



RIKSREVISIONEN  
*The Swedish National Audit Office*

RiR 2008:26 Summary

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Social exclusion and employment policy:  
The Government's presentation

## Summary

Employment policy has been in focus since the present Government took office in the autumn of 2006. Extensive reforms have been carried out to increase labour supply and raise employment rates. The overall aim of the Government's employment policy has been to reduce social exclusion from the labour market. The concept of social exclusion was launched by the new Government and has gained wide currency both in fiscal-policy bills and in public debate.

The Government has also declared an ambition to increase clarity and enhance the quality of the information it submits to the Riksdag (parliament) as a basis for the latter's decisions. The operations of central-government administration are to be 'characterised by transparency, impartiality and integrity'.<sup>1</sup> To attain these objectives, it is important that the Government should present the documentation underpinning assessments of the expected effects of policy in a clear manner. It is also important that the assumptions on which such assessments are based should be described. Open and clear presentation of uncertainties, revisions and methods in fiscal-policy bills will strengthen confidence in assessments.<sup>2</sup>

Further, the targets of employment policy should be specific, measurable and time-bound, in line with the criteria laid down by the Riksdag Committee on Finance and others. In addition, to ensure that the targets will be able to govern policy, they should also be capable of explicit and uniform monitoring and follow-up.

The present audit by *Riksrevisionen* (the Swedish National Audit Office, SNAO) answers the following audit questions:

- Has the Government defined and presented the concept of social social exclusion from the labour market in such a way that it is possible to monitor social exclusion and use it as a target for employment policy?
- Has the Government presented the effects of employment policy on labour supply and on employment rates in a clear manner?

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<sup>1</sup> Government Bill 2006/07, Expenditure Area 2, p. 26.

<sup>2</sup> See SNAO performance-audit report RiR 2006:23.

## The concept of social social exclusion lacks a clear definition

The Riksdag Committee on Finance has stated that ‘budget bills must clearly link targets, outcomes and budgets’ and that ‘the targets of an operation must be well defined, measurable and capable of follow-up in order for management by results to be meaningful’.<sup>3</sup> The Committee on Finance has also noted that ‘general objectives that do not express policy priorities and that cannot be broken down in quantitative terms are not suited as the basis for the exercise of political direction over central-government operations’.<sup>4</sup> International organisations such as the IMF and the OECD have also drawn up guidelines for policy targets. The IMF considers that targets should be ‘well defined, transparent, adequate, consistent, simple, flexible, enforceable and efficient’.<sup>5</sup> These guidelines have subsequently become a standard benchmark in discussions of fiscal-policy rules.<sup>6</sup>

The SNAO’s review of fiscal-policy bills shows that the concept of social exclusion lacks a clear definition. It can be noted that the target set by the Government for employment policy – namely, to reduce social exclusion – does not comply with the requirements that target variables must meet according to the Riksdag Committee on Finance.

Against the background of the requirements imposed on target variables by the Riksdag, through its Committee on Finance, there is a risk that the unclearly defined concept of social exclusion may reduce opportunities for effective direction and follow-up. The use of an unclear target entails that the direction exercised by the Government may give rise to incorrect priorities in employment policy. It is also difficult to follow up an undefined concept in a meaningful way. The SNAO thus considers that there is a need to make the target of employment policy more specific.

The SNAO is aware that the above-mentioned requirements imposed on target variables by the Riksdag Committee on Finance largely relate to the direction that the Government exercises over government agencies, and to budgetary control. However, those requirements should apply to higher-level targets and objectives as well. There are equally strong reasons for clarity in an established conceptual apparatus for the analysis of the design of economic policy in which distinctions are made between final targets, interim targets and indicators. It is easier to take such an approach if the targets are, among other things, measurable and capable of follow-up. The Government itself has stated, for example, that ‘clear targets make it easy for the general public to assess whether the measures taken really help achieve the targets’.<sup>7</sup> It is also the case that, in practice, the concept of social exclusion is used in the Government’s exercise of direction over parts of the operations of the

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<sup>3</sup> Riksdag Committee Report 2000/01:FiU2, Riksdag Written Communication 2000/01:123.

