

A decorative graphic consisting of numerous overlapping circles of various colors (blue, orange, purple, grey, red) scattered across the top and left sides of the page. Each circle contains a white icon of a person with three arrows pointing outwards, symbolizing social enterprise or community impact.

# From the public perspective

*A summary of reports on*  
**Socioeconomic Reports  
for Vägen ut! kooperativen  
and Basta Arbetskooperativ**

Ingvar Nilsson and Anders Wadeskog/SEE AB

# Table of Contents

<b>1 Summary and results</b> .....	<b>2</b>	<b>7 The public costs of addiction</b> .....	<b>28</b>
1.1 Background	2	7.1 Calculations	28
1.2 Results	2	7.2 The costs of addiction	29
1.3 Method	3	7.3 Reflections on the results	31
1.4 Applicability	3		
<b>2 What is a socioeconomic report?</b> .....	<b>5</b>	<b>8 Welfare policy perspective</b> .....	<b>34</b>
		8.1 Stovepipe logic	34
<b>3 Socioeconomic report – in figures</b> .....	<b>7</b>	8.2 The tyranny of short-sightedness	35
3.1 Income Statement – Vägen ut!	7	8.3 The Socioeconomic Report as a method of evaluating an overall view and the long-term approach	36
3.2 Key Figures Statement – Vägen ut!	8	8.4 Applying this knowledge – how can these insights be used?	37
3.3 The social investment perspective – Basta	9	8.5 An example – youth at risk	37
3.4 Cases of special interest	13		
<b>4 The social enterprises</b> .....	<b>17</b>	<b>9 The socioeconomic cost-benefit analysis – components</b> .....	<b>42</b>
4.1 Basta	17		
4.2 Vägen ut!	18	<b>10 Final remarks</b> .....	<b>44</b>
4.3 Similarities and differences	18		
4.4 Similarities and differences from the business perspective	19	<b>11 References</b> .....	<b>45</b>
<b>5 Our procedures</b> .....	<b>21</b>	11.1 Analysis of cooperation, the economy and rehabilitation	45
5.1 Design	21	11.2 Cost-Benefit Analysis	46
5.2 Method	21		
5.3 How precise can the answers be?	22		
5.4 Limitations and generalisability	22		
<b>6 Welfare consumption chains</b> .....	<b>24</b>		
6.1 Welfare consumption chains – a means of describing costs	24		
6.2 Example 1 – The consumption chain of apprehension, indictment, conviction and punishment	24		
6.3 Example 2 – The consumption chain of support	25		

The report was produced as part of the Equal project "Social Enterprise – expanding the labour market." The report and the work to develop the method and test it at Basta and Vägen Ut! were funded by the European Social Fund in Sweden.

# Foreword

We have large groups of people in Sweden *today* who for various reasons are excluded from the labour market. The costs are enormous, both for *the individual* and the public. This includes the cost of absenteeism and sick leave, healthcare and treatment, but also the cost of crime and reduced tax revenues. These are people who live on limited means, at times on the *fringes* of society, in social exclusion. The longer it goes on, the more devastating to the individual's *self-esteem and financial circumstances*.

And yet we know that within the near future we are going to be facing a labour shortage, when everyone will be needed and every hour worked will contribute to *sustainable* growth and common welfare. What can we do to change the situation? How can we invest our tax funds to ensure dividends in the form of lower public costs and a higher employment rate?

There are surely, and there must be, several answers to those questions. Social enterprise is one of them.

A social enterprise runs a business and

- is aimed at integrating people into society and employment
- empowers employees through ownership, contracts or other documented means
- re-invests its profits in its own or similar programmes
- is independent of public programmes

Social enterprises link entrepreneurship with the individual's need to work and public needs for services by running a commercial enterprise where the employees and their circumstances come first.

In this report, *Socioeconomic Reports*, we clearly demonstrate the substantial public profits generated by the two studied enterprises, *Vägen ut! kooperativen* and *Basta Arbetskooperativ*. Reports like this can and should be used as input when decision-makers discuss interventions towards rehabilitation and enterprise.

Can we afford not to make these long-term social investments in *new enterprises for sustainable growth and common welfare*? And what will be the price if we do not?

Eva Arvidsson (s)  
Chair NTG Social Enterprise

Margareta Andersson (c)  
Chair NTG Social Enterprise

# 1 Summary and results

## 1.1 Background

We studied two social enterprises, Vågen ut! (“Exit!”) and Basta in 2005. The objective was to develop and apply a method that can be used to evaluate the public benefit of these enterprises in economic terms. We have described this as the “Socioeconomic Report” for the enterprises. The work was carried out in close cooperation with six expert panels at a total of 24 seminars. From a future perspective, we have also studied how this type of analysis could be applied to other types of social enterprises and have written a simple guide to help enterprises prepare their own Socioeconomic Reports.

The process has been described in two reports: an initial method report and a complete results report. The first describes the theoretical and methodological bases of the Socioeconomic Report. The latter provides complete results of the Socioeconomic Reports for the two enterprises and a detailed description of how other social enterprises or rehabilitation programmes can independently prepare this kind of report. For reasons of space, we have chosen in this summary to present the results for the two studied enterprises by turns.

The social enterprises in this study demonstrate extraordinarily large positive external impacts, expressed as social profit. According to welfare economics theory, enterprises that demonstrate substantial negative external impacts are usually penalised with taxes or fees. This study thus inspired the following question: based on the theoretical principles, should this type of social enterprise be encouraged by means of e.g. reduced payroll taxes or another form of affirmative action?

## 1.2 Results

Our results indicate the following:

- The enterprises generate very high social profit on the order of SEK 1 million per employee and year. The social profit exceeds the business profit by a factor of 50 or more.
- The social profit consists of two components: the public costs that are eliminated or reduced when addicts recover and the production value created in the enterprises.

- The greatest gains are made by the legal system, social services and insurance companies. Profits for these actors amount to SEK 100,000 to 500,000 each per employee and year in both enterprises.
- From the social investment perspective, Basta and Vägen ut! appear to be extraordinarily profitable enterprises with annual returns of several hundred percent. After five years' stay at these enterprises, the social profit may amount to as much as SEK 9 million per employee.
- The total social profit of the two enterprises' existence is about SEK 120 million per year, which can equal the budget for addiction programmes in a city of 200,000 inhabitants.

### 1.3 Method

With respect to method, we found it theoretically, practically and empirically possible to collect data and compile a Socioeconomic Report for this type of social enterprise. The methods used do not limit the methodological conclusions to social enterprises whose employees are recovering addicts or former criminals. The methodological conclusions can also be generalised to completely different types of social enterprises and other complex multifactorial rehabilitation programmes.

In terms of methodology and data technique, the procedure is rather simple and can be performed in Excel, with no access to sophisticated computer software necessary. This does require considerable effort the first time one takes on the task. Further work remains to be done before this method can be routinely included in the annual reports of social enterprises. The method provides input data, insight and knowledge to the external stakeholders of social enterprises so that they can make informed decisions and form opinions regarding the public benefit of social enterprises.

### 1.4 Applicability

In one sense this study is a special case among social enterprises. It describes enterprises whose employees' social exclusion due to addiction and criminality is very costly to society. Nevertheless, some of them are highly skilled and capable, particularly as entrepreneurs. The study results are not directly applicable to other social enterprises with employees of other backgrounds and whose social exclusion is rooted in other causes. But we believe there are programmes for marginalised and disadvantaged groups in or adjacent to the social economy for which it would be worthwhile to develop the method and compile empirical data, such as those for:

- At-risk youth, especially considering the profound and long-term consequences of social exclusion of youth in terms of human suffering and economic costs.

- People marginalised in the labour market for various reasons including ethnicity, skills, psychosocial problems, disabilities, etc. The marginalisation of these groups is very likely costing the public substantial production value.
- People with mental disabilities and other health conditions who are routinely marginalised by social actors in the labour market rehabilitation system even though a large percentage of them are capable of working. The result is substantial health-care costs and production losses.
- Immigrants who are permanently excluded from the labour market for linguistic, ethnic or other reasons, at great public cost.

4

It would perhaps be worth the effort to study the public value of these programmes and prepare Socioeconomic Reports for them as well.



## 2 What is a socioeconomic report?

The Socioeconomic Report is based on supplementing the financial statements of an enterprise from the cost-benefit perspective.<sup>1</sup> The purpose is to internalise relevant parts of the social enterprise's external impacts.

Our definition of this annual report is based on established economic theory and its accepted terminology.<sup>2</sup> The theory uses the term “external impacts,” which roughly means the impacts arising from an enterprise's activities that are not reflected in its accounts or financial statements. The environmental impact of industrial production is a common example of a negative external impact, such as external costs. The opposite of that concept is internal impacts, that is, impacts that are reported in the enterprise's financial statements, etc. We have based our definition of a Socioeconomic Report on those two concepts.

The first section of the Socioeconomic Report covers the production value and production costs generated by a recovering addict's work at Vågen ut! or Basta. The enterprise-internal profit is equal to the enterprise's revenues minus its costs as reported in the financial statements.

**Enterprise's Internal Profit = Internal Revenues – Internal Costs (1a)**

**IP = IR – IC (1b)**

The second section of the Socioeconomic Report covers all external costs to the public that are eliminated because the addiction has been overcome, which we call external revenues. It also includes all costs that remain to a lesser extent or which have arisen as a result of the activities of Vågen ut! or Basta, which we call external costs. The external social profit reported in the Socioeconomic Report thus consists of external revenues minus external costs.

**Enterprise's External Profit = External Revenues – External Costs (2a)**

**EP = ER – EC (2b)**

<sup>1</sup> The definition of Socioeconomic Report we use here is a modification and expansion of the preliminary definition used in the earlier method report.

<sup>2</sup> These terms were defined and discussed in the earlier method report. For further discussion, see Bohm, *In the Public Interest*, SNS, 1978.

We can now formulate a theoretically simple equation to describe the Socioeconomic Reports for Vågen ut! and Basta.

**The Cost-benefit Value is the sum of the enterprise's internal and external profit (3a)**

**CBV EC = IP + EP (3b)**

This difference is the basis of the Socioeconomic Report. When we refer to a Socioeconomic Report for social enterprises, we thus mean:

- An annual report *based on the enterprise's ordinary annual report* as defined in the Swedish Accounting Act. It primarily covers the enterprise's income statement, that is, revenues minus costs.
- This annual report is supplemented by *identifying, quantifying and assessing the monetary value of external impacts significant to the enterprise.*
- These external impacts are combined into *one or more cost centres in the enterprise's Social Income Statement.*
- The annual report can *be supplemented with other non-monetarised variables* that affect the enterprise's performance and evaluation of the same.
- This process *is performed regularly* (annually) as part of the enterprise's customary annual report process.
- The results are reported *together with the rest of the enterprise's annual report.*

The annual report is in three parts: an income statement, a key figures statement and an investment statement. We produce *the income statement* based on a number of individual calculations that we weigh together based on how many people in the various categories work at Vågen ut! and Basta. This external calculation is then linked to the enterprise's annual report for 2005, all based on the formula provided above. All figures in tables are stated in Swedish kronor (SEK).

*The key figures* we report illustrate the difference between the business and public cost-benefit perspectives.

*The investment statement* is aimed at evaluating the investment impacts of rehabilitation programmes at Vågen ut!/Basta. We use three investment horizons: 1, 5 and 25 years. Pay-off time is a central concept here, which may be interpreted as the time that elapses before an investment is repaid.

## 3 Socioeconomic report – in figures

### 3.1 Income Statement – Vägen ut!

The income statement component of the Socioeconomic Report for Vägen ut! for the 2005 financial year is shown below. The format follows the principles of double-entry bookkeeping. In the interests of brevity, revenues and costs are shown line-by-line one after the other. Let us begin by tracking the enterprise's costs and revenues. We do this by adding revenues received from various public actors, such as SEK 1,609,000 from the Employment Service, and other revenues on the line for the enterprise's revenues. The total of SEK 7,157,000 is shown in the column where the revenues are added up. The line below shows total costs, which amount to SEK 7,511,000. The two following columns show the enterprise's profit/loss for 2005 in total and per employee.

If we want to study the Socioeconomic Report from the municipal perspective, we go to the "Municipality" column and see that municipal revenues from Vägen ut! amount to SEK 9,645,073 for 2005. The costs amount to SEK 4,717,487. Some of these are found higher up in this column as a revenue for Vägen ut! of SEK 2,762,667, which includes rehabilitation costs for placements at Vägen ut! The municipality's total profit and profit per employee for Vägen ut! are shown in the two right-hand columns of the income statement.

