Pestoff 1996) which shows three basic social dimensions typical of state welfare: public - private, profit - no-profit, formal - informal.

In the attempt to define the position of the public social-service institution within this triangle, I came to the conclusion that this institution incorporates certain contradictions: state and market, public and private, profit and non-profit. All these contradictions derive from the institutional arrangement of the public social-service institution which divides its activity into public service and other (market) activities. This should also be the basis for dividing the assets managed by the institution, i.e. into public (state) and non-public (pertaining to the institution or corporation) assets. However, regulation, both internal and external, does not follow this duality. As a rule, the bureaucratic regulation of the state refers to the activity of the entire institution and hinders market regulation, which should contribute to the production of market goods.

The state is the founder of the institution, the main regulator of its activity, the owner of the majority of its property and the financing authority of the public service. It brings bureaucratic governance and a model of operation into the institution. The following are typical of such an institution: state-planned regulations; a restricted freedom of financial and personnel policy; a relatively small influence of the public and the

employees of the institution on the design of public programmes; programmes of a universal nature; the relatively minor response of the institution to the needs and wishes of its users; and a state allocation of funds. Programmes of a universal nature which are the object of the public service are defined by the Parliament and the Government. Due to current funding which primarily depends on public financial sources, the institution does not generally link production of public services to their price which is, as a rule, also defined by the Government.

In the other part of its activity, which is quite extensive in certain institutions, the institution uses a pure market model. It produces and sells services for which users are willing to pay and which usually do not fall within the scope of a public service. For this purpose the institution needs to develop a good marketing system; in non-profit organisations this begins with the analysis of target population groups and identifying their individual needs, to which the institution adapts its selective programmes offered on the market. It ends with an evaluation of the level of user satisfaction with the services or programmes. Here, the institution must be aware that demand is linked to the price of services. Most often, the circle of users is defined by the price of services, in that price eliminates those who are not able to pay. This brings the public social-service institution into contradiction with the legal provision which stipulates that it can perform functions which are not defined as a public service if such functions are provided in the manner and under the conditions which apply to a public service (Law on Social Institutions 1991: Art. 3).

In performing its market functions the institution is faced with competition from other service providers, but since the private sector is still undeveloped it does not have to fear competition. In my opinion, the rich (extensive) programmes of public services and a payment-worthy demand are much greater obstacles. Within its marketed activity the institution uses a market model and therefore is beginning to act according to rules which are applied by profit-seeking providers. However, the institution is not a profit-seeking organisation and this is the point at which most misunderstandings with the founder occur, since it is the founder who decides how the surplus income (the profit) is to be used. This is contrary to the market or profit-seeking model.

In a certain way, public social-service institutions can be defined as a mixture of state administration and private organisation. The state (founder) and the institution share their roles in the implementation of all three aspects of the right to ownership:

- *Ius disponendi*; the state has constitutional authorities, the right to allocate immovable assets, it appoints the management personnel (or gives consent to its appointment), and plays the role of the main regulator; the institution has the right to allocate all the assets apart from immovable property, it appoints the management personnel in cases when the functions of the business manager and the expert manager are merged into one (with the founder's consent), and it can constitute new institutions or enterprises (with the founder's consent).
- *Ius fruendi*; the state as the financing authority of the public service allocates resources for the operation of the public-service network, and the institution determines the distribution of the profit (with the founder's consent).

- *Ius utendi*; the responsibility for business policy management and the risk of successful operation of the institution are distributed between the founder and the institution. The resources are optimised within the frameworks determined outside the institution (public service programmes, standards and norms), but it is up to the institution to choose the best possible way of providing services.

These limitations prevent the institution from acting as an independent market operator. To keep the institutions in this role means to retain the state monopoly over the provision of social services, which hinders the development of a pure private sector.

