

Conclusions and recommendations of the National Audit Office

Reconciliation of fiscal policy and employment policy

The audit was targeted at the preparation of both employment policy measures from the perspective of sustainable general government finances and employment-related fiscal policy measures by Sipilä's Government. The purpose of the audit was to ensure that the employment policy and fiscal policy objectives form a consistent entity and that the available information is utilized comprehensively when objectives are set and measures are selected.

Employment growth can be supported for different purposes. Employment has an effect not only on general government finances but also on people's subsistence and wellbeing. Employment can affect general government expenditure and revenue both directly and indirectly.

During Sipilä's Government term, increasing the employment rate was a key means of balancing general government finances. The measures taken to improve the employment rate were largely directed at financial incentives: cutting the unemployment security and easing labour taxation. General government finances are funded mainly by tax revenue, which can be impacted by decisions on the level and objects of taxation and on deduction systems. In the same way as changes in the employment rate, decisions aiming at increasing employment can have impacts on the level of general government revenue and expenditure.

The employment rate as such does not reveal anything about the general government fiscal position

When the impacts of employment on general government finances are assessed, the quality of employment has a significant role. Part-time work or work that does not provide adequate income does not balance general government finances as well as full-time work with a high level of earnings. The pay level and total pay affect income tax revenue in the same way as the number of people in employment. Work-related earnings also have an impact on the amount of social security expenditure. If work does not provide adequate income, this is compensated for by social security benefits.

The effects of the income level and distribution of income on general government finances should be further analysed, as they also impact tax revenue and social security expenditure. Unemployment security expenditure can be reduced both by increasing the employment rate and by cutting the unemployment security. Employment also impacts other social benefits. Social security benefits are interconnected, and a change in one benefit can affect other benefits. Cutting the unemployment security, for example, can increase expenses related to other types of social security.

As regards their impacts and costs, active employment policy measures can be an uncertain way of promoting employment or balancing general government finances. The impacts of employment measures on general government finances are indirect, and they depend on many factors, often occurring with a delay. It should therefore be assessed whether it is justified to link strong goals related to balancing general government finances with an active employment policy.

Employment measures can also be justified by the fact that they promote an individual's wellbeing and may help them to find employment in the long term. However, this perspective should be distinguished from the short and long-term economic justifications.

[It is important to assess the impacts of employment on general government finances on several levels](#)

The impacts of employment on general government finances are often described by a rule of thumb based on macro-level calculations: employment growth of 1 percentage point improves the general government fiscal position by 0.4 per cent. With this kind of assessment, it should be observed, nevertheless, that the calculation does not necessarily take into account the general government expenditure related to increasing the employment rate. It is particularly important to keep this in mind if the aim of the increase in employment is to improve the balance of general government finances.

Micro simulation models make it possible to examine how changes in the employment rate affect income tax revenue and social security expenditure. In this respect, micro simulations provide a more detailed picture of the development of general government finances than macro-level calculations. They can also be used in parallel with macro-level calculations to assess how employment benefits general government finances. A more multifaceted picture also makes it possible to estimate, for example, the costs of improving the financial incentives in relation to the benefits achieved. Sipilä's Government lowered income taxation in order to improve the incentives for finding employment. However, the decrease in income taxation may have undermined the benefits that the increase in employment has for general government finances.

[The preparation of employment measures would benefit from an overall picture of the impacts on both the individual and general government finances](#)

As employment measures are prepared in different ministries, the entity and the mutual impacts of the different measures may remain unclear. During Sipilä's Government term, no assessment was made of the employment measures as a whole and their mutual impacts. The impacts of employment measures on general government finances consist of both direct savings or increases in expenditure and indirect impacts following the change in employment. An overall picture should be drawn of employment measures and their impacts on individual wellbeing and general government finances. This would provide more diversified and comprehensive data to help the government in the selection and preparation of measures.

[In the preparation of employment measures, it is important to ensure that their impacts can be assessed in arrears](#)

Several different measures aiming to improve employment were implemented during Prime Minister Sipilä's Government term. However, it was not possible to assess them reliably afterwards. This is because the government made simultaneously several changes affecting everyone in the same manner. It is therefore difficult to distinguish between the impacts of the different measures.

Only fragmented information is available on the unemployed and the efficiency of employment measures to support policy-making. Information on the impact of employment measures should be available to make it possible to compare their costs with the benefits achieved. Only little is known now of the effectiveness of the measures taken during Sipilä's Government term, and new measures cannot be prepared based on previous information.

Especially when no information is available on an employment measure's impacts on employment at the time when the related regulation is issued, it is important to enable high-quality ex-post assessment. Even the present legislation should provide ample opportunity for this: the start date could be staggered, for example, or a survey design could be drawn up already during the preparatory phase.

Recommendation of the National Audit Office

To ensure the provision of information to Parliament, it would be important to compile information on employment measures. The National Audit Office recommends that the Ministry of Finance, in cooperation with the Ministry of Economic Affairs and Employment and the Ministry of Social Affairs and Health, should produce a summary of employment measures on a regular basis. It could, for example, summarize the costs of the measures taken and their impacts on employment and on individuals' or households' income and expenditure.