**Table 3.1 Socioeconomic Report, Vägen ut! 2005 Income Statement**

		Employment Service	Enterprise	Social Insurance Administration	Municipality	County Council	Legal System	Other	Total	Profit	Profit/ Individual
Employment Service	Revenue	1,085,220							1,085,220	<b>-523,780</b>	-13,846
	Cost	1,609,000							1,609,000		
Enterprise	Revenue	1,609,000	2,010,000		2,762,667		775,333		7,157,000	<b>-354,000</b>	-9,358
	Cost		7,511,000						7,511,000		
Social Insurance Administration	Revenue			4,084,843					4,084,843	<b>3 372,943</b>	89,161
	Cost			711,900					711,900		
Municipality	Revenue				9,645,073				9,645,073	<b>4 927,586</b>	130,256
	Cost				4,717,487				4,717,487		
County Council	Revenue					2,663,039			2,663,039	<b>1 176,559</b>	31,101
	Cost					1,486,480			1,486,480		
Legal System	Revenue						14,978,904		14,978,904	<b>14,001,696</b>	370,121
	Cost						977,208		911,208		
Other	Revenue							14,477,333	14,477,333	<b>14,477,333</b>	382,695
	Cost								0		
Total	Revenue								54,091,411	<b>37,078,336</b>	980,130
	Cost								17,013,075		

We see that Vägen ut! had revenues in business terms of approximately SEK 7.1m for 2005, while the cost-benefit revenues amount to approximately SEK 54m. The substantial difference primarily reflects the public costs that are eliminated or reduced when addicts recover from addiction, along with the associated costs.

The net financial performance for Vägen ut! is a loss of approximately SEK 0.35m for 2005, while the social profit is approximately SEK 37m, a reflection of the same impacts as above. Those who profit the most in this process are the legal system and the actor we have classified as “Other,” which gain SEK 14m and SEK 14.5m respectively during the year.

It is also interesting to note that the labour market agencies sustain a net loss of approximately SEK 500,000 annually, which is primarily an expression of the costs of wage subsidies they assume to facilitate the occupational rehabilitation of members of Vägen ut!

### 3.2 Key Figures Statement – Vägen ut!

The key figures in the Socioeconomic Report for Vägen ut! are as follows:

**Table 3.2 Socioeconomic Report, Vägen ut! 2005, Key Figures Statement**

Key figures	Ratio	Value
Revenues for Vägen ut! from public and business perspectives	54m / 7.1 m	7.6
Profit (loss) for Vägen ut! from public and business perspectives	37.1m / (0.35m)	---
Social profit of Vägen ut! per year and employee	37.1m / SEK 38	0.98m
Social profit/cost of rehabilitation <sup>3</sup>	37.1 / 3.5Mkr	10.6

The table shows a few key figures for the Socioeconomic Report for Vägen ut! We see that the public revenues are 7 to 8 times higher than the business revenues. Even more spectacular however is that the social profit is more than SEK 35m while the enterprise is reporting a loss in purely business terms. This relationship clearly illustrates how wide the gap between the business and public cost-benefit perspectives can be.

Every employee at Vägen ut! generated a social profit of about SEK 980,000 in 2005. The rehabilitation cost invested by the public in Vägen ut! in 2005 returns more than ten times the money or 1,060% – a rather acceptable return in most investment contexts.

<sup>3</sup> The cost of rehabilitation is defined here as sales of rehabilitation places sales as reported in the enterprise's income statement.

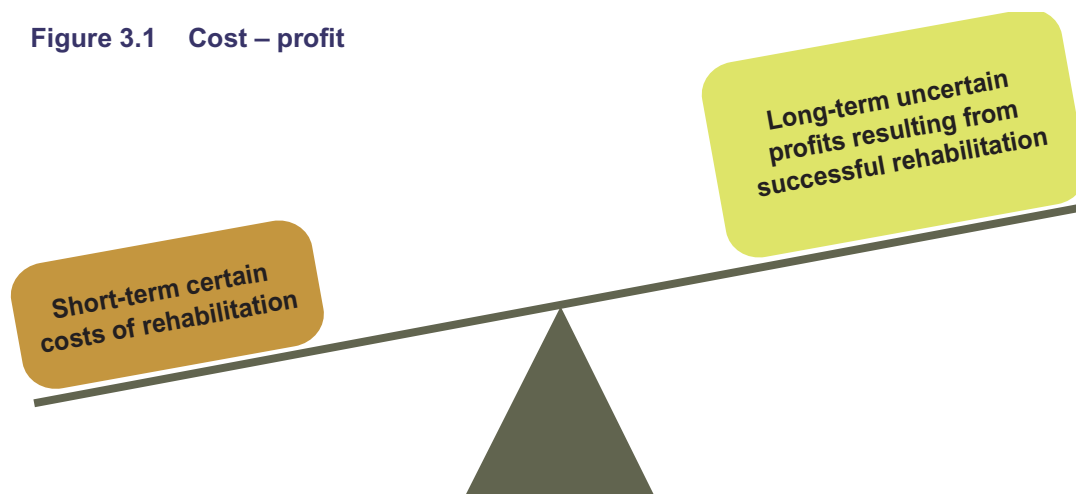
### 3.3 The social investment perspective – Basta

#### 3.3.1 Background

Long-term and preventive efforts or rehabilitation are always associated with a certain measure of uncertainty. It is always easier for decision-makers to deal with the short-term certain issues than with the long-term uncertain ones. Alongside the general aversion to risk, the duration of terms in office and the budget year tend to favour a short-term approach to decisions, which tends to reduce the uncertainty. Somewhat sharply, one might say that this approach puts decision-makers at risk of getting better and better and taking the wrong short-term decisions with a high degree of certainty instead of doing the right thing for the long term.

The individual decision-maker is expected to form an opinion and consider a very concrete, clearly identified, certain and sometimes urgent cost today in relation to a very uncertain, in most cases vague (both in size and scope) revenue sometime in the future - which may also accrue to some other actor. It is not surprising that in this type of decision situation, people assign greater weight to the concrete impacts of the present than the uncertain impacts of the future.

Figure 3.1 Cost – profit



As long as we are unwilling to take risks in the long-term effort to prevent illness and rehabilitate excluded and marginalised people, the short-term, certain but often poor decisions will prevail. We may need new welfare institutions that are willing to take these risks, which are in terms of humanity and economics basically sound. The Socioeconomic Report's investment statement is an attempt to create this type of long-term approach to rehabilitation.

### 3.3.2 *The one-year investment perspective*

Let us take Basta as an example. We start with the pessimistic assumption that after the first twelve municipally financed months at Basta, an employee will relapse on the first day of month thirteen. At that point, the municipality will have accumulated an investment cost of SEK 285,000 and a revenue of SEK 235,000. The return on invested capital for the first year is 82%, or a loss of 18% in relation to the investment. From the public perspective, the revenue generated for the same cost is SEK 1.78m.

**Table 3.3 Socioeconomic Report, Basta, 2005. First-year return on a rehabilitation place for the municipality and the public if an addict immediately relapses after the first year**

Cost of rehabilitation	Revenue to municipality, SEK	Return <sup>4</sup> to municipality, %	Revenue to the public, SEK	Return to the public, %
285,000	235,000 <sup>5</sup>	82 %	1,795,000	630 %

From the municipal perspective, the return on investment is 82%, but the return from the public perspective is about 630%. This looks like a bad deal for the municipality but a good one for the public. It then becomes interesting to ask: from what economic perspective should such decisions be taken? Is there a responsibility for having an overall perspective on the issue and if so, whose responsibility is it?

One can also look at another side of the question and think about how long an employee must remain at Basta for the investment to be repaid. That is, how long is the “pay-off time” on the rehabilitation investment?

We see below that the pay-off time for the municipality is about fifteen months, but barely two months for the public. In other words, if a person stays at Basta for three additional months after the first year, the transaction will reach the breakeven point for the municipality. From the public perspective, this means that even if the municipality pays for a one-year stay for someone and he leaves after two months and returns to a life of addiction and crime, the investment has reached breakeven.

<sup>4</sup> Here and throughout the report we use “return” to mean a ratio between what an actor gets back in relation to what the actor invests. If the ratio is less than 100% it indicates a loss. Likewise, ratios higher than 100% indicate a profit.

**Table 3.4 Socioeconomic Report Basta, 2005.  
Pay-off time for the rehabilitation investment**

Actor	Pay-off ratio	Pay-off time
Municipality	1 / 0.82	1,22 years = 15 months
Society	1 / 6.30	0,16 years = 2 months

### 3.3.3 A five-year perspective on the rehabilitation problem

But now let us move the time horizon farther ahead. Basta has existed as an enterprise for more than ten years and a large number of people have now lived at Basta for five years or longer or have lived at Basta for a time and later stayed clean and sober outside Basta for five years or longer. The median time for the people living at Basta when this study was conducted was four to five years.

We can thus calculate the five-year investment horizon for people who have stayed at Basta for five years without relapsing into addiction rather easily by going directly from the values in the table above, keeping the rehabilitation cost constant and multiplying revenues by a factor of five.

**Table 3.5 Socioeconomic Report Basta, 2005. Return over five years on a rehabilitation place for the municipality and the public<sup>5</sup>**

Cost of rehabilitation	Revenue to municipality, SEK	Return to municipality, %	Revenue to the public, SEK	Return to the public, %
285,000	1,175,000	413 %	8,975,000	3,150 %

We then see that the return on the rehabilitation investment from the five-year perspective is more than 400% for the municipality and 3,000%, or thirty times the money, for the public as a whole. This would probably be considered a good return in the conventional business world.

If we compare this to the values we arrived at after one year, it illustrates the difference between a short-term and long-term approach to rehabilitation. Something that may seem like a bad deal from the short-term municipal perspective becomes a very profitable story from a somewhat longer term perspective.

<sup>5</sup> We have chosen to use non-discounted values in this and subsequent tables.

The median time for a stay at Basta is just under five years, meaning that about half the people have been there for a shorter period. But we also know that a number of people do not complete their stay, quit or otherwise fail in their rehabilitation at Basta. How can we calculate the value of this from an investment perspective?

To use a rather pessimistic calculation example, let us assume the following. Half the employees staying at Basta are there for one year and then return to addiction and criminality on the first day of month thirteen. The other half of the employees stay at Basta, like the current staff, for five years and then go back to addiction and criminality on the first day of year six. We then arrive at the following results for return on the rehabilitation investment.

**Table 3.6 Socioeconomic Report, Basta, 2005. Return on investment in rehabilitation at Basta for the municipality and the public**

	Cost of rehabilitation	Revenue to municipality, SEK	Return to municipality, %	Revenue to the public, SEK	Return to the public, %
Five years at Basta	285,000	1,175,000		8,975,000	
One year at Basta	285,000	250,000		1,795,000	
Average	285,000	705,000	247 %	5,385,000	1,890 %

We then see that the probable municipal revenue for the average employee at Basta is more than SEK 700,000 or two to three times (247%) the original cost of rehabilitation. The corresponding figures for the public are more than SEK 5.3m or about 19 times the original cost of rehabilitation.

#### *3.3.4 Thinking in terms of life cycles – a twenty-five year perspective*

The preceding arguments were based to a great extent on lessons learnt during Basta's history as an enterprise. There is no basis for calculating the actual long-term economic impacts of a clean and sober life. And yet a life of recovery and employment is the actual purpose of Basta's existence. Purely hypothetically, what would be the economic impacts if a Basta employee stayed clean and sober for 25 years?

If we once again start with Table 3.6 above, we can multiply the revenue side by a factor of five to arrive at a rough estimate of the long-term calculation's result. The municipal return now becomes SEK 5.9m or more than 20 times the money, while the corresponding figure for the public is about SEK 45m, or more than 156 times the investment in rehabilitation if discount effects are excluded.

This may perhaps lead one to reflect carefully when evaluating the social value of rehabilitation for drug addicts. What time perspective should be used and which is most meaningful in such a discussion – the agency perspective or the public perspective?

### **3.3.5 *Conclusions on the long-term value of Basta and Vågen ut!***

What conclusions can be drawn from the cost-benefit analysis of these investments?

- First, there is a substantial difference between short-term and long-term returns. The long-term impacts of successful rehabilitation provide a return of several hundred percent. The profit per individual amounts to several million kronor.
- A second conclusion is that even when there is a high failure rate, the profits on the people for whom the rehabilitation process succeeds are so high that the net return to the public is substantial.
- Thirdly, the profits are generated very quickly – after only a month or two from the public perspective.
- The fourth conclusion is that there is a substantial difference between the municipal perspective and the public perspective.

