



Sweden

Trends, Recent Developments, “Feeding in” and “Feeding out”

A Study of National Policies

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or the Member States.*

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Summary

The Swedish government started, when they came to power September 2006, a series of reforms that in many respects, especially concerning labour market policy and the overall inclusion policy, represented a brake with former government's policy. Thus, governmental documents prior to September 17, 2006, as for example the NSR on social exclusion and poverty, are basically irrelevant when assessing the implementation of current Swedish policies.

The new government presented an NRP in October 2006 and an update of the NSR in April 2007, and the IRNRP report in September 2007. All of these reports mainly contain presentations of the government's policy – all of them, including the IRNRP, offers very little in terms of assessment of the effects of the policies. A legitimate reason for this is that the time span is too short, there is simply no way to get an overall picture of policies outcomes at this stage.

The Swedish government is using a very clear cut 'feeding in – feeding out' reasoning, refereeing to the Lisbon agenda, when arguing in favour of their policy: social policy changes are designed to contribute to more jobs, growth and a sustainable economic development at the same time as more jobs are argued to facilitate social cohesion. Exclusion is, from the government's point of view, by definition the same thing as not being employed. The government's main goal is therefore to increase the employment rate.

The policy the government pursues can be divided into two main categories. First, strengthening work incentives with the help of both carrots and sticks. Income from work is subjected to lower tax than other types of incomes, including transfers (that generally are taxed in Sweden). On the 'stick side' we find a series of measures that limits replacement rates and accessibility to unemployment insurance, sickness insurance and early retirement. Second, there is also a selective demand side policy exemplified by the so called 'new start job'. The idea is that employers gets a reduction of the payroll tax if they employ a person that has been unemployed for a longer period. Other groups that are covered are the young and immigrants. Hence, this is a policy that specifically target group vulnerable groups.

Educational reforms are also an important area. Here the government pursues a policy that in certain extent can be described as back to basic. In primary school larger efforts should be made giving all children basic skills in reading, writing and mathematics. Marks are to be given earlier (6th grade instead of 8th) and the government also has an ambition to boost teachers' positions (demanding more formal skills and pay them better).

The main weakness in the government's reporting is that almost nothing is said about those who for various reasons cannot find an entrance to the labour market, cannot return to work because of serious health impairment and, those who cannot manage a full time work. These are people that will be affected by the government's retrenchments but have no benefit from job tax reduction. There is an obvious risk that the current policy will lead to increased exclusion and poverty among those who are standing furthest away from the labour market. This problem is a blind spot in both the NRP and the IRNRP.

Assessment of the implementation report

The Swedish Implementation Report of the 2005-8 National Reform Program for Growth and Jobs (IRNRP) gives a broad picture of, first and foremost, the Swedish government's macro economic and labour market policy and to a lesser extent education policy. Thus, what the government has provided is not really an assessment of the National Reform Program for Growth and Jobs (NRP); it is more a follow up of the NRP that describes the policy and to a certain degree replicates what is said in the NRP but without making any thorough attempt to evaluate the policy. It is also the case that both these documents to a large degree summarize what is said in the government's budget proposals. Thus, there are no big differences between the documents, all of them says what the government has done or intend to do within the near future. Much of the policy is also presented in the update of the Sweden's Strategic Report for Social Protection and Social Inclusion 2006-2008 that was delivered in April this year. This can of course be seen as a critical remark but, at the same time, at this stage it is about the only thing the government can do. The NRP was handed over to the Swedish parliament on October 23 last year. The IRNRP was handed over to the parliament on October 18 this year. Most of the described policy measures have been implemented during year 2007 or is planned to be implemented very soon. So, in terms of evaluation the government cannot say much more than that they have implemented the policy measures they promised to implement.

The government is not using the 'feeding in – feeding out' terminology but in both the NRP and IRNRP the government nevertheless use a very clear cut 'feeding in – feeding out' reasoning when arguing in favour of its policy: social policy changes are designed to contribute to more jobs, growth and a sustainable economic development at the same time as more jobs are argued to facilitate social cohesion. However, there is no way to make any thorough empirical investigation in order to find out to what degree these substantial goals actually is achieved. The simple reason is of course that the time span is too short and it is also the case that there are very few available data that covers the period we are interested in.

Feeding out aspects

Promoting social cohesion and economic growth

The line of thought that guides the government's policy and the IRNRP is fairly easy to follow. Not being employed is, from the government's point of view, the same as being excluded. The magnitude of exclusion (utanförskap) therefore equals the share of the adult population up to the age of 65 that are out of work. Hence, it follows that every measure that increase employment automatically decrease exclusion. The Swedish government is not alone making this close link between employment and exclusion; it can for example also be seen in plenty of academic work. It is also reasonable to see employment as the main cure to social exclusion and poverty and a successful labour market policy will most certainly reduce exclusion, i.e., there is, as shown in an abundant mass of academic literature, a feeding out process (given that the policy actually leads to increased employment).

Employment has two essential values that both are "inclusive". First, work has an intrinsic value. Work gives meaning, facilitates social interaction and empowers the individual. Even though the government does not explicitly argue very hard that work add intrinsic values they do argue that being out of work is not only economical but also social detrimental for most people. So, one

argument that are used in the IRNRP to motivate the reforms of the social insurance system (lowering replacement rates, stricter rules for sickness benefits and early retirement, time limit for unemployment insurance etc(see below)) is that these systems sometimes unnecessarily, it is argued, lead to unwanted outcomes and increased exclusion. Hence, the government argues that the previous policies to some degree has had unwanted and in essence negative feeding out consequences.