Public institutions as an obstacle to the development of the private sector

The first obstacle to the development of the quasi-private sector is the regulation of provision of activities, or rather conditions for financing the activities of the public service. Although all areas of social services allow for the production of public services by means of concessions granted to the private sector, the present regulation protects public social-service institutions. An example of this is health care, where a gradual inclusion of private entities into the public sector is ensured: a concession for basic health care activities is granted to the number of physicians equal to the number of those leaving the public sector. By doing this, the state tries to preserve the unity of a health care centre, which means that primarily private entities must lease the free capacities of the health care centre. The sphere of education guarantees the protection of public social-service institutions by means of the financing system (except in the transitional period), which is less favourable to private entities than to public institutions. A cap on school fees and parent contributions to pre-school childcare are also prescribed. A private provider cannot obtain public funds if the enrolment of a child into a private school threatens the overall enrolment of the only state school in the same school district. The legislation in scientific, cultural and social care areas is not furnished with such brake mechanisms. No activity comprising implementation regulations and national programmes defines the combination of the quasi-private sector (concession holders) and the public institutions in providing public social services, nor are there set criteria which would enable the inclusion of the private sector in the public-service network. The inclusion of the private sector in the public network is left to the annual planning of activities and their financing, and this is not a satisfactory base for the desired long-term development of the private sector.

The second obstacle to a greater and faster development of the quasi-private sector comes from the method of financing investments for the public-service network. The state only guarantees investments in the public sector, leaving the investments in the private sector entirely to the private persons, and disregards this fact in the formation of prices for public service. In this way it places the private providers in a less favourable position in comparison with the public institutions, which can be seen especially in those institutions which require more capital.

The third obstacle is the fact that public social-service institutions can provide both public services and other functions. Comparing the private provider and the public institution requires a separate assessment of the public services and of the other functions. The public institution carries out public services with resources allocated by the founder. The portion of the resources not provided by the founder is small. The founder provides resources for the capital investments of the institution (investments into fixed assets), and, in addition, it provides resources for current maintenance and investment maintenance (depreciation) through the set price. The private provider of the public service (the concession holder) must see to his investments alone, and the costs for these investments are not calculated into the price paid by the financing authority. The concession holder is awarded the same amount of substantial costs as the public institution. The fact that the concession holder often rents the premises of the public institution (health care institutions) does not increase the amount of recognised substantial costs. The price for the service is the same for both the public institution and the private provider of social services; although everything else is equal, the production price is different since in the case of the public institution its founder absorbs an immediate portion of the costs. Private schools are guaranteed a maximum of 85 per cent of the resources allocated to the institution. In order for the concession holder to provide a public service, he must increase his efficiency and effectiveness and thus cover the loss of uncovered costs or attract some other non-public resources. If one assumes that the personnel norms and other standards set by the state are appropriate, the possibility of increased effectiveness remains a significant issue.

Furthermore, how are other (non-public) services financed in the case of a public institution and in the case of a private provider of social services? The institution cannot draw a distinction in terms of how time, space, equipment, personnel and costs are distributed between the two functions (public and private) it performs. The private activities of the institution are always performed on the same premises provided by the founder, with the same technical equipment which, to a great extent, has also been provided by the founder through public funds. Also, these activities are performed by the same workers who perform the public service. The price for the service offered to the market by the institution will have to include labour costs and material costs, whereas all other costs are already covered by the founder under his financing of the public institution. This enables the public institution to offer services at a lower price or to also calculate the investment and depreciation costs and guarantee a surplus of income over expenditures (profit). On the other side, the private person has to provide for fixed assets and their maintenance by himself, which forces him to include these elements in the price for the service. All other aspects are equal, including effectiveness and efficiency, but his price is higher than the price of the institution. The private person can compete only in regard to quality and better programmes or services - but not in price.

The next issue is linked to the risks related to successful business operation. In accessing the market, the institution and the concession holder are faced with the risks related to successful business operation. The private person bears the risk entirely on his own, whereas in the case of an institution the risk is, as a rule, distributed between

the founder and the institution. This means that in the face of an unsuccessful business operation the private person will be forced to cease carrying out his function, but the institution will be able to improve his situation with the help of the founder and the resources from public finances.

On the basis of what has been stated above one can draw the conclusion that the state, as the main regulator, should provide equal operating conditions for public institutions and for the private sector - both in the provision of a public service and in the performance of some other activities - if it wishes to develop the private sector in the field of social services. This can be achieved by fixing appropriate prices for public services, especially for institutions and concession holders, and by introducing an appropriate accounting system in institutions which will ensure that "the price for using state capital" is paid for those activities which are not included in the scope of a public service.