On the general level, one can say that the model based on a short-term approach and the single-agency perspective seems to be an effective guarantee of suboptimal use of public rehabilitation resources. Finally, it should be said that the cost-benefit analyses above are based on data from Basta because the enterprise has existed long enough to make it possible. Vågen ut! is a relatively new programme and this kind of data is not yet available. However, there is nothing in the study that gives us reason to believe Vågen ut! will not achieve the same results.

## **3.4 Cases of special interest**

The material we have produced to present the Socioeconomic Reports for Basta and Vågen ut! contains a great deal of detailed information that could not be analysed and reported here for various reasons. There are however a few interesting factors worthy of discussion: how the profits are distributed in the sector we have called the legal system, the impacts for insurance companies generated by the Vågen ut! and Basta programmes and how municipal profits are distributed among different municipalities.

### **3.4.1 *Impacts within the legal system***

The legal system is made up of four agencies or actors. In the table below, we have distributed the generated profits among these actors.

**Table 3.7 Socioeconomic Report, Vågen ut!, 2005. Annual impacts on the legal system of the Vågen ut! programme, distributed by actor**

	Courts/Prosecutors		Prison and Probation Service		Police	
	Revenue	Cost	Revenue	Cost	Revenue	Cost
Court/Prosecution system	6,679,313	201,875				
Prison and Probation Service			3,007,974	775,333		
Police					5,291,617	0
Total	6,679,313	201,875	3,007,974	775,333	5,291,617	0
Profit		6,477,438		2,232,640		5,291,617
Profit per individual		171,225		59,018		139,879

We can see that all parties profit by the existence of Vågen ut! The costs of expensive trials, complex prosecution processes, many police interventions and costly prison sentences are saved. It is somewhat surprising that the public prosecution system and the courts gain the most with a combined profit of about SEK 170,000 per year for every employee at Vågen ut! The Prison and Probation Service also makes a substantial gain, even though this annual report has allocated (or according to our perspective, invested) SEK 750,000 of its own funds, primarily to contract treatment. The annual net profit for the Prison and Probation Service is about SEK 60,000 per employee at Vågen ut! or a total of more than SEK 2.2m for the entire enterprise. The net profit for the police is more than SEK 5m for the entire enterprise or about SEK 140,000 per individual and year.

### 3.4.2 Impacts on insurance companies

How insurance companies are affected by the Vågen ut! and Basta programmes is another interesting question. A large part of the social profits generated by these two enterprises is made up of prevented thefts and burglaries, reported in the annual reports under the "Other" category of actors. In the table below, we have first separated the component of this impact that can be attributed to the insurance companies and then distributed the profits based on the market shares of the companies in the homeowner's/renter's insurance market. The table shows how the profits are distributed among the companies.

**Table 3.8 Socioeconomic Report Basta & Vägen ut! 2005. Annual value of prevented thefts as one of the impacts of Vägen ut! and Basta**

Actor	Percentage	Vägen Ut!	Basta
Other costs (value of thefts)	100 %	14,5m	36,9m
Percentage, insurance companies	85 %	12,3m	32,3m
Market shares, four largest companies	100 %		
LF-gruppen	41 %	5,0m	13,2m
Folksam	28 %	3,4m	9,0m
Skandia	14 %	1,7m	4,5m
Trygg-Hansa	12 %	1,5m	3,9m
Other	5 %	0,6m	1,6m

The difference in impacts between the two social enterprises is attributable to three things: the difference in the number of employees, the difference in the sex of employees and the difference in main drug of choice. Basta has more employees, a larger percentage of drug addicts and a larger percentage of men, resulting in more extensive burglary/theft and higher costs for insurance companies. The opposite conditions prevail at Vägen ut!

### 3.4.3 *The municipal perspective*

The Socioeconomic Reports report profits distributed among various groups of actors such as municipalities, county councils and the Social Insurance Administration. Basta has a large intake area for its employees, meaning that “municipality” may seem a slightly abstract concept. This gives rise to the interesting follow-up question of how Basta affects individual municipalities. In the table below, we have distributed municipal profits among a number of individual municipalities based on the home municipalities of Basta employees for the financial year 2005.

**Table 3.9 Socioeconomic Report Basta, 2005. Annual impacts on municipalities of the Basta programme, distributed by home municipality**

Municipality	Number of employees	Percentage of employees	Municipal profit per year
Stockholm	16	25 %	2,150,000 sek
Södertälje	7	10 %	860,000 sek
Other/Stockholms Län	16	25 %	2,150,000 sek
Göteborg	9	14 %	1,205,000 sek
Other counties	17	26 %	2,238,000 sek
Total	65	100 %	8,605,000 sek

This shows that the three municipalities that profit the most from this programme are Stockholm, Göteborg and Södertälje. Södertälje, to take one example, made a municipal profit (after deducting all costs) on the existence of Basta in 2005 of SEK 860,000.

#### *3.4.4 The labour market policy perspective and financial impacts*

We have previously described that the net impact for the labour market agencies of the Vägen ut! programme for 2005 was a loss of about SEK 500,000 or about SEK 14,000 per employee. Does this mean that Vägen ut! is a bad deal for these agencies? The answer to that question is a resounding no. The impact is the result of this actor's decision to invest<sup>6</sup> in a number of employees at Vägen ut! by granting wage subsidies. In so doing, the agency is fulfilling its Government mandate to increase the employment rate in Sweden to 80% by supporting the process of integrating a marginalised group into the labour market. In all studies of this type, this kind of measure automatically generates a net cost, reported here as a loss. Anything else would be impossible, in exactly the same way as that the individual employee's consequences for the municipality generate a loss in Basta's income statement for year one.

If we instead expand the discussion to include year two and, as in the case with the cost-benefit analysis of investments in Basta, imagine that year one is an investment year and year two is a return year, the possible impact of the second year becomes that the net loss of SEK 13,486 for year one is turned into a net profit of SEK 28,558,<sup>7</sup> which entails a total profit for the two years of SEK 14,712 per employee or a pay-off time of roughly 18 months, compared to Basta's pay-off time for the municipal investment of 14 months.

Thus, all of this has to do with whether one should adopt a short-term cost perspective on the wage subsidy investment from the Employment Service or a long-term investment perspective aimed at integrating marginalised people into the labour market. We believe the long-term perspective is the obvious choice.

---

<sup>6</sup> This problem is discussed in a later section using the term "investment hump".

<sup>7</sup> We arrived at this figure by dividing the gross revenues for the National Labour Market Board by the number of employees at Vägen Ut! (1,085,200/38).

## 4 The social enterprises

This study covers two social enterprises, Vågen ut! and Basta. This section provides a brief description of the two enterprises in the 2005 financial year.

### 4.1 Basta

There were 65 people in the Basta programme in December 2005, of whom 43% had been at Basta for 12 months or less. This means that their stay at Basta had been financed by Social Services (78%) or the Prison and Probation Service/legal system (22%) at a cost of SEK 780 per day or SEK 285,000 annually per individual for the municipality and SEK 900 per day or SEK 329,000 annually for the Prison and Probation Service.

The other people at Basta have been in the programme for one year or longer. The length of stay varies between one and eleven years, with a median value of four to five years. Forty-eight (74%) are men and seventeen (26%) are women. The average age is 42.

Amphetamines are the most common drug of choice for residents of Basta. Heroin and alcohol are minority drugs. The residents of Basta are generally long-term substance abusers who became addicted during adolescence and many have been practicing addicts more or less constantly for 20 years. Most have worked in the past (37 occupational groups are represented) and many have professional training of some kind. As a result, many, perhaps most, of the residents have had short or long periods on sickness benefit or unemployment benefit during their addiction careers. Only rarely have they been put on sick leave with a diagnosis of addiction.

Thirty people at Basta are parents. These 30 people have a total of 56 children, of whom six lived at Basta at the end of 2004.

While actively abusing, 68% have been in some form of treatment (usually provided by Social Services). This treatment involved everything from outpatient programmes to voluntary admission to treatment centres, for which a large number of care episodes are represented. Of all residents, 18% have been the object of interventions under the Swedish Act on Care of Addicts in Certain Cases (LVM) and 12% have been put into care under the Care of Young Persons Act (LVU). Thirty-four people at Basta have served time in prison, with a total sentence of 124 years, which equals an average of two years per Basta resident.

## 4.2 Vägen ut!

Compared to Basta, Vägen ut! is a young social enterprise of only a couple years' standing. The programme has expanded very quickly in that short time. The people in the programmes are rarely there for longer periods, which is based on the principle that Vägen ut! should function as a transition from social exclusion to employment. There were three main programmes in 2005: Villa Solberg – housing and job training for men, Karin's Daughters – commercial activities and job training for women and the Solberg Café – commercial activities and job training.

There are also activities within an interest association and an economic association under the parent organisation Vägen ut! Several new programmes were planned in 2005 for start-up in 2006.<sup>8</sup>

Nineteen people were employed at Vägen ut! for all or part of 2005. Fourteen received a wage subsidy and two were in Sheltered Public Employment (OSA). There were 15 men at Villa Solberg during the year and 15 women were in the Karin's Daughters programme. Amphetamines were the main drug of choice for 60% of the people at Vägen ut! Heroin was the drug of choice for only 5% and alcohol was the drug of choice for the remaining 35%.

## 4.3 Similarities and differences

When we compare the two enterprises, we see that the main similarity is that essentially all employees have a long history of criminality and addiction, with deeply rooted and usually long-term social exclusion, in most cases starting in early adolescence and lasting well into middle age. The lives of many residents are stories of addiction, criminality and exclusion for 20 years or more. Amphetamines are the main drug of choice in both programmes, but there are certain differences:

- At Basta, addiction is the main reason for entry to the programme while residents at Vägen ut! may also have a more purely criminal background.
- Basta is dominated by men (74%) while the majority at Vägen ut! are women (55%).
- Alcohol as drug of choice has a clearly minority status at Basta (12%) but is the drug of choice for a considerably larger percentage at Vägen ut! (35%).
- The median time for a stay at Basta is four to five years, but only four to five months at Vägen ut! The difference is mainly attributable to that the programmes at Vägen ut! had existed for only a little over a year when the study was performed.

<sup>8</sup> When this was written in 2006, Villa Karin was a halfway house for women corresponding to Villa Solberg. Anlita, a self-employment enterprise, and Young Surfers, a screen-printing shop, have started up.

- The difference probably also reflects a difference in the missions of the two enterprises. In a sense, Basta creates its own internal labour market, while Vägen ut! has a more clearly defined orientation towards helping people transition to other social rehabilitation systems.

These differences have some consequences on the results of the Socioeconomic Reports because *public costs are extremely dependent on the addict's sex and drug of choice*.

#### **4.4 Similarities and differences from the business perspective**

The business performance reports for these two social enterprises are of course prepared and reported according to accepted practices (see our main report for details) and in the manner provided by law. Both enterprises have revenues that are both conventional market revenues and revenues for sold rehabilitation and training programmes, which reflects the rehabilitation profile of the social enterprise.

There are however a number of interesting differences from the business perspective which may be worthy of discussion. The first is the scope of operations. While Basta had sales of SEK 18m in 2005, the corresponding figure for Vägen ut! was barely half as much. This naturally reflects the fact that Vägen ut! has been in business for only a couple of years, while Basta has been an established enterprise for 12 years. The number of FTE is also twice as high at Basta (65 in 2005) as at Vägen ut! (38 in 2005 converted to FTE). For those of us who have had the opportunity to follow Basta's development throughout its lifetime, it seems more logical to compare Vägen ut! today with Basta two or three years after it started, with respect to both total volume and market-based revenues. The difference may be that the rate of growth at Vägen ut! in the initial years was considerably higher than for Basta during its first year.

Another difference reflected in the annual reports is rooted in an operational and perhaps also ideological difference. Basta has a large number of employees who have been with the enterprise for a long time without becoming co-operators or entering into a wage system. One might say the enterprise has created a kind of informal internal labour market with informal forms of compensation outside the conventional labour market with its wage, pension and tax system. Activities at Vägen ut! may be regarded as a more distinctive transitional rehabilitation programme aimed at helping people returning to society with relatively short throughput times (months or parts of a year).

A large percentage of employees at Vägen ut! receive the majority of their compensation in wages, a large part of which (50-75%) is financed via wage subsidies. Basta has a larger percentage of market-based revenues (33%) than Vägen ut! while only a very small percentage of the staff at Basta are paid wages, which may have impact on things like their future pension conditions.