Having income security systems that makes it possible for individuals to retreat from the labour market more or less permanently will therefore, according to the government, increase exclusion. Important to emphasize is that it is not argued that it only is the individual that act in order to take "advantage" of generous social security systems. The possibility to use, for example early retirement, as a solution to an individual problem can also be seen as the easy way out to employers and the health system – instead of offering cures and rehabilitation exit from the labour market can sometimes be the way to avoid the effort needed to find a solution that leads to a continued labour market participation. However, it is the early retiree that has to deal with the possibly negative effects of such a decision. Ongoing research at the Umeå University also indicates that a fair share of the early retired regret that they accepted retirement as a solution to their problems.

Ensuring adequate income from work

Jobs that are provided also need to offer acceptable working conditions and an acceptable wage. To secure these goals the government continues to rely on collective agreements between employers and trade unions. For example, Sweden has no minimum wage legislation, minimum wages are instead secured via collective bargaining. An important aspect of this system is that the unions in praxis have the ability to enforce collective agreements even though workers in a particular workplace are not members of any union (companies that refuses to sign the agreement can be blockaded by the unions, which effectively means that they will run out of business if they do not comply). The government also makes it clear that they do not intend to change the Swedish labour market legislation regarding security of employment (LAS) (which I think many of their core voters had expected them to do). I do think, but I am not an expert in this field, that LAS in comparisons with the legislation in many countries in central and southern Europe is rather flexible. Employer can for example make agreements with union about sidestepping LAS, which ensure that there is a certain degree of flexibility. But, the main difference between the Swedish system and the Danish **flexicurity** system is that the Swedish system makes it more difficult to fire and therefore, especially for small firms it is argued, also to hire. The government has hitherto showed no intention to implement a more Danish flexicurity system.

The question about minimum wages relates to the issue of in-work poverty, if a substantial share of the poor is working poor, we need to reconsider the traditional view of the relationship between employment and poverty. However, looking at the literature it is hard to distinguish to what degree in-work poverty in EU countries is an effect of low hourly wages or an effect of recurrent unemployment episodes, part time work, unemployment among family members etc. This issue is of great policy importance, since the first option reasonably should lead to a policy that focuses on increased wages among low-wage earners, while the second option ought to lead to a policy focusing on the fight against unemployment, which could possibly be facilitated through lower minimum wages. A recent Swedish study indicates that in-work poverty in Sweden basically is an unemployment problem. People that work full time are very rarely poor, people are poor because they are prevented to work full time (Halleröd & Larsson Forthcoming). Thus, as it looks right now

the government policy is, provided that it actually leads to more jobs, "feeding out", diminishing poverty risks.

Targeting job creation at vulnerable groups

In the IRNRP the government presents its policy aimed at facilitating employment among vulnerable groups. The groups they are talking about are immigrants, the young and long term unemployed and long term recipients of sickness benefit including early retired. The main tool used to achieve this goal is the so called 'new start jobs'. The government is also arguing for an improved rehabilitation back to work for people that because of health reasons have been pushed out from the labour market. (See below for details.)

The focus of the IRNRP, and also in the government's overall policy is on exclusion from the labour market, or to be more correct saying that exclusion is exclusion from the labour market means that most of the attention is directed towards people in the age span 20-64. It would be unfair to say that the government is unconcerned when it comes to children. The government has taken steps to the situation for children in vulnerable situation, for example preventing eviction of families with children, improving the social care chain and, not the least taking step to improve the educational system (see first semester report 2007). However, the way I interpret the main strand of the government's policy when it comes to social exclusion is that children are poor and excluded because their parents are poor and excluded and children are best helped by helping their parents and the way to help parents is to promote employment. Experience from social work also, to some degree, supports this view. Beside the fact that employment usually leads to an improved economic situation it also strengthens parents' authorities and enables them to functioning as positive role models for their children (c.f. Mayer 1997). But, with the exception of education, the situation of children is hardly addressed at all in the IRNRP.

When it comes to elderly people there is in Sweden, as in most other EU countries, an intensive debate about how to postpone exits from the labour market. Sweden has been comparably successful in keeping elderly people in the labour force and in 2006 was 69.6 per cent of the population in the age span 55 to 64 employed, which was the highest figure within the EU (EUROSTAT 2007). There is also an increasing employment rate among those who are above the age of 64. During the first quarter for 2005 were 9.5 per cent of the 65+ population employed a figure that, according to latest available figures from the third quarter of 2007 has increased to 11.3 per cent (Swedish LFS). In the IRNRP the government discusses the necessity of an even further prolongation of working life. Again the medicine is to make work pay. To make it more worthwhile to work and to improve the financial situation of the worst-off pensioners, the rules governing the housing supplement for pensioners will be changed. The change means that everyone who is gainfully employed and eligible for the housing supplement will be allowed to keep a larger share of this supplement when earned income rises. However, people above the age of 65 are, following the definition used by the government, by default not excluded. Another way to put it is to say that in the IRNRP elderly people are excluded from the discussion about exclusion.

Addressing territorial differences and regional gaps

Regional differences are, as mentioned in the IRNRP, relatively small. As also mentioned local differences are more significant. This was something that also was highlighted in the previous report on child poverty (Report No. 1:2007) and there are, especially in the larger municipalities,

very visible spatial segregation also within municipalities. The IRNRP mention that there are some activities going on in order to fight back segregation. However, nothing is said in detail and no new initiatives are presented. Again the government trusts that boosting employment will cure all problems, also spatial segregation, otherwise the IRNRP is silent about this very important matter.

Assessing the impact on social protecting- and fiscal systems

Changes of social insurances and changes of fiscal policy are thoroughly discussed in the IRNRP. The maximum daily benefit from sickness insurance and unemployment insurance are made less generous (the decision taken by the former government of was inhibited). At the same time are eligibility criteria made stricter and time limits for both unemployment insurances and sickness insurances are implemented. At the same time is an 'in-work tax deduction' introduced, which basically means that the tax on income from work is lower compared to other types of incomes, including social insurances. (For details; see below.) The argument put forward is that these changes will increase incentives to work and therefore contribute to higher employment rate, which automatically, due to the government's definition of exclusion, will lead to social inclusion. It is also strongly argued that reforms will lay the foundation for a social policy that is financially sustainable also in the long run. It is especially emphasized that the reforms are necessary in order to cope with the consequences of an ageing population. A larger share of the prime aged population need to work and the 'prime' age needs to be longer.