New forms of regulating public institutions

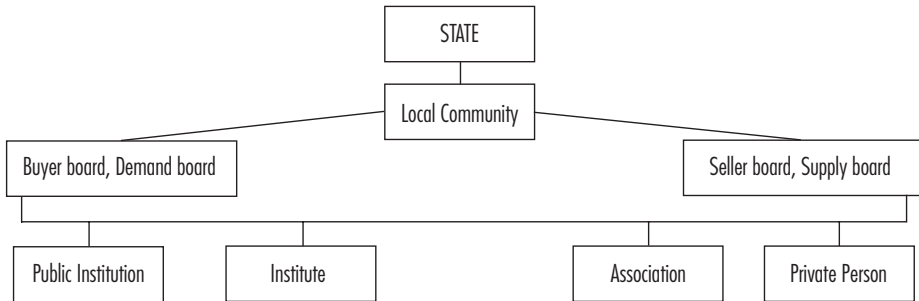
The public institution is a statutory form of organisation which replaced the former organisations within the old socialist system. The basis for this arrangement was the so-called "free exchange of labour" between the providers and users of social services through the so-called "self-managing communities". This arrangement was an attempt at a decentralised regulation and not at an administrative one. As we shall see, certain suggestions for the regulation of public institutions and other entities providing social services based on market logic largely resemble the former system of self-management. The analysis of public institutions, i.e. institutions which are partly or entirely owned by the state or the local community, is also beginning to use the principal-agent approach (the agent being the provider and the principal being the owner or founder), the one which is used to analyse the private sector or private companies.

When public institutions are part of the state administration, they are run by ministries; the employees have the status of public officials, the financing and fixing of prices is in the hands of the ministries and there is no principal-agent relationship. This relationship is, however, present in legal entities (institutions) which were founded by the state or by the local community. In such cases, a conflict of interests arises on two levels; firstly, between the founder and the management of the institution; and secondly, between the management and the workers. It is wrong to talk about a uniform or single interest of the public institution, and it is also wrong to regard public interest as a force for motivating the operation of the public institution, because the public institution is a cross-section of many interests: selfish and altruistic, individual and collective, and public. The two forms of the public institution also represent two management schemes. The transition from one status to the other can be understood as a change in regulation during the process of transition, notably from the state, centralised, planned and administrative to the decentralised, liberal, market or managerial. The latter form of regulation can also be called internal privatisation as opposed to external privatisation,

which places the activities in the hands of the private sector (Lane 1995), as it introduces market principles and management procedures into the operation of the institution. Lane (1995) also states that reform tendencies in restructuring state welfare are oriented towards decentralisation and internal privatisation: planning makes way for evaluation, budgeting items for implementing budgets, and administration for goal-setting. Specific rules are being omitted and a legislative channelling is being introduced which sets out frameworks. Discretion rights are used instead of control, and authority is replaced by exchange through competitive contracts. At the same time the division of roles between the state and local communities becomes clear. The state maintains an important role in large transfer programmes, and the local community takes over numerous allocation tasks. The most interesting thing, however, is a typical form of internal privatisation, i.e. a supply and demand model, and the introduction of internal markets (Lane 1995). The demand is created when the representative body transfers resources to its management board, and these resources can be used for purchasing services based on competitive contracts, regardless of who provides the services. The supply is constituted by the private sector employees organised in appropriate service units which compete among themselves for the contracts. In principle, this type of model can be regarded as a version of the voucher model where the voucher-holders choose the suppliers according to their competitive conditions. The background of this forms is, of course, based on the unrealistic assumption that both supply and demand are flexible, meaning that users and providers adjust the price to supply and demand, and that none of them have any influence on price.

This example offers some instructions on how to look for solutions. The first relates to the decision on the amount of resources, and the second to their most economical use. The first instruction, i.e. the amount of resources, is almost physically conditioned by the composition of the population and the economic power. The second instruction relates to competition, as it does not guarantee demand to any supplier in advance, and foresees elimination as the selection mechanism. The problem is of course linked to the fact that not every social service has a wide range of suppliers and that certain social services require a non-competitive concentration of providers (for example the number of universities or clinical hospitals in a small country). This shows that the conflict of interest between the founder and the institution cannot be eliminated in real life. It is only possible to alleviate it to a certain point. This alleviation, however, includes the abolition of the administrative regulation of the state and a shift towards a consensual market decision-making process for determining the amount of resources for social services and for the extent of the supply of these services by providers. Below is the summary of the case based on Lane (1995: 158).