There is also a difference with regard to the actors that finance rehabilitation revenues. At Basta, the dominant source is the municipal Social Services office, which finances about 80% of rehabilitation places. The main sources of funding at Vågen ut! are the Prison and Probation Service and the National Labour Market Board.

At Vågen ut! there is a very distinct connection between the enterprise's activities and funding and other public rehabilitation actors such as the Employment Service, Social Insurance Administration, Social Services Office and, especially, the Prison and Probation Service in the form of a very active and supportive network – a kind of partnership relationship. This relationship creates favourable financial conditions for the programme while simultaneously creating a relationship of dependency and vulnerability.

Basta emphasises autonomy from public systems in its work and its ideology, but the programme causes a certain encapsulation effect for individual employees. This may be illustrated as follows.

The total cost of labour at Basta for the reported financial year was SEK 4 million for 65 employees. If we assume an average monthly wage of SEK 16,000, this translates to an annual payroll cost of about SEK 270,000 kronor per person ( $16,000 * 12 * 1.4$ ). In other words, that SEK 4 million suffices to pay the full cost of payroll for 16 people, of whom a few (2-4) are not recovering addicts. During the same period, there were about 35-40 people at Basta who had been residents for more than one year and 20-30 who had been employees for one to five years without being part of a conventional wage system providing full opportunities to get out of debt and build pension entitlements and with no opportunity to pay tax. This probably creates a sense of security for some people, but may for others be an involuntary relationship they wish were otherwise. One might say the price of the enterprise's external autonomy is a certain internal relationship of dependency for the employees in relation to the enterprise and its management. One could also say that the enterprise delays the integration process and limits the empowerment perspective for these people.

The differences in revenue flows, mission, degree of autonomy and dependency and ideology, as well as the circumstance that they are in utterly different life phases makes it difficult to compare the enterprises based solely on their annual reports.

---

# 5 Our procedures

## 5.1 Design

The basic idea behind this effort is rather simple, albeit rather time-consuming. Our basis is the public benefit the two enterprises create and which is found in their ordinary annual report based on business performance. That annual report, however, provides only a limited view of the public benefit created. A great many positive impacts result from the employees of Vågen ut! and Basta having left drug abuse and criminality behind them. Economists refer to these effects as positive external impacts. What we have done here is to first try and track all the impacts of a life of social exclusion, quantify them and put a price tag on them. We have identified and priced about 130 such concrete impacts.

We then studied how those impacts have been eliminated or reduced by choosing to sign up with Basta or Vågen ut! We then added the value of the impacts at the individual level and for the entire enterprise. This total, along with the ordinary annual report, makes up the Socioeconomic Report.

We have thus followed the three steps of the classic cost-benefit analysis:

- *Identify* all the impacts of a specific measure (welfare consumption chains)
- *Quantify* the impacts (our six individual scenarios)
- *Set a price* on the impacts (our calculation model with its product and price lists)

## 5.2 Method

This report is based on what we call the scenario technique. That means we have worked with experts in various areas to carve out what they consider typical progressions, in this case for various forms of addiction careers or criminal careers. It would of course have been ideal if our calculations could have been based on actual patient chart and file data, with which we have worked in other studies, but that was not possible here.

We met with three different groups at Basta and Vågen ut!, each made up of four to eight people. The groups were selected to together reflect the most all-round, overall picture possible of the “typical addiction progression.” Two groups consisted of representatives of government agencies, two groups of male recovering addicts and two groups of female recovering addicts. A total of 24 workshops were held with the six groups.

Working with these groups, we first carved out a stakeholder structure and then a welfare consumption pattern based on three types of drugs: heroin, amphetamines and alcohol. We also studied how the structures and patterns differ between men and women.

After each workshop, we sent the results to the groups to get their opinions, which we used as the basis for the next workshop. The groups from each enterprise acted as the reference group for each other, and we compared whether the answers we received were the same or different. One difference is that residents of Vågen ut! have considerably less experience with heroin due to the drug culture in the Göteborg area. Another difference is that Basta is more male-dominated (74%) than Vågen ut!, which has a female majority. In other respects, the two groups were very similar.

### 5.3 How precise can the answers be?

When conducting this kind of study, one must decide rather early on what level of detail one wants in the answers. The precision of the results increases with the precision of the answers, but so does the workload. In this study, we chose to follow something we have called the rule-of-thumb principle in other contexts, as follows:

*When precise figures and answers can be obtained and reported, they should be. When they cannot, one chooses a good-enough approximation that meets the needs justified by the purpose of the study.*

In this study, that means costs and revenues are reported with a varying degree of precision. We report the exact cost per day to the municipality for a rehabilitation place at Basta, but the cost per day in a hospital detox ward is reported as the average within the relevant counties, and the cost of a complex trial is estimated by adding and averaging the costs of a number of such trials.

So, when we report that an addict of one type or another costs a certain amount of money or that the value of a successful stay at Vågen ut! entails a public value equal to a certain amount of money, the figures should be interpreted with common sense. They are not a description down to the last decimal of the actual costs, but rather provide a very good indication of actual average costs. Readers must take care not to be led astray by the seeming precision of our answers.

### 5.4 Limitations and generalisability

We must stress the following: *this is not a study of the general public costs of drug abuse*. That was not our assignment. As a means of producing the Socioeconomic Reports for Vågen ut! and Basta, we have calculated the public costs that employees of those enterprises have probably caused during their active addiction careers or criminal careers. But the costs are those for these specific individuals. Based on this

---

study, we cannot say how representative or non-representative they are of the entire group of severe and long-term addicts. Accordingly, one cannot use these figures to make any general statements about the cost of addiction or the value of successful rehabilitation, other than perhaps in the form of an arithmetical problem.

In this sense, the actual results are limited to these two specific enterprises for the specific year of 2005. On the other hand, our design and method are highly useful and generalisable. That was also the purpose of this study: to devise and demonstrate a generalisable method. We believe the method has two completely different applications.

The first is use by all other social enterprises or enterprises operating in the social economy that create positive added value that does not show up in the ordinary annual report, regardless of whether it has to do with reduced care consumption in social cooperatives for people with mental disabilities, the future costs of crime committed by socially excluded youth, or social enterprises devoted to reducing the exclusion of immigrants from the labour market.

The second application is use by all other programmes devoted to rehabilitating people with complex and multifactorial problems, regardless of whether they involve psychosocial occupational disabilities, diagnoses of non-specific back/neck problems, long-term unemployment, mental illness or addictions of various kinds, and wherever there is a need to find economic measurements of the social benefit of such rehabilitation. The method becomes a way of regarding complex rehabilitation as a social investment problem rather than a cost problem.

## 6 Welfare consumption chains

### 6.1 Welfare consumption chains – a means of describing costs

The addict's lifestyle is reflected in that he or she will be a public charge in various ways. In this study, we have chosen to describe this by means of a number of welfare consumption chains. Based on the behaviours that arise among addicts, we will use these chains to show how they burden parts of our welfare system and the public.

Accordingly, we have based our analysis of various progressions on the individual and not on the public organisational structure. We believe this provides better understanding of the events caused by a certain type of marginalisation of human beings. We can then translate this to costs for various actors through the design of our calculation model. The results are reported primarily by actor.

In the following, we describe two consumption chains and all chains linked into the overall picture upon which the calculations were based.

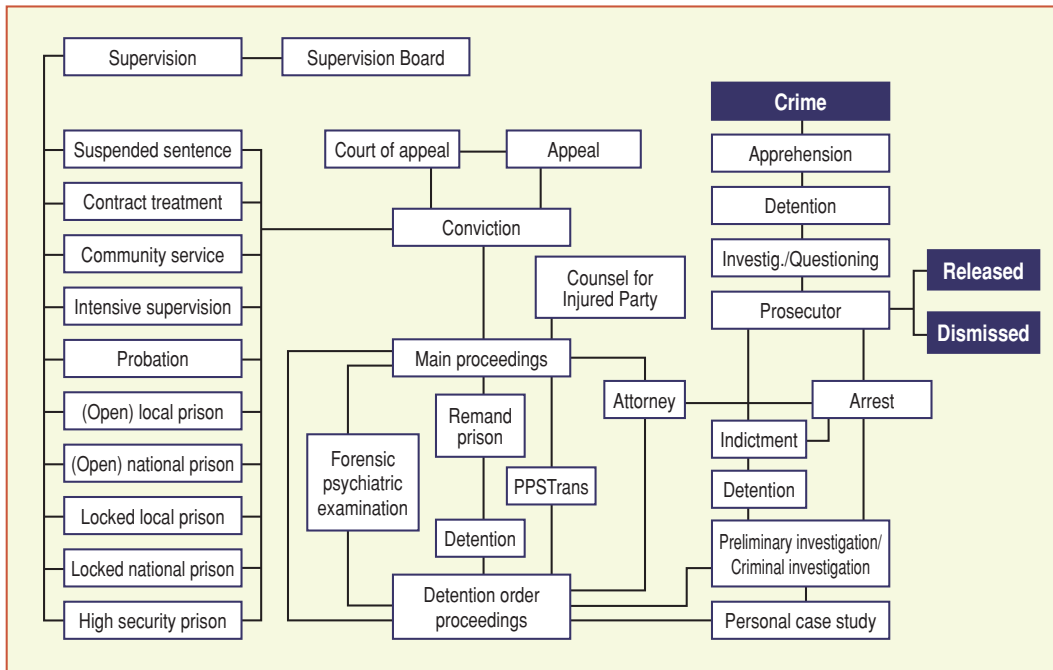
### 6.2 Example 1 – The consumption chain of apprehension, indictment, conviction and punishment

Addicts commit a great many criminal offences. Some serious offences such as assault and drugs offences, some trivial such as shoplifting or driving without a licence. Some of the crimes are related to the need to support the habit, others are attributable more to the lifestyle that comes with being an addict.

This initiates a long and extensive progression from the first detention by the police via a protracted legal process to punishment in various forms. Each link in the chain initiates various types of costs to the public, as illustrated on page 25.

Four public agencies are involved in this process: the police, who are responsible for detaining the person and investigating the crime, the prosecutor's office, which works with the police to determine whether a crime has been committed and bring an indictment, the court system, with its mandate to pass judgment and the Prison and Probation Service, which must execute the punishment ordered by the court. According to our expert groups, most of the crimes committed by addicts are relatively simple from the legal perspective. Most of the participants in the study mainly have experience with convictions resulting in suspended sentences, probation or short terms of imprisonment (2–8 months) in locked local institutions. But many also have experience of considerably longer sentences, usually associated with serious drugs offences. Some individuals in the study have served up to 12 years in prison.