Education

Educational reforms are also discussed in some length in the IRNRP. School policy is also one of the new government's most prioritized areas. They have decided that students in primary school shall receive marks from grade six, not as now in grade eight. The argument is that it shall be easier to identify and help children who are not meet the learning goals. The crucial point here is of course if there are enough resources and expertise available in the school system to provide adequate support to children who are in need of help to meet their learning goals.

The government also wants to boost teachers' status first by demanding that the municipalities only should be allowed to hire teachers with formal education and second by increased wages among teachers. How they will achieve these goals is not clear to me. The government cannot decide about wages (teachers are employed by the municipalities) and at the end of the day the municipality needs to find someone who can be in the classroom on the day the children arrives.

The government has also announced that they want to reform secondary education so that it will contain three orientations. As it seems they want to make a clearer cut division between vocational and academic education. However, even though the direction is clear, the details are far from clear at this stage. If this policy will promote inclusion and equalize children's opportunities is as far as I understand an open question that very much depends on the details in the implementations phase.

The feeding out and feeding in reasoning is also clear when it comes to educational policies. On the one hand the reforms aim to decrease the number of student that leaves school early or without any completed education. Hence, the government wishes to promote inclusion. On the other hand the reforms are designed to achieve a better match between educational outcomes and labour market demands. The re-introduction of vocational training programs, programs that

do not give eligibility to tertiary education, can on the one hand be seen as an attempt of offering education to teenagers that do not want to read a lot of theory, and therefore often fail, and on the other hand as a strategy to prevent up coming labour shortage within the manufacturing sector.

Feeding in aspects

A large share of the population in the work force will also most certainly add to the general economic development. An increase of the labour supply will prevent labour force shortage and also prevent inflation tendencies. A higher employment rate will also increase the taxation base and decrease public expenditure, facilitating a favourable development of public finances. Thus, given that the government's social and labour market policy work as they expect there is a feeding in aspect as well.

Links with the EU Social Protection and Social Inclusion Process

The IRNRP relates heavily on the EU guidelines concerning growth and jobs. However, explicit discussions about social protection and social inclusion are scarce. What the government emphasises is the feeding in aspects of high employment on public finances (more tax income and less benefit expenditures) and thereby the ability to maintain a sustainable welfare state. However, there are basically no discussions that link the growth and job efforts with the EU agenda on social protection and social exclusion.

Links to the 2007 Joint Report challenges

As far as I can see the Joint Report is not mentioned in the Swedish IRNRP. One reason might be that the so called country profile was built on the former governments reporting.

Example of good practice

The good example presented by the Swedish government concerns cooperation between, mainly, municipalities in Sörmland (south of Stockholm). The aim is to combine forces in order to work for an integrated Lisbon strategy. The focus is clearly on economic growth and employment. The only part of the example that deals with inclusion is a project that aims to match available jobs with the long-term unemployed identified by the Swedish Social Insurance Administration. People guaranteed employment will be given support in the form of programmes and measures so that they are able to fill one of the job openings that have been identified. This part of the project can be seen as an example of the governments overall strategy to prevent long term or permanent exits from the labour force.

Aspects relating to governance

Monitoring and assessment of impact policies

The policy that is described in the NRP and IRNRP has, as mentioned above, been executed during the past year and some of the policies are still in an implementation phase. Hence, the IRNRP does not contain any real monitoring or assessments of the policy.

Involvement of stakeholders

My impression when I in 2003 wrote my first report, assessing Sweden's National Action Plan against Poverty and Social Exclusion, was that the EU process and the government's reporting to the commission was more or less a governmental secret. There was no discussion in the parliament, there were no documents presented to the parliament, the opposition had no knowledge of what was going on. This situation has as far as I can see changed, not all of sudden but as a gradual process. So, the IRNRP, as well as the NRP, has been handed over to the parliament for discussion, which I think is an important step in order to integrate the EU process with the national political agenda.

The government has as a part of the preparatory work of the NRP and IRNRP consulted a wide range of so called social partners. The social partners (the Confederation of Swedish Enterprise, the Swedish Trade Union Confederation, the Swedish Confederation for Professional Employees, the Swedish Confederation of Professional Associations and the Swedish Association of Local Authorities and Regions) contributed joint submissions to the Reform Programme for 2006 to 2008 and to the Progress Report, presenting, among other things, results from negotiations on several issues. However, this process is not something that is special for this particular documents or the overall EU process, is it rather a continuation of a traditional Swedish policy process.

The government has also continued to In June 2007 the Government invited some seventy civil. These roundtable discussions took place on three separate occasions and a total of some fifty organisations participated with representatives for different state authorities, representatives for local (municipalities) and semi-local (counties) authorities, unions, employer federations and, a wide range of NGOs. The government has also kept contact with the Committee for User Influence in Social Development Process. The User Committee includes representatives for the type of organizations mentioned above. From a poverty/social exclusion perspective it is especially important to mention that the User Committee have representatives from the NGO Network against Social Exclusion, which is an umbrella organisation for a large number of NGO like the Red Cross, Save the Children etc. The NGO network also contains organisations that represent users, such as drug abusers, women who been exposed to domestic violence, minorities such as Romanise etc. Several seminars have been held at different locations in country in order to get information into the policy process.

Even though the government has kept contact with a wide range of organisations it is hard to see the impact of these discussions in the IRNRP. The discussion seems to be focused on how to implement the government's policy and the Lisbon agenda, which in the IRNRP sometimes are hard to distinguish from each other, not so much about the formulation of the policy itself. It is especially hard to see any impact from NGOs, User Committee etc. There is no attempt in the IRNRP to give a view of their assessments of the government's policy. (In earlier NAP/incl plans the NGO network has presented their views in an appendix. However, their views has in my opinion not contributed very much and certainly not put forward any serious alternatives.)