Chart 1
Basic Model of Internal Markets



The adaptation of Lane's case shows the transformation of administrative and bureaucratic structures into the model of internal markets, or the so-called supply and demand model. The demand is represented by the representative board of users who represent the interests of users and form the desired programmes or services within the limits of the public finance resources allocated by the state in order to meet such needs. At a given moment the state will conclude contracts for the provision of these services with all the chosen providers competing in the tender. The supply is represented by the representative board of providers which is prepared to act in support of the provider. As it can be seen in the model, representative boards are formed between the state and the local community, and these boards embody the interests of both users and providers.

In my opinion, a solution for Slovenia can be sought for in two directions. The first is in the partial privatisation of the state property in public social-service institutions, which means introducing mixed (public/private) ownership. The second is in the establishment of several types of public institutions with clearly defined roles of the founder, the market and the experts. The institutions would be more autonomous, as has been the case so far, and at the same time they would also be responsible for the implementation of programmes, their quality and accessibility, and for their own financial success. The role of the state would be to regulate and to control.

Possible directions for the development of public institutions

The privatisation of social services will primarily depend on the hierarchy of objectives to be developed through this process. The objective of privatisation in the sphere of social activities is not only to enforce the private sector at the expense of the state sector and to replace state regulation with market regulation; the objectives are, in fact, much more diverse and include at least the following four dimensions:

- more effective spending of resources,
- better mobilisation of resources available,

- more freedom of choice for users and
- higher independence of individuals from the state (Rus 1993).

The speed and the level of privatisation will primarily depend on which of the objectives mentioned above will be defined as the first priority.

Economists claim that in order to increase the efficiency and effectiveness of social activities it is not enough or is not even necessary to change the ownership arrangements (Jackson, Price 1996). It is much more important to increase market competition and state control. Some sociologists suggest instead of privatisation even a revitalisation of public services, which ought to comply with the following aims:

- "greater accountability to consumers and to politicians,
- decentralisation of decision-making to the lowest levels,
- empowerment of direct providers of services,
- evaluations of outcomes where high skills are needed" (Rus 1996: 18).

Privatisation is not only carried out by transferring state property into private hands, i.e. by disinvesting the state, but also in different forms and with a different degree of intensity, notably from concealed forms of privatisation which occur with government deregulation to quasi-privatisation, which includes a partial transfer of property rights to private persons, and to full privatisation which includes transferring all governance rights and rights of allocation to private persons (Rus 1993). Three possible organisational models for providers of social activities are presented below which also imply different institutional forms of public institutions where different types and levels of negative privatisation will be implemented. The models of providers as well as the type of institution will depend primarily on the criteria for the implementation of positive privatisation.

Since the present models of social-service providers consist mostly of public institutions, which are adequately covering a large proportion of the social needs of the population,³ it is extremely important to reduce the scope of services and programmes offered by public institutions in order to allow the emergence of other providers of social services. This does not mean a reduction in the scope of public service but a reduction in the technical and personnel capacities of public institutions, which is only possible through disinvestment. In order to transfer the provision of part of activities to other organisations in the private sector, at least a partial transfer of property into the private sector is needed from the state, otherwise the public sector will be faced with over-capacity. An increased participation of the private sector in the provision of social services would soon be confronted with a limited payment-worthy demand, regardless of the desire for individual freedom in meeting social needs. The social services market is much more captive when compared to the commodities market, and at the same time differences in the purchasing power among the Slovene population are growing larger. All of this limits the extent of a payment-worthy demand for social services.

It could be left to the market to determine the size of both sectors, but this is not entirely possible due to the obligations of the state with respect to public institutions. Since the state and a public institution share the responsibility for the operation of the institution, the extent of the public sector or its privatisation needs to be planned.

I have drawn up three models for providers of social services which depend on the criteria for positive privatisation and on the level of negative privatisation of public service providers.