**Figure 6.1 Detention, Indictment, Conviction and Punishment**



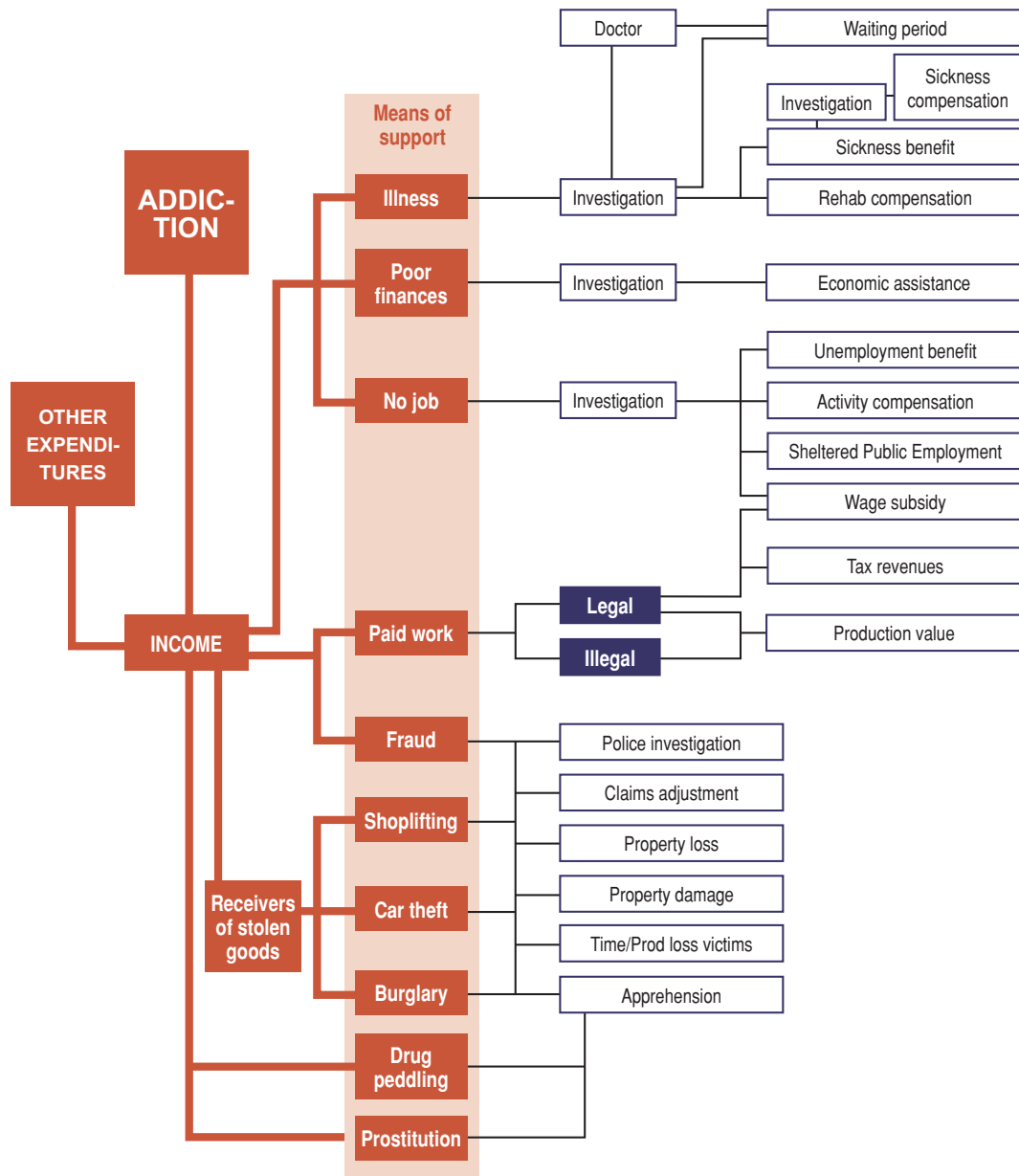
### 6.3 Example 2 – The consumption chain of support

Just like everyone else, addicts must (from a strictly economic perspective) balance their expenditures against the income they can generate. The picture that emerged at our seminars is that addicts have considerable entrepreneurial capacity when it comes to generating the financial resources they need. This leads to a number of social impacts summarised in the chart on page 26.

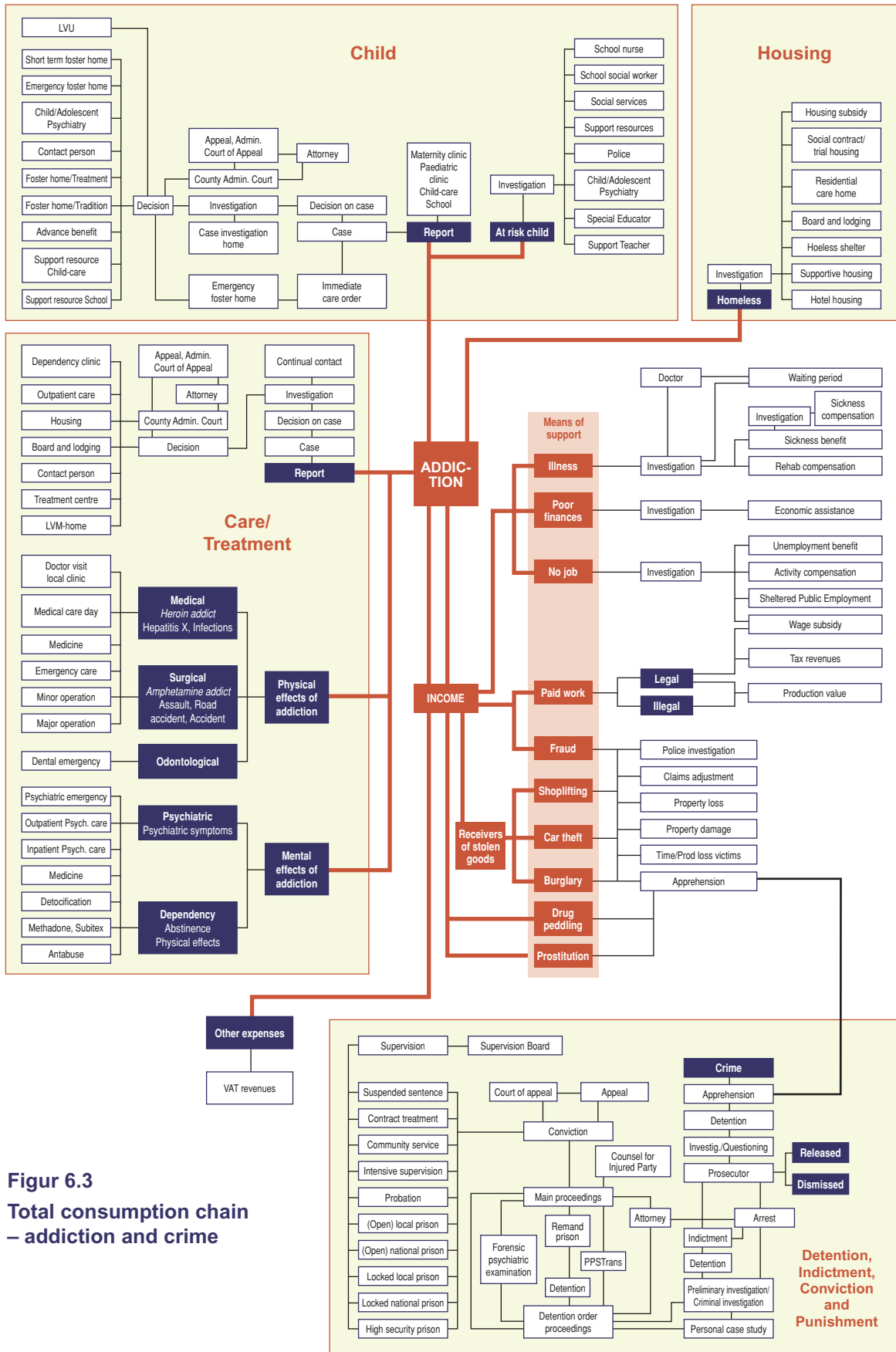
This could also be described as a household budget where an entire bundle of various types of income combined must suffice to finance the addiction and other living expenses. Several things make the addict’s household budget unique. First, the broad mix of different sources of income, covering everything from conventional income from work to serious crime. Second, the total dominance of the drug on the expenditure side. Third, if income does not suffice, the drugs are always the top priority.

These two consumption chains show how the addiction leads to public costs because the costs of the drug create deviant and/or criminal patterns. There is also a bundle of costs that more clearly arise as a consequence of the addict’s lifestyle, such as the costs of treatment, healthcare and housing.

Figure 6.2 Means of support – public costs



The following chart shows the total of the consumption chains we used in the calculations for Basta and Vägen ut! Using these chains, we have tracked about 130 different impacts or cost parameters that are affected by the addict's life in social exclusion. We then quantified these impacts and put a price on them in the Socio-economic Report.



**Figur 6.3**  
**Total consumption chain**  
**– addiction and crime**

# 7 The public costs of addiction

## 7.1 Calculations

### 7.1.1 Procedure

We calculated the public costs caused by employees of Vågen ut! and Basta during their addiction careers as follows. We held a total of 24 workshops with recovering addicts and agency officials. Working together, we carved out the following:

- The welfare consumption chains we discussed above
- Identified and put price tags on all welfare services used by addicts and other impacts they create during their addiction careers
- Compared this side-by-side with the addiction careers described above
- We then put this into our calculation model, which contains a total of 130 variables

Based on the above, we worked with our six expert panels to create a consumption pattern for male and female heroin, amphetamine and alcohol addicts, for a total of six addiction careers. We did this for the three years preceding arrival at Basta or Vågen ut! The average for those three years is reported as the average public cost for each of the six groups.

We believe the figures we derived and report here provide a good understanding of the economic impacts these particular six groups of addicts now in the Vågen ut! and Basta programmes caused when they were actively using. They have no pretensions to describing the economic impacts caused by an addict in general.

### 7.1.2 Systematic underestimation as a method

There was some risk involved in arriving at these figures of overstating the costs of addiction, which would lead at a later stage to overstating the value of the enterprises' Socioeconomic Reports. For that reason, whenever we could choose between a higher and a lower value for various impacts of addiction, we have consistently chosen the lower in all calculations. We call this the *lower value principle*. We would like to point out a few specific areas where we have either chosen a particularly conservative value or omitted costs altogether.

- With regard to *crime and theft* we have assumed costs that are 50% or lower (sometimes lower than 25%) than those stated by our expert groups. We have been criticised for this, especially by the groups of recovering addicts, but have chosen this approach despite the criticism for the reasons stated above.
- The same is true for two other factors that are both very costly to the public but also very difficult to measure correctly: *prison terms* and *children of addicts taken into care*. We have chosen to assume a cost well below the probable actual cost due to our uncertainty concerning both of these factors.
- Addiction leads to a great many *indirect or difficult to measure* impacts, especially due to crime: shoplifting, the need to compensate for loss within the retail trade, the cost of store security guards, the cost of alarms in commercial premises, cars and homes, security doors, etc. We have ignored all of these impacts.
- Addiction often leads to *multigenerational impacts*. Parents of addicts for whom worry leads to ill health and incapacity to work, or children of addicts who in turn continue the pattern into the next generation through the “social legacy.” We have not taken this into consideration.
- Addiction often leads to a great many *non-quantifiable, vague or difficult to measure* impacts such as worry and suffering. Fear of violence on the streets, the cost of humiliation, premature death of the addict, etc. We have also ignored these impacts, which are phenomena normally considered part of cost-benefit analysis.

The conclusion is that the calculations presented here probably underestimate (in certain areas severely) the costs of addiction.

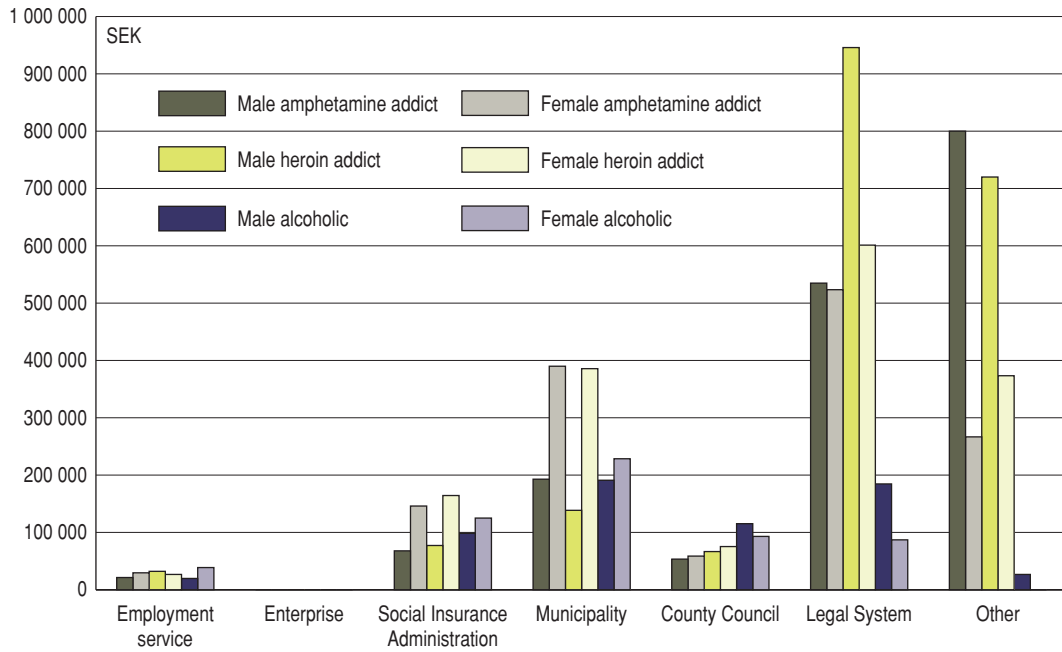
## 7.2 The costs of addiction

We present our results here in two ways: how costs are distributed among actors and how costs are distributed based on welfare consumption chains.

### 7.2.1 Costs to social actors

Figure 7.1 on page 30 shows the annual costs of addiction to our clients distributed by the actors and agencies affected.