Coordination and joining up of economic, employment and social policies

In a way the government formulates its policy in a very coherent way: an increasing employment rate is an integrated part of a growing, sound economy, which in turns lay the foundation for a sound public finances and a long term sustainable social policy – that is almost a blue print of the Lisbon agenda. What is missing is a policy for those who cannot benefit from this policy. Beside

the basic assumption that increased employment will decrease exclusion, very little is said about social exclusion and poverty. I think exclusion is mentioned about 25 times in the IRNRP, poverty is only mentioned two times.

It is of course, as mentioned above, extremely difficult at this stage to judge to what degree the government's policy can explain the positive labour market development during the past year and, even more difficult, to assess to what degree the policy has contributed to social cohesion and reduced poverty or, for that matter, the opposite. I also see it as a positive trait that the government in its IRNRP generally refrains from making 'cheap' attempts to link recent policy measures to the very recent labour market development. The demand for labour power has basically been driven by a favourable macro economic development. Even though it might be, as mentioned above, that the government's policy has added force to this development it can also be argued that almost any reform would appear as a success in the current economic situation. To be able to draw any firm conclusion about the policy one has to follow the development over a complete business cycle. Indeed, this is also what the government argues. Retrenchments in the social insurances systems are motivated by the fact that now, when there are available jobs, is the time to tighten up the support systems in order to first capitalize on the positive economic development and second to guarantee that social insurances finances and the overall state budget are economically robust also in the long run. This is perhaps the government's most basic "feeding out" argument – we need to act now in order to create a social policy system that is robust enough to stand the test also in period of economic recession. It is therefore essential to mention that the government emphasizes the importance of macro-economic conditions. That is: maintaining a public budget surplus and keeping inflation low. In the current situation the first goal seems easy to achieve while the second is becoming increasingly difficult as Sweden is approaching a situation of labour shortage and possibly less 'disciplined' wage settings.

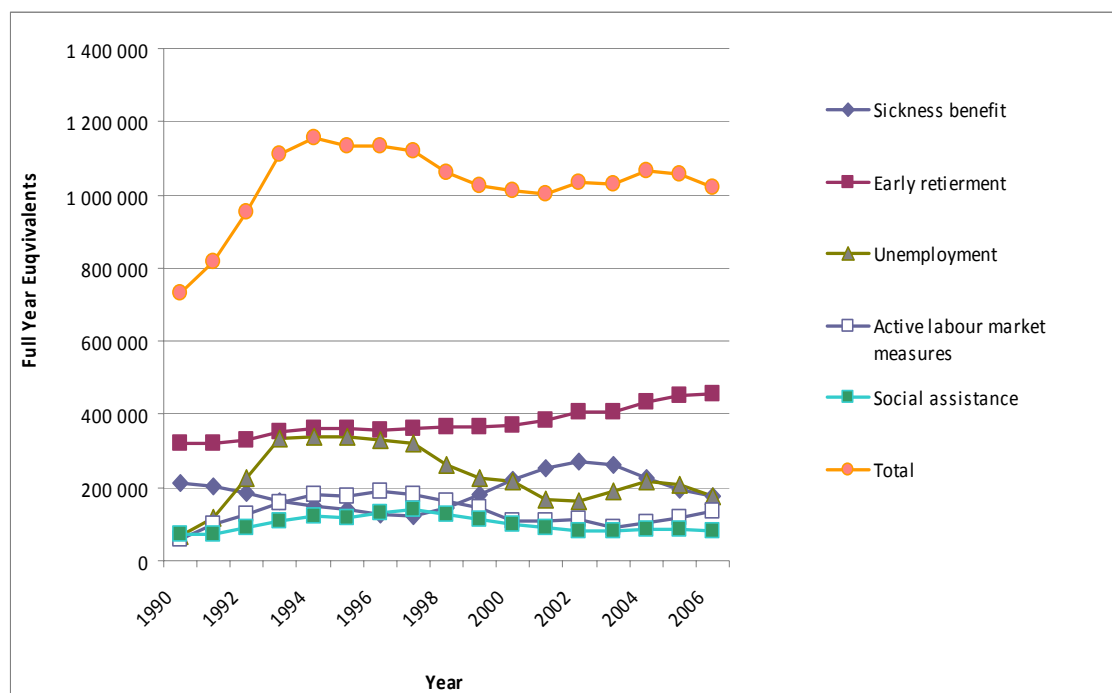
In year 2006 public finances showed a surplus of 2.4 per cent of GDP a figure that is supposed to increase to 2.9 per cent in year 2007. The so called, or what I think is called "consolidated gross debt" (konsoliderad bruttoskuld), defined according to the EU Maastricht criteria did in 2006 amount to 47 per cent of GDP and is suppose to diminish rapidly to 39.7 this year and down to 24.5 per cent in year 2010. Hence, public finances are in good shape, which also means that welfare retrenchments are motivated by ideology, political goals and a fair share of Keynesian thinking – not by lack of money.

Feeding in – Feeding out: General Comments

One of the rhetoric argument most often used by the government is that they want to restore full employment. They also argue that around one million Swedes in the age 20 to 64 are excluded (see for example Budget Proposition 2007/08:1, page 24). The definition of exclusion is based on a calculation of so called "full year equivalents". A full year equivalent represents a hypothetical individual that during twelve months has social benefits as the only source of income. For example, a full year equivalent can be made up of two persons; one that is full time unemployed and receives unemployment insurance for six months and another person that receives sickness insurance for six months. Hence, the calculated number of full year equivalents is dependent on the number of people that receives benefits, the time during which they receive benefits and the amount they receive. Full year equivalents are in many respects an excellent indicator. One of its best features is that it gives a total picture – we can easily see if for example a reduction of people receiving sickness insurance is counterbalanced by an increase of early retirement etc.