<sup>4</sup> Riksdag Committee Report 2003/04:FiU2, Riksdag Written Communication 2003/04:125.

<sup>5</sup> Kopits and Symansky (1998), *Fiscal policy rules*, IMF Occasional paper 162.

<sup>6</sup> Finanspolitiska rådet [Swedish Fiscal Policy Council] (2008), *Svensk finanspolitik* [‘Swedish fiscal policy’], p. 44.

<sup>7</sup> Government Bill 2006/07:100, p. 36.

Public Employment Service as well as other operations. That concept is therefore in need of operationalisation. This also requires some specification of the concept of social exclusion.

The SNAO finds that the Government should see to it that the concept of social exclusion is made more specific in line with the requirements imposed by the Riksdag and others on target variables. Guidance can also be sought in the criteria established by the IMF and the OECD.

The SNAO's review also shows that the Government's presentation of social exclusion in its fiscal-policy bills is unclear in several respects. For example, it is not always clear whether full-year equivalents or physical persons are being discussed in relation to the estimated total extent of social exclusion. The description given of this concept is therefore easily misunderstood. In some cases, the Government uses an indicator of social exclusion from the labour market. This indicator is not suited to the assessment of the effects of employment policy. For example, it is perfectly possible for social exclusion to be increasing at the same time as employment is increasing. What is more, reduced social exclusion does not have to mean that long-term absence from work has fallen. Specification of the concept of social exclusion should make it possible, in the SNAO's opinion, to improve the presentation.

## **The framework of employment policy needs further development**

The Government has initiated developmental efforts to draw up a framework for employment policy. In this context, it has also begun work with Statistics Sweden to develop indicators of how the labour market functions. The SNAO takes a positive view of these efforts but finds that, as presently designed, they cannot help provide answers to the questions asked as regards where in the labour market there are problems and what measures would be effective when it comes to increasing employment. For example, the existing statistics do not make it possible to evaluate the effects of various measures on the labour market.

## **The presentation of the effects of employment policy can be further improved**

Overall, the SNAO finds that the presentation of the expected effects of the Government's employment policy has improved since the present Government took office but still has shortcomings in several respects. For example, the presentation in the fiscal-policy bills is such that it is not possible to understand how the estimates of the long-term effects of employment policy have been arrived at. The assumptions underlying assessments are very seldom described. What is more, the effects on variables such as the employment rate and the number of hours worked are not always presented for all reforms.

The SNAO's examination of the presentation in the fiscal-policy bills also shows that the assessments of, for example, the effects of the earned income tax credit have undergone relatively large changes between bills. No

comparisons with earlier assessments of the effects of employment policy are made. Nor is any particularly detailed information provided about how changes to estimation models affect the assessment of the effects of the policy pursued. This makes the fiscal-policy bills harder to understand.

To enhance comprehension and make the fiscal-policy bills easier to read, it would be valuable if a uniform system were designed for the presentation of the expected effects of policy. At present, the same information is given in several sections of the fiscal-policy bills. This restricts the transparency of the bills and makes it more difficult to form an overall view of them.

The Government's presentation of the budgetary effects of the reforms is based on static estimates in which no account is taken of the behavioural effects that the reforms are actually intended to bring about. To improve the basis for the Riksdag's decisions, the static estimate of costs should be supplemented with explicit, quantified information about how the main behavioural changes brought about by a reform may influence the balance of the budget.

#### Recommendations

The SNAO's audit shows that the employment-policy target of reducing social exclusion is unclear. The audit further shows that the Government's presentation of the effects of employment policy has improved but still suffers from shortcomings in several respects.

The SNAO therefore recommends that the Government should:

- take the initiative in making the concept of social exclusion more specific, such that it meets the requirements that should be imposed on a target variable in line with the criteria laid down by the Riksdag;
- further improve the presentation of the effects of employment policy;
- further develop the framework of employment policy to ensure that it can be used to evaluate the effects of that policy;
- ensure that cost estimates of employment-policy reforms are supplemented with explicit, quantified information about how the expected behavioural changes will influence costs.