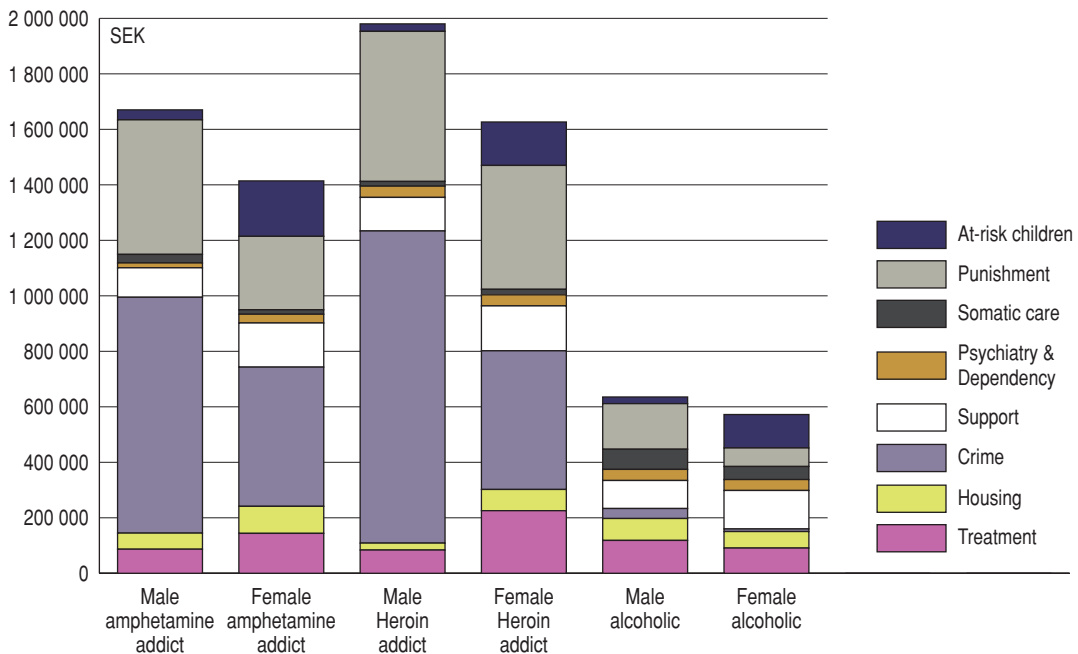
**Figure 7.1 Annual costs of addiction categories distributed by actor**



**7.2.2 Costs of various welfare consumption chains**

If we instead distribute the costs among the relevant welfare consumption chains, we arrive at the following result.

**Table 7.2 Costs of addiction distributed by welfare consumption chain**



## 7.3 Reflections on the results

We see above that the results show very high annual public costs of addiction, but also that the costs vary substantially among addiction careers and among actors. In general, our figures seem to accurately reflect the lifestyle and sex differences we described earlier. The following bullet list highlights a few factors that we discussed with our six expert panels and which may possibly explain these differences.

### 7.3.1 *Costs in general*

- The annual public costs of addiction are very high – far more than SEK 1 million, sometimes almost 2 million, per person and year for drug addicts and about a half million per year for alcoholics.
- Men’s and women’s welfare consumption patterns are very different, owing to partially different lifestyles even though they may abuse the same drug.
- Crime (theft, burglary, etc.) and punishment make up the dominant cost item for drug addicts. This cost appears in the report by actor mainly under the “Other” heading, as it is a cost that mainly affects citizens and insurance companies.
- Treatment costs, which are often described as high for these groups, amount to less than 10% of the costs of crime and punishment.
- Drug addicts are healthcare consumers only to a limited extent. Addicts avoid seeking medical attention even when they are very ill for various reasons (for instance, they want to avoid being categorised as an addict or forced into “coming down”). Drug addicts seek care mainly for accidents, medical injuries and detoxification.
- Consumption patterns differ somewhat between alcoholics and drug addicts; alcoholics use more healthcare and commit fewer crimes.

### 7.3.2 *Lifestyle and differences in costs*

- Men cost more than women, mainly because criminality is a more characteristically male behaviour.
- Lower criminality among women may be explained by that men often supply women with drugs. Women often earn income via prostitution, which has not been entered as a cost in this context.
- Men supply women with the drug and protect them by sometimes taking the entire punishment for a crime they committed together. The women return the favour by keeping a home to which the men can return, providing sexual services and visiting the men in prison and bringing in drugs.
- Heroin addicts cost more than amphetamine addicts because heroin is a more expensive drug that leads to more crimes to support the habit.

- Alcoholics cost much less than drug addicts because alcohol is a legal drug that costs less and does not automatically lead to crime.
- Alcohol causes more medical injuries than drugs – users end up in drunken fist-fights, etc., and sustain physical injuries. Physical injuries among drug addicts are often more “planned” and involve “scams” or drug deals gone wrong.
- The costs for children are higher among the women since the fathers are usually out of the picture.
- The costs for children are lower among women who abuse heroin than among women who abuse amphetamines, in part because the latter give birth to fewer children due to the effects of the drug on menstruation and libido.
- The costs of support are higher among women than men because women remain within the conventional social system longer. Women care more about maintaining a normal life, especially because they care about the right to keep their children. As a result, they receive sickness benefit, unemployment benefit, economic assistance, etc. Men end up in the criminal subculture faster and to a greater extent.
- Women receive more treatment than men. Women are more often given costlier treatment, such as through LVM. Men are sentenced to prison more often and rest/interrupt the drug use while in prison.
- Women who abuse heroin are given costlier treatment than women who abuse amphetamines, in part because heroin addicts are more often placed in treatment under LVM.
- Women who abuse heroin are sentenced to longer prison terms than women who abuse amphetamines because crimes involving heroin often carry tougher sentences, that is, give rise to higher costs.
- Housing costs are higher for women than men because women remain within the conventional social system longer and to a greater extent and do not slide into the criminal subculture as fast/often.

### 7.3.3 *Differences in costs and various actors*

- Costs are lowest for county councils and the Employment Service, which may be seen as an expression of an intentional or unintentional marginalisation mechanism. These target groups are considered difficult.
  - Women receive substantially more interventions from the caring systems (municipal and county) and men considerably more from the repressive systems.
  - The “Other” category is the hardest-hit financially, which is attributable to crime: theft, burglary, etc. Within this category, the insurance companies are indirectly the most adversely affected subgroup, due to the loss claims.
-

- The municipality is the most heavily burdened healthcare actor because it is responsible for providing addiction care.
- The Prison and Probation Service is the most heavily burdened repressive actor within the “legal system” category.

## 8 Welfare policy perspective

One is faced with two problems when evaluating the impacts of rehabilitation programmes aimed at target groups with complex needs, which are related to how our public institutions are organised and the management systems used. We might call the first the “stovepipe problem” and the second the “tyranny of short-sightedness.”

### 8.1 Stovepipe logic

The public systems work effectively for most citizens in the country. They are built according to what researcher Siv Their usually calls “stovepipe logic.”<sup>9</sup> They are highly specialised and have deep but narrow expertise within certain fields that is appropriate when the client problem set is clear, uncomplicated and coincides with the organisation’s skills, mandate and task.

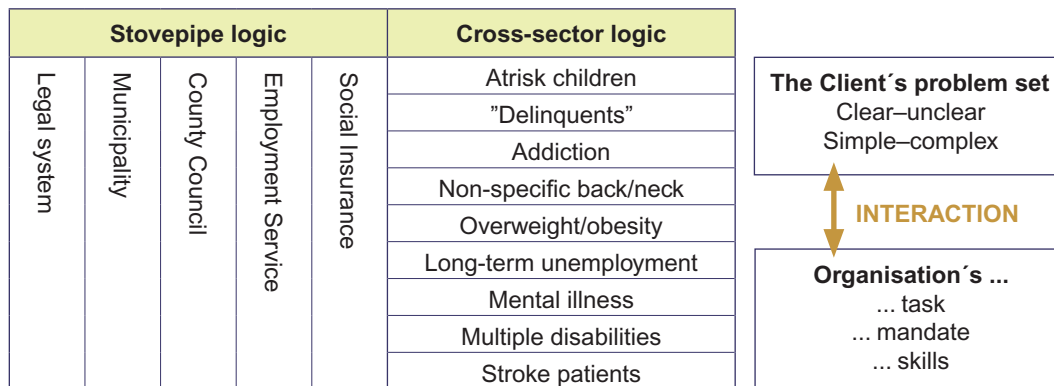
The problem arises when the client’s problem set is vague, complex and cross over the skills and mandates of several different organisations. These clients do not fit into the system precisely because the complexity of their problems demands a concerted and coordinated response from many actors, both to understand the problem and to identify the right solutions. This applies especially to marginalised groups, which are often the target population for social enterprises.

The paradox is that the clients who have the greatest need of support due to their complex and indistinct problems also have the greatest difficulty getting the support they need, as concluded by the Parliamentary Committee on administrative structures and responsibility as well as the National Board of Health and Welfare’s comments on this study.<sup>10</sup>

<sup>9</sup> See Their, Pedagogiskt Ledarskap, 1998

<sup>10</sup> See Nilsson, Christian & Helge, National Board of Health and Welfare 2003.

**Figure 8.1 Organisation- or client-perspective**



People suffering from addiction (like criminals and the long-term unemployed) are a group that do not really fit into the systems and with whom is played a sort of organisational game of “Old Maid.” For individual clients, this means they are far too often forced into running a fruitless gauntlet between different agencies<sup>11</sup>. Everyone takes limited responsibility for the client’s situation, but no single actor sees the entire set of problems or assumes responsibility for resolving all of them.

We have clearly shown in the Socioeconomic Reports that the profits of addiction rehabilitation are a complex mix of interventions taken from the various stovepipes. With respect to Vågen ut!, what seems to be a profit of SEK 0.7 million from the County Council perspective is a profit of SEK 5.6 million for the legal system and 17 million for the public. The same phenomenon – three entirely different cost perspectives. This stovepipe thinking usually leads to interventions that impede both meeting the needs of the individual and efficient use of public resources.

## 8.2 The tyranny of short-sightedness

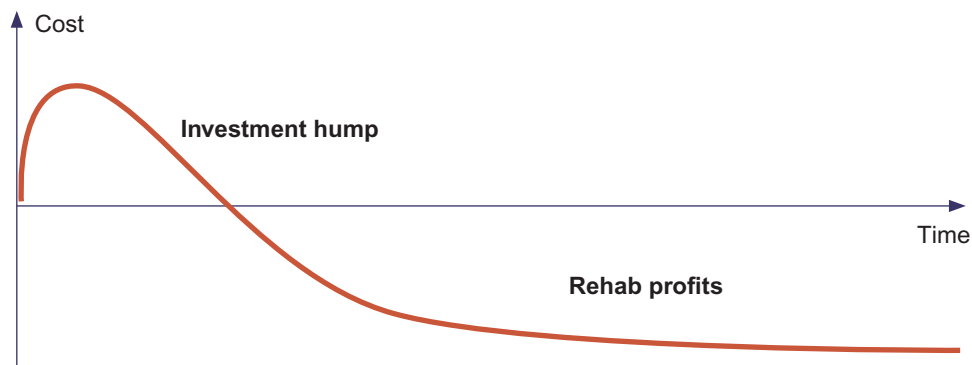
The other problem is that in most public contexts, people think only in terms of costs (aside from physical investments), which are charged in the current budget year. When investments are made in buildings and other permanent facilities, the cost side of an agency’s budget is charged with only a certain percentage of the cost every year over the estimated lifetime of the building. The organisations have an investment budget. There is no corresponding social investment budget in the social sector, where resources are likewise invested in a rehabilitation process. The *social investment perspective* is found neither on the mental map nor in the management and reporting systems. The tyranny of short-sightedness has been institutionalised in decision-making and management.

<sup>11</sup> See Nilsson & Wadeskog and National Board of Health and Welfare, 1999, Rutger Engström, “Psyiskt sjuk eller missbrukare” and Swedish Government Reports, SOU 1997, Egon Jönsson.

But let us look back at the impacts of Basta from the long-term perspective. That which is a short-term (from the one-year budget perspective) cost becomes a substantial profit over the long term (from for instance the five-year perspective). From the municipal perspective, the investment in a stay at Basta is not fully returned within one year (the return is only 82% of the investment). From the five-year perspective, this is turned into a profit of 250% or about SEK 700,000 for every employee at Basta.

You have to spend money to make money and there is always some risk involved. Costs always come before revenues – and future revenues are not certain. Alongside the one-year problem, this is one of the barriers to thinking in terms of investment.