From Figure 1 we can see that there was a dramatic increase of full year equivalents in the early 1990s and, despite a rather favourable economic development, that the figures thereafter been rather stable. One of the most troublesome aspects of the development is the almost linear increase of the number of early retired. Even though it in theory is possible for early retired to return to the labour market it is extremely rare that it ever happens. Thus, in praxis early retirement is a permanent position. The main objective for the government is to decrease the number of full year equivalents – or as they prefer to say; the number of excluded.

Figure 1. Full year equivalents 1990 – 2006.



Source: Statistic Sweden http://www.scb.se/templates/pressinfo_211368.asp

Even though full year equivalents have many positive features they are problematic as an indicator of exclusion. First and most obvious – the easiest way to eradicate exclusion is to dismantle all the income support system. This is of course not on the government agenda, but reduction both when it comes to size of the benefits and, maybe more so, when it comes to eligibility is certainly on the agenda. The argument is, as mentioned above, that the policy will have positive effects on the functioning of the labour market – a larger share of the population will have a job to go to and exclusion will therefore decrease.

My view is that the assessment of the policy should not be based on indicators directly dependent on the policies that are designed to deal with the problems. Indicators should always be policy independent. A decrease of the number of full years equivalents will certainly say something about the policy, but it will by itself say nothing or very little about social inclusion. However, an even bigger problem is that there will always be people that do not have a job to go to and what about them? The fact is that the government does not say very much, or to be more correct, basically says nothing concerning this issue.

It almost goes without saying that a country never can achieve an employment rate of 100 per cent. It is also the case that when the government argue that the aim of the policy is to restore full employment they actually paint a picture of a world that never have existed. I do not claim that the

government is wrong when showing that the number of full year equivalents has risen from about half a million in 1970 to slightly above one million in 2006 (Budget Proposition 2007/08:1, Diagram 1). But, it does not mean that a substantially larger share of the population was employed in 1970, what it do show is that a fairly large share of the population, mainly women, that in the 70s were supported by the family (the husband) today are eligible to and also, in order to make ends meet in cases of unemployment or illness, in need of incomes from the social security system. Underpinning this trend is the increasing number of single adult household. So, a main explanation for the long term development is the ongoing transformation of the society in the direction of modernization and individualization not an increasingly mal functioning labour market.

The government needs to have a realistic goal when it comes to employment rate and to what degree individuals can participate at the labour market. Making work pay more and unemployment/not participating in the labour force pay less will probably increase the supply of labour and increase the employment rate, at least in the current economic situation. Strengthening work rehabilitation among people with health problems, facilitating a return to the labour market and preventing long term transfer dependency will, if it succeeds, also lead to a positive development when it comes to exclusion. *But, the government has almost nothing to say about those who for various reasons cannot find an entrance to the labour market, cannot return to work because of serious health impairment, those who because of disability never have and never will be able to work in an open market and, those who cannot manage a full time work.* These are people that will be affected by the government's retrenchments when it comes to replacement rates and eligibility but who do not and will not benefit from in-work tax deductions. There is an obvious risk that the current policy will lead to increased exclusion and poverty among those who are standing furthest away from the labour market. This problem is a blind spot in both the NRP and the IRNRP.

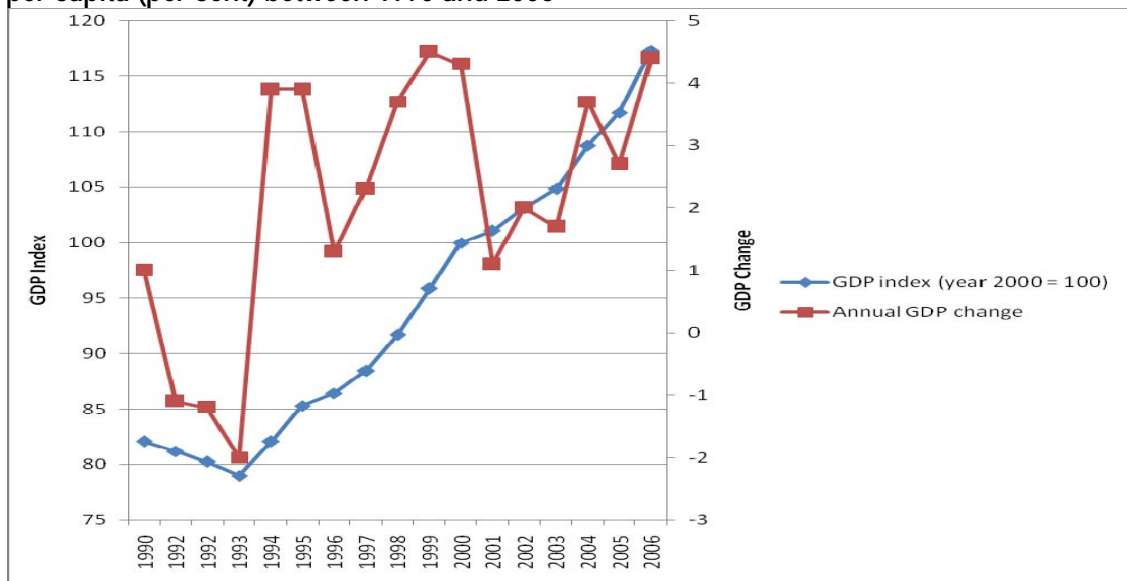
The borderline between being employable and unemployable is not fixed; it is rather a spectrum that is moving over time as the demand for labour power is changing (both when it comes to quantity and skill requirements). The government obviously believes that the current economic policy will maintain a high employment rate also when the economy is slowing down. It might be that the government is correct but it is also inevitably so that the demand for labour eventually will decrease and that more people will find it impossible to find a job. There is no discussion whatsoever about how, in such a situation, to avoid an increase of social exclusion and poverty.