The first model includes public service as a criterion for privatisation. Public institutions should be limited exclusively to public services and - for the purpose of this paper - be called state institutions.

The second model allows for the possibility that public services are carried out in the public (state) and private sectors, but with a certain restriction in the awarding of concessions, which is not envisaged by the current legislation. Presently, the concession may only be awarded to a non-profit organisation (private individuals, institutions, associations, foundations). Furthermore, I propose another restriction which relates to the type of programmes or services produced by public institutions; a public institution can produce only programmes or services which are public services or above-standard or expanded public programmes, but it cannot produce other services and programmes which are available to the user under market principles.

The third model is the same as the one we have at present and which allows providers to carry out public services and non-public (market) programmes, regardless of whether they have been founded by the state or by a private entity, regardless of their ownership arrangements and regardless of whether they are a profit or a non-profit organisation. In such a case privatisation criteria are not clearly set. Chart 2 shows all three models for providers of social services.

The first model presupposes the privatisation of the entire state property not used by public institutions in the provision of public services and it also presupposes that private sector interests are not a barrier to privatisation. The result of this restructuring will be a number of different organisational forms, both profit and non-profit, which will increase the supply of goods beyond the scope and type provided by the public service, and the provision of the public service will be left exclusively to public institutions, called state institutions. The present public institutions would thus be divided into those carrying out public services and those selling their services on the market. The former would remain in the domain of the state, the latter would be privatised. This implies a clear distribution of the market and of the tasks between both groups of providers which do not compete with each other, but rather complement each other, also in terms of co-operation.

The division and the privatisation of the institutions require a clear distinction between the public service and the other activities of an institution, in other words between public and non-public programmes and public and non-public property, which is not a characteristic of our present system. Some theoreticians speak in favour of maintaining distinct lines between public and private, others argue that these lines must be blurred. My point of departure shall be the standpoint of T. Clark (1994). He is in favour of a clear differentiation between public and private, and supports this with the argument that the public service has a different type of responsibility towards the user. Public services provide the population with what is deemed as urgently necessary by social contract. The market mechanism in public service is replaced by a mutual

obligation of the state and of the population where the state provides services and the population pays taxes and contributions. According to Rus (1996) there are no natural rules regarding the division of goods into public and non-public, but there is a changing distinction determined by outside regulation. Setting the appropriate distinction prevents privatisation from diminishing the level of social protection.

Chart 2
A Possible Composition of Providers of Social Services After Restructuring the Property of Public Institutions

PUBLIC INSTITUTION						
Privatisation consistently takes into account public service criteria		Privatisation takes into account the public-service network consisting of the public and private sectors			Privatisation does not observe any clearly set criteria	
STATE INSTITUTION	NON-PROFIT AND PROFIT ORG.	STATE INSTITUTION	NON-PROFIT ORG. WITH A CONCESSION	PROFIT AND NON-PROFIT ORG.	PUBLIC INSTITUTION mixed property	PROFIT AND NON-PROFIT ORG.
Public service	Non-public programmes and services	Public service and expanded public service programmes	Public service and non-public programmes	Non-public programmes and services	Public service and non-public programmes	Public service and non-public programmes
Both types of providers complement each other, state institutions and private organisations co-operate in the provision of above-standard programmes.		State institutions and concession-holders complement each other. Other organisations complement state institutions, therefore there is no competition between them. There is, however, competition between concession holders and the pure private sector.			State institutions and profit and non-profit organisations are in competition, regardless of the type of service they provide.	

The advantages of such privatisation would be a clear distinction between the responsibilities of the state and those of the taxpayers on one hand, and the freedom of individuals and the market mechanism on the other. The public sector would be state regulated, whereas the private sector would be regulated entirely by the market. The private sector could establish unlimited competition between various providers, thus increasing the quality, reducing the price of services, and increasing the influence of users.

The state should accelerate the development of private non-profit organisations (the third sector) by means of fiscal legislation, liberalisation of prices for services, state grants and other incentives. This sector would thus be an equal partner to profit organisations and through its influence prevent windfall profits.