**Figure 8.2 Rehab profits & time factor**



As long as our thinking and our public management and reporting systems do not allow management of a long-term investment approach to social issues or risk-taking, we will be caught in the trap of short-sightedness, which is not only economically inefficient but also causes unnecessary human suffering.

### **8.3 The Socioeconomic Report as a method of evaluating an overall view and the long-term approach**

The Socioeconomic Report is a concrete method for breaking the tyranny of short-sightedness and stovepipe thinking in that calculations are based on an overall perspective and can assign value to impacts that lead to the redistribution of resources among various actors. It also becomes possible to evaluate the long-term impacts of rehabilitation programmes, which makes it possible to adopt an investment perspective on rehabilitation as opposed to a short-term cost approach.

In these two ways, the Socioeconomic Report provides an opportunity to take decisions on more effective use of public rehabilitation resources and thus to act in a manner more efficient from the cost-benefit standpoint.

## 8.4 Applying this knowledge – how can these insights be used?

There are other applications for the Socioeconomic Report and the method we have presented here in addition to the obvious one of using it to describe and analyse the public value of social enterprises.

- The method can be used to describe and *understand the complex contexts of the lives of people with multifactorial problems*.
- In this way, the method can be used to *form an overall view* of the needs of various target groups. The method can be used as a basis for *overall needs assessment*.
- When this perspective is adopted, one can create the prerequisites for *cooperative solutions for various target groups with complex problems* and identify the winners and losers in concerted efforts.
- This gives us the capacity to *calculate the impacts of concerted efforts* surrounding people with multifactorial problems and to adopt a long-term social investment perspective on their rehabilitation.

We will now provide an example from another area in which we have been involved.

## 8.5 An example – youth at risk

### 8.5.1 Our basis – identifying the individual perspective

We were asked to prepare the equivalent to a Socioeconomic Report for a programme for youth aged 16–25 who were heading towards failure in their transition to adulthood.<sup>12</sup> Young people at risk of ending up in long-term social exclusion resulting in joblessness, physical or mental illness or addiction. How can one form a picture of the public value of such a programme?

In this case, we started with an at-risk young person we knew. We can call him Robert. Robert was a young man with severe problems in school who was on the fringes of a semi-criminal network of young people who abused drugs and alcohol. He painted graffiti on walls, shoplifted, drank beer and smoked marijuana. The police picked him up now and then, but never for a serious offence.

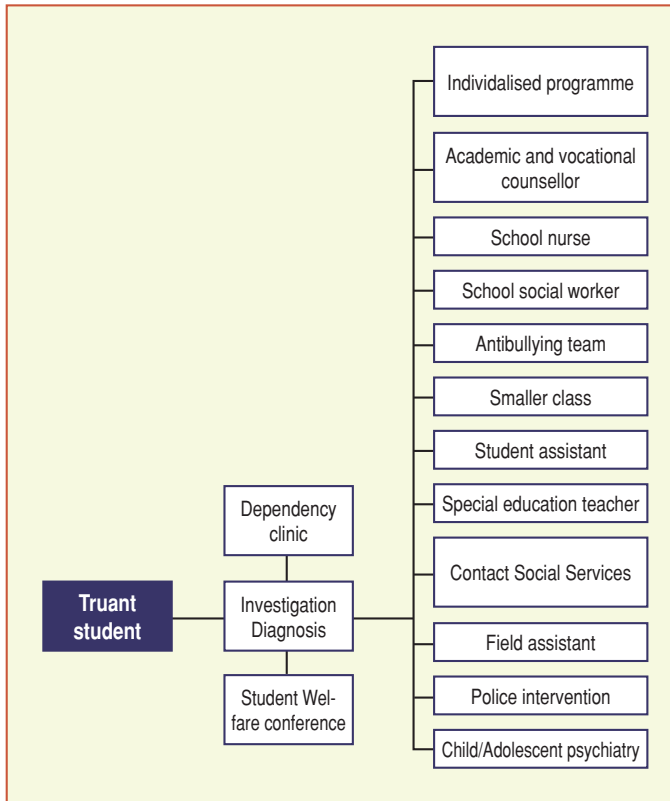
We tried to form a broad picture of the consequences of his lifestyle for him and his family. We saw how he became a case at the social services office, ended up at Maria Ungdom (a dependency clinic for youth) failed in the secondary school individualised programme and became a patient in the child and adolescent psychiatric care system. Robert's problems had an impact on his parents' jobs, as they were forced to take time off or go on sick leave. Robert's siblings were also affected. We saw how what started out as a school problem had grown to become a social problem.

<sup>12</sup> Many ideas in this report were based on a report called *Tänk långsiktigt* ("Think Long-term") produced by the National Board of Health and Welfare, the National Agency for Education and the National Institute of Public Health, who commissioned us to create the basis for the calculations in the report.

### 8.5.2 The results – welfare consumption by at-risk youth

We then worked with our client to draw a network map of the various actors involved with Robert. Thereafter began the same extensive effort as in this study to establish and quantify the welfare consumption chains that Robert eventually used. The logical starting point was the school and all the problems that Robert’s lifestyle caused there. The result was the welfare consumption chain illustrated below.

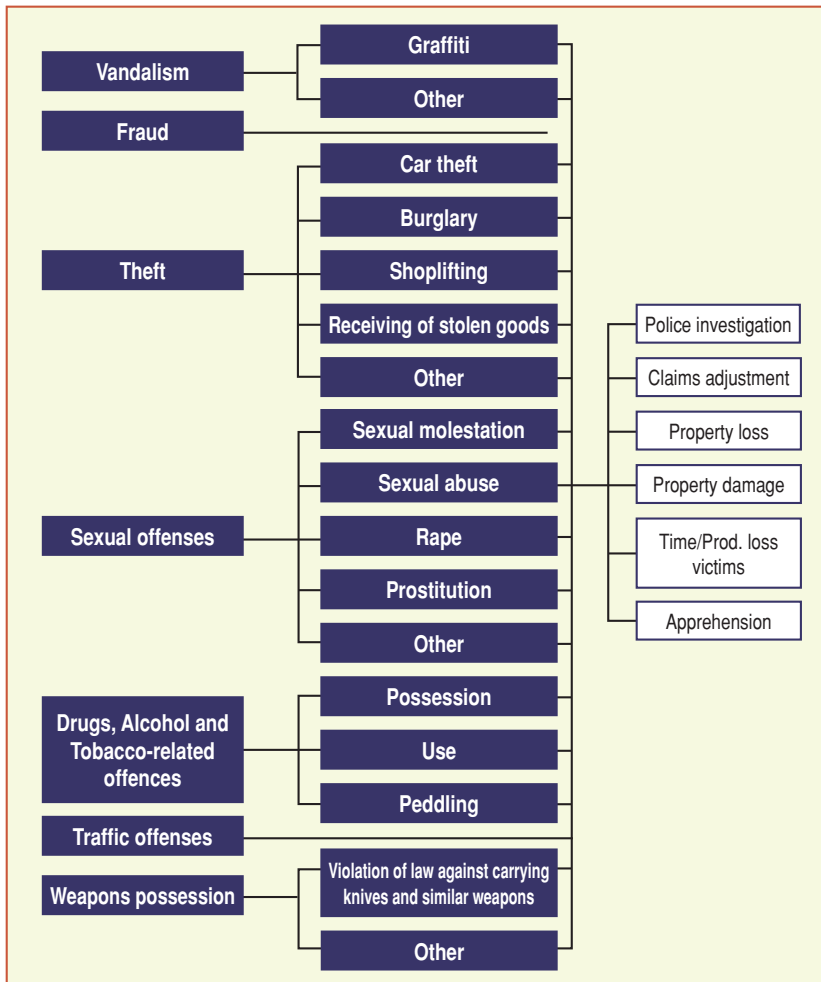
**Figure 8.3 School problems**



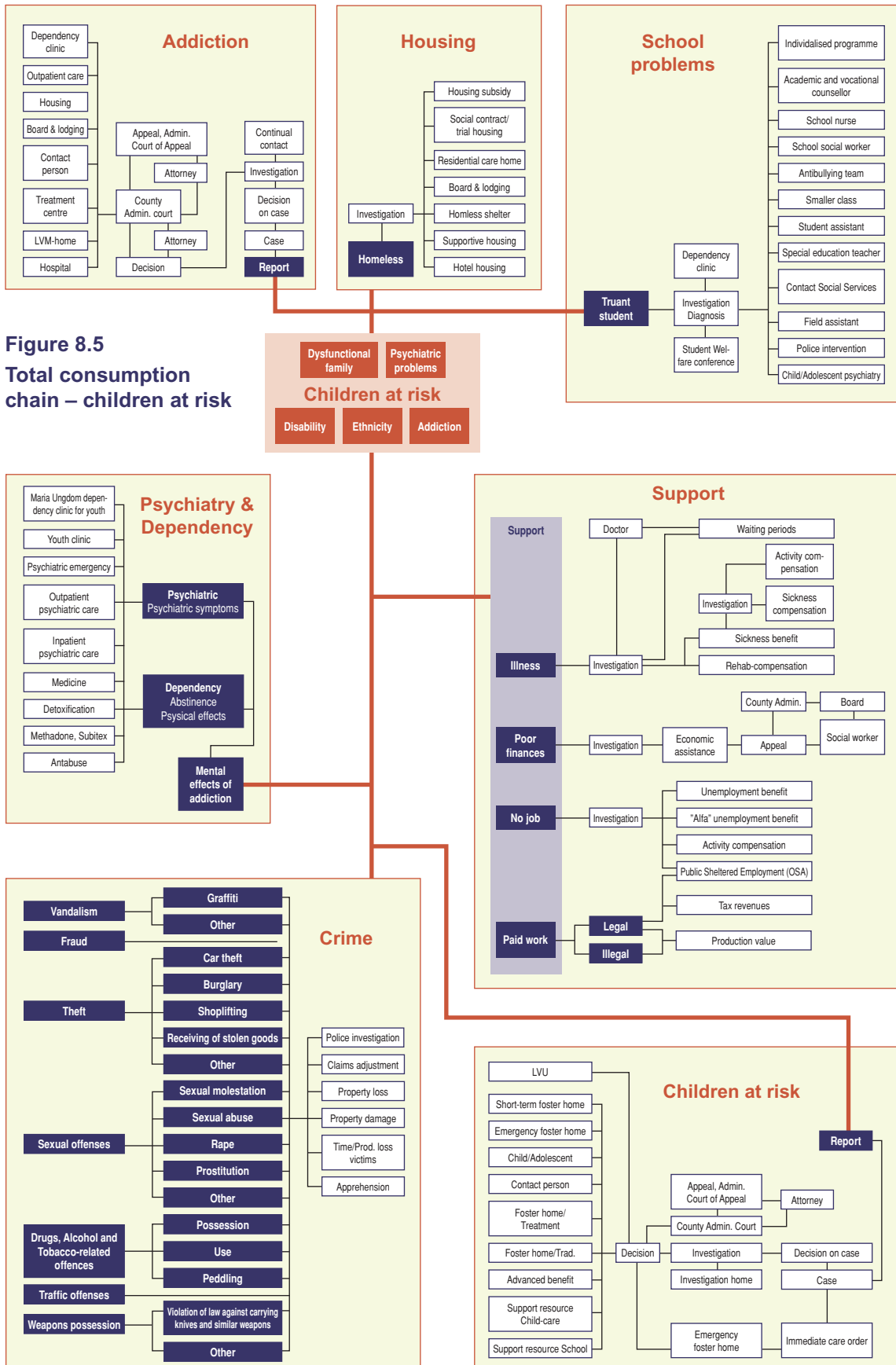
But Robert’s lifestyle encompasses so much more. Young boys and girls who get on the wrong side of society tend to rather quickly establish a relatively comprehensive destructive lifestyle that covers the gamut from drug abuse, graffiti and vandalism to traffic offences and minor to major crime. They often become victims or perpetrators of various types of sexual offences.

A great many welfare impacts that burden social actors in various ways arise in the more or less criminal sub-culture in which these young people live. Citizens are victimised, law enforcement and the prosecutor’s office are involved. Insurance companies are adversely affected. We combine all of this in the “Youth crime” consumption chain.