To summarize: The government pursues a policy aiming at increasing employment. The measures taken are believed to feed in to a stronger economy and to feed out to an increased inclusion. At the moment the policy seems successful but there is no policy aimed at securing inclusion for those who cannot benefit from the generally policy, i.e. there is, in the IRNRP, almost no discussion about the most excluded and the way they are affected by the current policy. There are two main issues for the future. First and most important, the policy is explicitly designed to increase the difference between those who work and those who do not. There is in obvious risk that those who do not benefit from this policy will be increasingly excluded. Hence, the current policy needs to be supplemented with a discussion about every individual's right to escape poverty and social exclusion. Second, it is easy to pursue a policy based on increased employment when there, because of the general economic development, is a strong demand for labour power. The real test of the policy will come when the Swedish economy is cooling down.

Recent development

When deeming the government policy so far one has to be aware of the fact that Sweden has experienced a long period of positive economic development. The economy has since the deep crisis in the early 1990s, as can be seen in Figure 2, been growing steadily and from an EU context at a high rate.

Figure 2: GDP per capita (thousand SEK, in year 2000 prices) and annual change in GDP per capita (per cent) between 1990 and 2006



Even though the economy has been growing significantly unemployment has until recently continued to be a major problem. It is also fair to say that the social democratic government lost last years election because they appeared incapable of providing a policy that translated a favourable economic situation into an increased demand for labour power. But, as apparent from

Figure

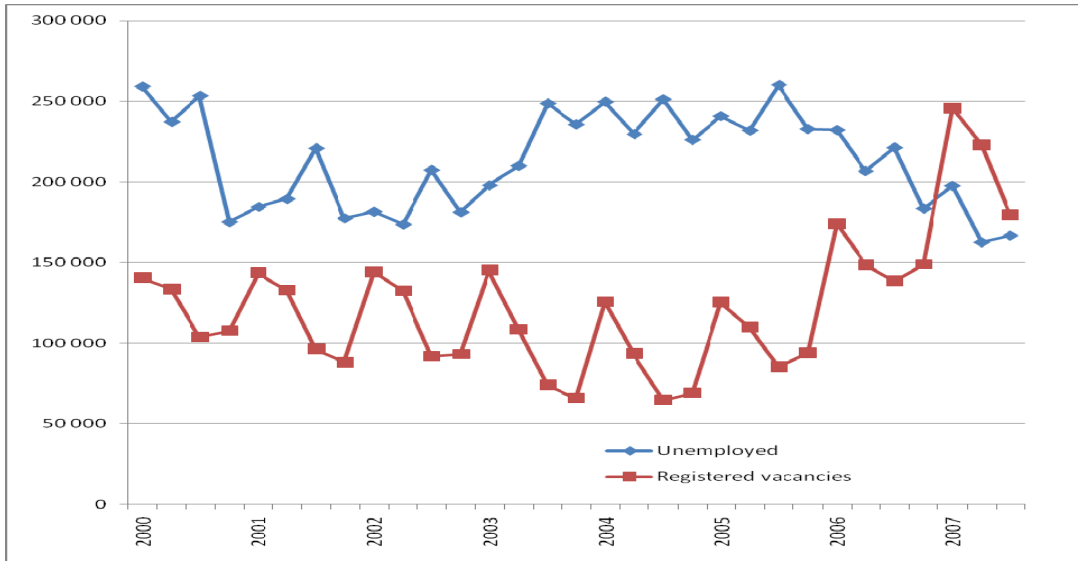
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and

Figure 4 the development has been more positive the last couple of years. There has been a decrease of unemployment, an increase of employment and Sweden is now facing a situation of labour shortage within certain sectors. This development started well before the new government came to power and hence also before they launched a series of labour market and social policy reforms last autumn. However, it is, of course, still possible that the policy initiatives taken by the government has given an additional boost to an already favourable labour market development (both the government's own and independent's organisations like OECD and EEAG calculations indicate that the policy presented in the governments first budget the autumn 2007 have had a positive effect).

Figure 2 shows that number of people that are unemployed and looking for a job. What we can see is that the figures been rather stable the last couple of years, hovering around 225 000 to 250 000. However, there has been a quiet dramatic decrease during the last twelve months and the figures are now below 200 000. What has changed even more dramatically is the number of vacancies that has gone up from around 100 000 to around 200 000 during the first three quarters of 2007 and the number of vacancies is now larger than the number of registered unemployed.

Figure 3: Number of people that are registered as unemployed, participating in activation programs and the number of registered vacancies at the Labour Market Board first quarter 2000 to second quarter 2006