The current objections to privatisation by means of constantly dividing public institutions into public and non-public services are based on the argument that, without such a division, institutions could take better advantage of their expert and technical

capacities and allow the users to meet all their needs in one place, even when these needs are highly individual. Another objection lies in the fact that the spreading of an institution's activities to market activities brings entrepreneurial spirit and competitiveness into the institution concerned. Even in cases of clear division there is no obstacle to the users not meeting the majority of their needs in one place, since the public institution or the state can establish contractual relationships with private providers and thus fulfil additional needs of users - of course at the expense of private resources. The institution can rent out "free capacities" to the private sector and obtain additional income for the production of its basic activity and reduce public service costs. By means of decentralisation and liberalisation processes and by clearly dividing public and non-public services it is possible to guarantee a more business-like type of behaviour for the institution. This would, however, require a different definition of property relationships and the accompanying managerial relationships between the state and the state institution.

The second model falls somewhere between extreme privatisation and the restrictions of privatisation, which is the existing model. The public service should be regarded as a criterion for the restructuring of property, notably by allowing the institution to carry out expanded or additional public service programmes under its own administration. At the same time market competition is introduced into the public sector by depriving the institutions of their monopoly over the provision of public programmes, which could also be carried out by private concession holders. Such a possibility is envisaged by the present legislation; however, concession holders are entering the public-service network uncontrollably and in a manner which varies from one areas to another - yet always in a restricted way⁴ and without clearly set rules. The development of the quasi-private sector represents a problem in those areas where the public-service network is big enough or even too big and public service with concession holders can be developed only by disinvesting institutions and by encouraging public service employees to opt for the private provision of activities. On the other hand, in those areas where the capacities of the existing public-service network are not sufficient, there are public financial restrictions which hinder faster growth of the public network and thus also the inclusion of the private sector into this network.

The composition of providers in the second model will be as follows:

- state institutions which can carry out public services, supplementary and expanded programmes;
- non-profit private organisations which can carry out activities with no restrictions, provided that they carry out public service on the basis of a concession;
- profit organisations which carry out all other types of activities except public services.

The model entails competition between the public and private sectors in the provision of public services, supplementary and expanded programmes. The state can use state institutions as providers of public services and private organisations as their replacement. The competition for the provision of other services and programmes is formed between the providers in the private sector. Of prime importance for this model is the type of arrangement in terms of property and managerial relations in public institu-

tions. It is not economical for the state to set up public institutions, invest capital in them, take over the risks for their operation, and at the same time entrust the provision of public services to another (private) provider through public tenders.

The third model means a continuation of the current situation in which there is no division of labour between public institutions and profit and non-profit organisations in the provision of public services. Everybody is free to carry out public services, expanded or supplementary programmes or pure market programmes. In such a model, privatisation in terms of transfer of ownership from the state to private hands will depend on the interest of the private sector in taking over from the state all of its property or just part of it, and on the state's interest in disinvesting or maintaining the state monopoly over the provision of social services. Each area of social services will have to develop its own rules which could also be expressed in the desired ratio between the public and private sector in the provision of social services in and outside public service. The proportion of public service within the entire range of activities of an institution could be used as a criterion for privatisation. Public institutions which, to a great extent, already produce market activities and whose share of public service is rather small could be entirely privatised. Public institution capacities would have to be reduced in certain types of activities and at the same time the current status and functional position of the public institutions would have to be changed. The state would have to depart entirely from the bureaucratic and authoritarian governance, the allocation of resources would have to be decentralised and ownership relations newly defined. Public institutions require changes in internal and external regulation and require liberalisation. The state will have to provide a regulation which on the one hand would protect the user, and on the other allow all providers to enjoy an equal position in the competition for public and non-public funds.

NOTES

1. According to the Law on Social Institutions (1991) these are services in the field of education, child care, sports, health care, social care, culture, science and research.
2. Social services may be performed as public services or as services for the market, which are so-called non-public services. The latter are social services as well, although not provided by the state; they are available under the market conditions. They might be referred to as market services.
3. Almost 30% of the public institution income comes from private sources. A large part of this income are payments for services outside the framework of the public service. In education these services amount to 20%, in research almost 50%, in culture more than 60%, in physical education over 70%, in health care 20% and in social care 50%.
4. In the case of health care and education. In other areas these issues are not yet arranged into a system.

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