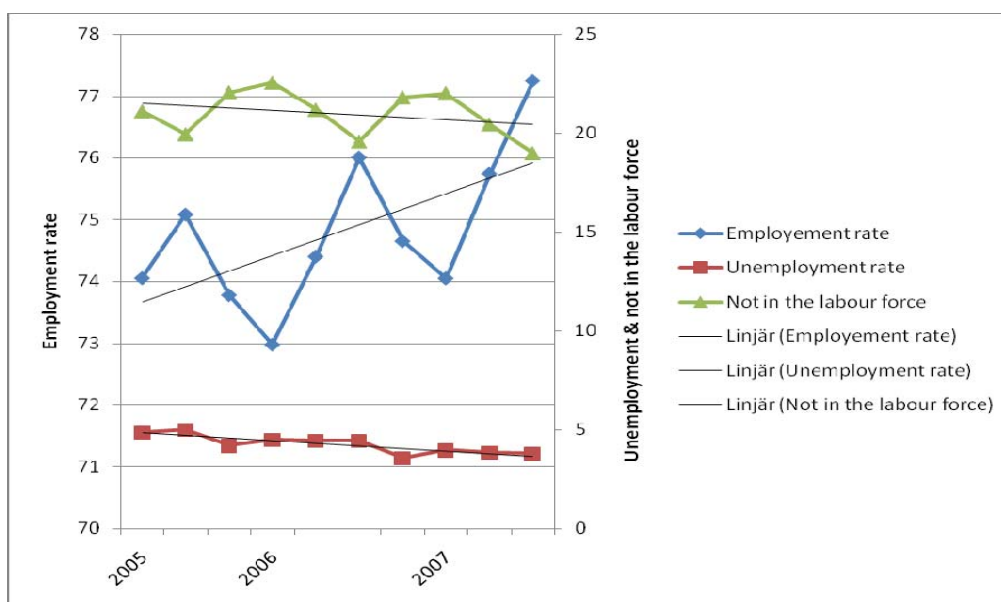


Source: Labour Market Board, http://www.ams.se/admin/Documents/ams/arbdata/arblos/2006/adata_riket0703.xls

Figure 4 is based on figures from the Swedish Labour Force Survey (LFS). As mentioned in earlier reports the Swedish LFS was in 2005 adjusted in order to meet requirements from the EU. Figures from before the second quarter of 2005 are therefore not comparable with more recent data. What we nevertheless see is increase of employment, decrease of unemployment and, also a decrease of the fraction that are outside of the labour force.

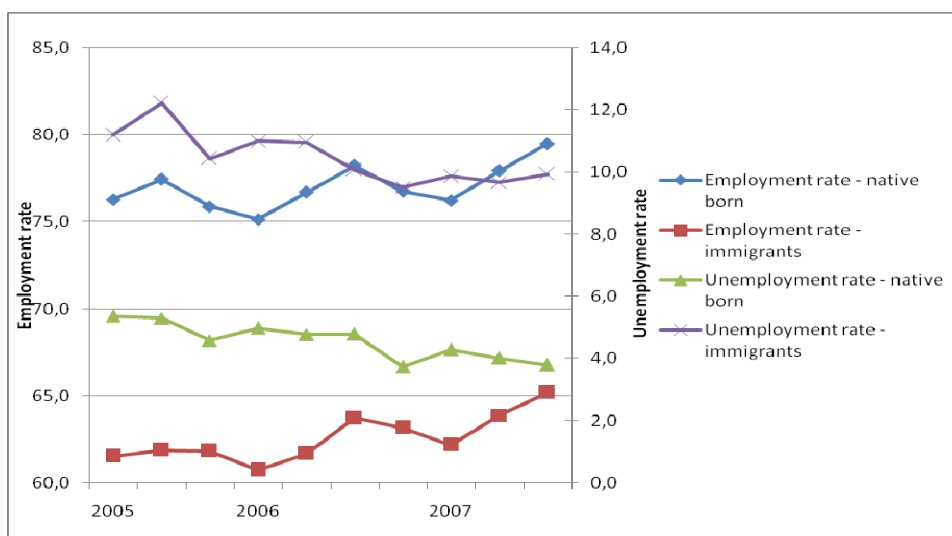
One of the biggest challenges to Swedish inclusion policy, pointed out in the Joint Report, is the integration of immigrants. Again the government's strategy to tackle the problem is to fight unemployment and boost employment rate among immigrants. As can be seen from Figure 5 are also immigrants taking part of the favourable labour market development. However, the gap between native born Swedes and immigrants remains on approximately the same level throughout the observed period.

Figure 4. Labour market development second quarter 2005 – third quarter 2007



Source: Labour Force Survey

Figure 5. Labour market development second quarter 2005 – third quarter 2007



Source: Labour Force Survey

Reforms and Changes – Carrots and sticks

The reforms, described in both the NRP and IRNRP and in other government documents, can be divided into two main categories. There is a set of supply side reforms aimed at strengthening work incentives with the help of both carrots and sticks. These measures are combined with number of both general and selective demand side reforms.

- The main 'carrot' is made up by the so called 'in-work tax credit', which basically means that incomes from work is taxed lower than incomes from other sources including pensions and benefits (In Sweden basically all transfers and benefits are taxed. Child allowance, social assistance and housing allowance are about the only benefits that are not taxed.) A first step in this policy was implemented in January this year and a second step is suggested in the budget for year 2008. The size of the tax credit is shown in Table 1. Looking at the deduction in real money, high income earners are those that gain most but, the reform has a regressive design but expressed as per cent is the tax deduction largest among low income earners. The median wage income in year 2005 was 214,100 SEK. The basic idea behind this design is that work incentive needs, first and foremost, to be strengthened among low income earners, not the least because the differences between social security incomes and incomes from work are smallest in this group. So, in-work tax credit is one of the government's tools used to increase the alternative cost for not working.

Table 1. In-work tax credit expressed in SEK per year and as per cent of income from work

Income from work	Tax without job tax deduction	Job tax deduction: Step 1	Job tax deduction: Step 1	Job tax deduction: Total	Job tax deduction as per cent of income from work
100 000	22 305	5 241	1 241	6 482	6.5
150 000	38 049	5 936	1 642	7 578	5.1
200 000	55 401	7 513	2 163	9 676	4.8
250 000	72 754	9 091	2 683	11 774	4.7
300 000	90 106	10 668	3 066	13 734	4.6
350 000	108 427	11 394	3 066	14 460	4.1
400 000	134 202	11 394	3 066	14 460	3.6
500 000	185 752	11 394	3 066	14 460	2.9

On the 'stick side' we find a series of measures that limits replacement rates and accessibility to unemployment insurance, sickness insurance and early retirement. The government is very clear that they perceive social insurance a temporary measures – a return to work is always seen as the preferred outcome and besides the economic incentives that government also want to see more efficient rehabilitation programs.

- Unemployment insurances are reformed in several ways lowering replacement rates and implementing more strict eligibility criteria. The increase of the maximum daily amount that the former government decided was inhibited, which means that monthly incomes over 20 075 SEK is not covered by the insurance. Unemployed that are covered by the unemployment insurance are guaranteed 80 per cent of the former income for the first 200 days. Thereafter the replacement rate is lowered to 70 per cent and after 300 days down to 65 per cent. In the newly released budget proposal for year 2008 the government continues to reform the unemployment insurance and a 300 day limit for the insurance is suggested. Individuals that still are out of work after 300 days shall be directed to some kind of activation program. To me it is at this stage not completely clear how this system is supposed to work.
- The possibility to take up part time unemployment benefit (for part time employed who cannot find a full time job) will be limited to 150 days during the 300 days period. This is a substantial change compared with today's situation (It is possible to claim part time unemployment benefit up to 6 years and after that it is possible to re-qualify for two new 6

years periods, which all in all opens up for the possibility to take the benefit during 18 years).

- Stricter rules are also implemented when it comes to the unemployed rights to limit their search for job to the type of job that they are trained to or have experience from. New rules are also implemented that increases the pressure on the unemployed to search for jobs in the whole country. There are some special rules for parents with children under the age of 18. For example: the maximum period for unemployment insurance is extended to 400 days, they are not in the same way forced to search for job in the whole country, and single parents that are part time unemployed can keep the benefit for an extended period provided that they attend some kind of active labour market measure.

Absence from work because of illness has since several years back been in the centre of the Swedish debate. The reason is simple. Looking at public health, Swedes are becoming increasingly healthier and compared to most other countries the health status of the Swedish population is very good. At the same time absence from work because of illness (sickness benefit and early retirement) has increased dramatically since the mid 1990s and, even though it is hard to make reliable comparisons between countries, Swedes seems to stay home from work more often than people in other comparable countries. The increase of full year equivalents relating to absence because of illness did, as can be seen in Figure 1, peak in year 2002 and we can thereafter observe a decrease. Early retirement has, however, continued to increase throughout the observed period.

Now, it could of course be the case that public health benefits from the fact that people are able to stay home from work when they are ill. i.e., Swedes are relatively healthy because of the high level of absence from work. However, the general and certainly the government's interpretation is that it is something wrong with both the sickness insurance and early retirement system. This view was also to a certain extent shared by the former social democratic government and it was the former government that renamed early retirement to "sickness and activity benefit" in order to emphasize that recipients should be prepared to return to the labour market and that they should not perceive the benefit as a lifelong income support. The renaming was also accompanied with changed rules in order to facilitate a return to work, however, in praxis the benefit has remained as a more or less permanent out-of-work support system. The current government has implemented a series of reforms in order to halt this development.

- Sickness insurance can only in very special cases be claimed for more than twelve months and the replacement rate will after twelve months be lowered from 80 per cent of the previous income to 75 per cent.
- In order to smooth the progress of returns to work a so called rehabilitation chain will be implemented. After three months on the sick list the authorities will contact the employer in order to find out if the employer can offer the employee alternative work tasks that he or she can do given the current health situation. If this is not possible the employment agency will be contact and a search for a new job will start. After this a number of steps will follow that each and everyone is design to find a way back to the labour market. The goal is to find a system in which every individual is guided and pushed into a job that he or she is able to conduct. Only in cases of severe and long standing health problems should a permanent exit from the labour market be facilitated. This is a rather fundamental change of the former policy, which very much focused on getting people back to the same job.

Boasting demand

In order to facilitate that people that for one reason or another are less attractive to employers to get a fair chance to be employed at the regular labour market the government has introduced so called "new start jobs".

- "New start jobs" were introduced in January 2007 and means that an employer who employs a person that has been long term unemployed gets a deduction on the payroll tax (the deduction last for as long as the employee has been unemployed). Also immigrants and individuals that have been engaged in different kinds of activation programs are eligible for "new start jobs". The government is no planning to expand this system to also cover people that are long term ill, i.e., it is a way to support the above mentioned reform to put additional pressure on people that are claiming sickness insurance to find another and, given the health situation, more suitable job. The government will also open up for new start jobs within the public sector.
- In order to increase labour power demand within the service sector the government has introduced tax deduction schema for what, maybe, could be translated to in-house services (hushållsnära tjänster). That is, it is now possible to deduct expenditures for example cleaning, laundry services et cetera.
- The government is also proposing a more general payroll deduction for the service sector. However, it is not clear if the Commission will allow different payroll taxes for different sectors of the labour market.

What does the opposition say about the government's policy?

Since the election the government has faced an increasing popularity problem and if a general election were to be held today the opposition would win, according to opinion polls, a landslide victory. The opposition, dominated by the social democratic party, is also very critical to the government's policy, which should not come as any surprise. They are rhetorically arguing that the policy will lead to increasing cleavages and that it in a systematic way makes the most harm to those who are in the most vulnerable position. However, it is extremely hard to find out what alternative policy the opposition wants to peruse.

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Appendix 1 – important new legislation and key documents

The main source of information about new legislation is to be found in the government's budget proposition (including appendixes) dated:

October 2006 (<http://www.regeringen.se/sb/d/6188/a/69626>),
April 2007 (<http://www.regeringen.se/sb/d/8703/a/80254>) and,
September 2007 (<http://www.regeringen.se/sb/d/8703/a/88169>).

Both the NRP and the IRNRP are to a large degree summarising these documents. The most important set of new legislation are the following:

- In work tax credit: First phase decided by the parliament in the autumn 2006 and the second phase in the autumn 2007.
- New start jobs: First phase decided by the parliament in the autumn 2006 and the second phase in the autumn 2007.
- Stricter eligibility criteria for sickness benefits and unemployment benefits: Here the legislation is based on a series of legislative decisions starting during the autumn 2006 and continuing during 2007. The important thing is that they together create a new situation in which the possibility for an individual to permanently exit the labour market becomes much more limited. Back to work is now, more than ever, the main route for everyone.