**Figure 8.4 Crime**



This lifestyle causes many other consequences. It affects housing, support issues, healthcare consumption, etc. We thus found it necessary to produce a more extensive network map that describes the economic consequences of the social exclusion of young people. When we did this, we based our analysis on the idea that there could be many different explanation models for Robert's behaviour, which included everything from various types of handicaps to learning disabilities, family dysfunction, patterns of mental illness, substance abuse or circumstances related to ethnicity. The common denominator is that regardless of the underlying causes, he needs interventions from many different actors to get help and he is going to generate heavy public costs if the interventions fail. The following map emerged:



The attentive reader will immediately recognise several of the consumption chains from Basta and Vägen ut! in the chart. This is a pattern with which we are well-acquainted from other studies. People with complex problems need public interventions and consume public interventions of similar types. Thus, one can also see that most of the consumption chains we analysed above can also be applied to the long-term unemployed, people on long-term sick leave and people with psychosocial occupational disabilities. In other words, most groups caught in the trap of social exclusion.

That which varies among the target groups is the extent of the interventions (some consume more and others less) and their distribution (some are a greater charge on the healthcare system, others on the legal system) and the life phase at which they take place (the investment perspective).

## 9 The socioeconomic cost-benefit analysis – components

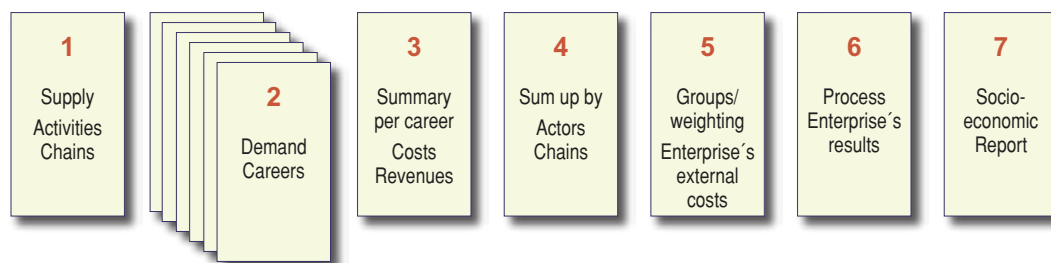
42

Our method report provides a detailed description of the welfare economics theory behind the Socioeconomic Report, based primarily on the terminology and methods often associated with cost-benefit analysis. The complete results report describes in detail how such an annual report can be produced. We first explain the general principles and then provide more practical guidance by demonstrating how we performed the calculations in this study in Excel. A very brief summary of general procedures follows here.

In general, producing a Socioeconomic Report involves estimating the positive and negative external impacts caused by a particular programme. This can be done at various levels of ambition and system limits. One may choose to focus on one or two impacts - such as prison sentences - or raise the level of ambition and try to deduce the most comprehensive picture possible of all impacts caused by the programme.

In our experience, the number of individual impacts or cost items should not be so few that certain stakeholders cannot recognise themselves in the work. On the other hand, the added value of additional cost/revenue terms eventually diminishes. This determination must be made for every calculation. In earlier studies we have used as few as 40 variables and as many as 250.

The procedure for producing a Socioeconomic Report may from the bird's-eye view be described as in the following chronological diagram of the steps in the calculations we performed for Basta and Vägen ut!.



- 1 **Identify** all relevant activities in relevant units and classify them based on whether each is a real or financial cost and assign a price. This is the *supply* side in the calculation. All activities must be linked to a relevant actor and where applicable to other classification systems. For this project, we used consumption chains as an additional classification.
- 2 **Quantify** how much of each activity in 1) typical individuals demanded in their lives before the programme and while in the programme. Here one builds scenarios/careers or collects registry data. If one uses typical individuals and careers, the number of each must be determined by the nature of the programme. In this project, we worked with three main drugs of choice and the two sexes to arrive at six typical individuals.
- 3 **Evaluate** the costs/revenues that each typical individual causes outside and inside the programme. This is a simple matter of adding up the demand and multiplying it by the price/cost of the activity for the various individuals.
- 4 **Process** the calculation by summing up according to the classifications entered in 1). This primarily involves making a *summary per actor* – what, for instance, a certain typical individual costs the Social Insurance Administration during one year. We also performed this calculation based on our consumption chains.
- 5 **Weighting of specific groups** involves counting the enterprise's specific population of individuals from 2) and matching them against 4). Quite simply, one counts the people who have been active in the enterprise during the year and distributes them among the categories selected in 2). This distribution/weighting is then multiplied by the cost/revenue per typical individual and actor from 4) to arrive at *the enterprise's external costs/revenues* for the programme per actor. This calculates the external costs of the enterprise.
- 6 **Process the enterprise's internal costs/revenues** so that they can be linked to the external costs and revenues for other actors. This involves analysing the monetary flows between the enterprise and various actors in terms of sales, grants and project funds.
- 7 **Compiling the Socioeconomic Report** involves entering the results from 6) into the summary derived from 5).

## 10 Final remarks

In this study, we encountered a handful of people in our six expert groups who generously shared their knowledge and experience about and of addiction and criminality. We met the recovering amphetamine addict who said about getting knifed in the belly “you have to expect that kind of thing; it’s part of the job.” The recovering heroin addict who once went seven years without a single day of sobriety. The woman who had been sentenced to 12 years in prison for a serious drugs offence. And the recovering alcoholic who successfully abandoned her former life after 20 years of severe addiction.

It is in such encounters, encounters imbued with a spirit of openness and generosity towards sharing life stories, that one is given an opportunity to reflect with a certain measure of humility over one’s own life and everyday complaints over trivialities.

This study could not have been performed without the knowledge that emerged in these meetings. Every story has its heroes, and these men and women are the heroes of our story. Thank you for giving so abundantly of yourselves.

We do not know how representative they are of the population of severe addicts in Sweden, but we can imagine and speculate. According to reports from the Government’s action programme against drugs there are 26,000 people in Sweden struggling with severe drug addiction right now. If the figures in our study can be applied to this entire population, successful rehabilitation of all of these people would generate a social profit of 25 to 35 billion kronor every year – equal to about half of total government expenditures for the labour market policy for an entire year or the entire annual budget for education and university research.

From this perspective, it would be an intriguing social investment approach to consider the returns that might be generated if we collectively and financially supported additional enterprises of the same type as Basta and Vägen ut! If the figures in this study are accurate and representative, it would likely be very difficult indeed to find a stock traded on the Stockholm Stock Exchange that provides returns anywhere near the profits these enterprises generate for the public.

# 11 References

## 11.1 Analysis of cooperation, the economy and rehabilitation

### 11.1.1 *Studies in this field performed by others*

Samhall Resurs AB, Huldt J & Andersson K (2000)

Sampop – en samhällsekonomisk utvärdering av FRISAM-verksamhet i Växjö

Swedish National Board of Health and Welfare (2002)

Med arbete som insats – klienteffekter och samhällsekonomisk lönsamhet i socialt arbete, National Board of Health and Welfare 2002-112-1

Swedish National Board of Health and Welfare, Swedish National Labour Market Board et al. (2000) Samhällsekonomiska effekter vid rehabilitering – Vem vinner på rehabilitering i samverkan?, Samverkan inom rehabiliteringsområdet 2000:11, Stockholm

### 11.1.2 *Our studies in this field*

Lundmark & Nilsson, Projekt 531 – rehabiliteringssamverkan i norra Botkyrka, OFUS, 2000

Lundmark & Nilsson, Stacken – ett rehabiliteringssamverkan i Nynäshamn, OFUS, 2001

Lundmark & Nilsson, OFUS, 2002,

Visst gör det ont, Utvärdering av Startpunkten i Örnsköldsvik

Lundmark & Nilsson, OFUS, 2003, Rehabiliterande synsätt i samverkansarbetet

Lundmark, Nilsson & Wadeskog, OFUS, 1997, Sara Söderberg, en studie om samverkan och samhälls ekonomi kring personer med ryggont

Lundmark, Nilsson & Wadeskog, OFUS, 2000, Eva-Britt Larsson – en person med psykosociala arbetshinder

Nilsson, Institute for Socio Ecological Economics (SEE), 1998,

Vi byggde nätverk – om psykiatireformens genomförande i Södertälje

Nilsson, OFUS, 2000, Svempa Johansson, missbrukare eller företagare, en analys av de samhällsekonomiska konsekvenserna av arbetskooperativet Basta

Nilsson, OFUS, samt Nacka och Örnsköldsviks kommuner, 1995–2005  
Strategier för samverkan

Nilsson, Södermalms Beroende Team, rehabiliteringssamverkan kring missbrukare på Södermalm, OFUS, 2006

Nilsson & Wadeskog, 1979, Institute for Socio Ecological Economics (SEE) & Swedish National Youth Council, Det blir för dyrt – en studie av missbrukets samhällsekonomiska kostnader

Nilsson & Wadeskog, 1998, Institute for Socio Ecological Economics (SEE), Vårdkedjor, psykiatrireformen och ekonomin – fallet Södertälje

Nilsson & Wadeskog, 1999, Swedish National Board of Health and Welfare & Institute for Socio Ecological Economics (SEE), Rutger Engström- missbrukare eller psykiskt sjuk

Nilsson & Wadeskog, 1999, Swedish National Board of Health and Welfare & Institute for Socio Ecological Economics (SEE), Ju fler kockar desto bättre soppa – om att samverka kring psykiatrireformens klienter

Nilsson & Wadeskog, 2003, Institute for Socio Ecological Economics (SEE) & Dalarna County Council, Carina Persson, en studie av fetmans samhällsekonomiska konsekvenser

Nilsson & Wadeskog, 2004, Ett socialt investeringsperspektiv, Institute for Socio Ecological Economics (SEE) & Swedish National Board of Health and Welfare

Nilsson & Wadeskog, 2005, Resten av bilden – Socioeconomic Report som en metod att värdera sociala företag, Institute for Socio Ecological Economics (SEE)

Nilsson & Wadeskog, 2006, Det lönar sig – ekonomisk utvärdering av personligt ombud för psykiskt funktionshindrade, Swedish National Board of Health and Welfare & Institute for Socio Ecological Economics (SEE)

Nilsson & Wadeskog, 2006, Bättre träffbild ger högre effektivitet, ekonomisk utvärdering av PO-reformen i Västmanland, Västmanland County Administrative Board & OFUS

## 11.2 Cost-Benefit Analysis

Boardman, A , Greenberg, D , Vining, A, & Weimer, D (2000).  
Cost-Benefit Analysis: Concepts and Practice, Prentice Hall, Engelwood Cliffs

Bohm, P. (1977). Samhällsekonomisk effektivitet. SNS förlag Uddevalla:.

Bohm P (1978) I samhällets intresse? SNS förlag, Uddevalla:

- Campbell, H & Brown, R (2003). *Benefit-Cost Analysis: Financial and Economic Appraisal using Spreadsheets*, Cambridge University Press, Cambridge
- Dasgupta A & Pearce D (1978) *Cost-Benefit Analysis: Theory and Practise*, Macmillan Press, London
- Gramlich, E (1997), *A guide to Cost-Benefit Analysis*, Waveland Press, Long Grove
- Layard R, Ed. (1972) *Cost-Benefit Analysis – selected readings*, Penguin Education, Harmondsworth
- Lesourne J (1975) *Cost-Benefit Analysis and Economic Theory*, North-Holland, Amsterdam
- Mishan, E.J (1971) *Cost-Benefit Analysis*, George Allen & Unwin, London
- Ray, A (1984) *Cost-Benefit Analysis – issues and methodologies*, World Bank, Johns Hopkins Press, Baltimore

### Would you like to find out more about starting a social enterprise?

Cooperative Development Centres, Kooperativa Utvecklingscentrum LKU, are found in every county in Sweden and have a government mandate, via Nutek, to support the development of business and entrepreneurship in the social economy, including social enterprises and cooperatives. To find the Kooperativa Utvecklingscentrum office nearest you, visit their website at [www.kooperativutveckling.coop](http://www.kooperativutveckling.coop)

### Would you like to get in touch with the cooperatives that produced socioeconomic reports?

Vägen ut! kooperativen: [www.vagenut.coop](http://www.vagenut.coop)  
Basta Arbetskooperativ: [www.basta.se](http://www.basta.se)

### Would you like to know more about the European Social Fund, ESF, and the Equal programme?

The Swedish ESF Council is a state agency that administers European Social Fund schemes in Sweden and informs the public. ESF supports projects that contribute to higher employment, gender equality, sustainable development and economic and social cohesion. You are invited to visit the Swedish ESF Council online at [www.esf.se](http://www.esf.se)

### Social Enterprise – expanding the labour market is a project within Equal, a Community initiative whose objectives are to:

- Facilitate start-up and operation of social enterprises aimed at creating jobs for people who are excluded from the labour market
- Identify barriers and suggest amendments to laws and regulations and how they are applied
- Spread information about existing social enterprises and their economic and human impacts

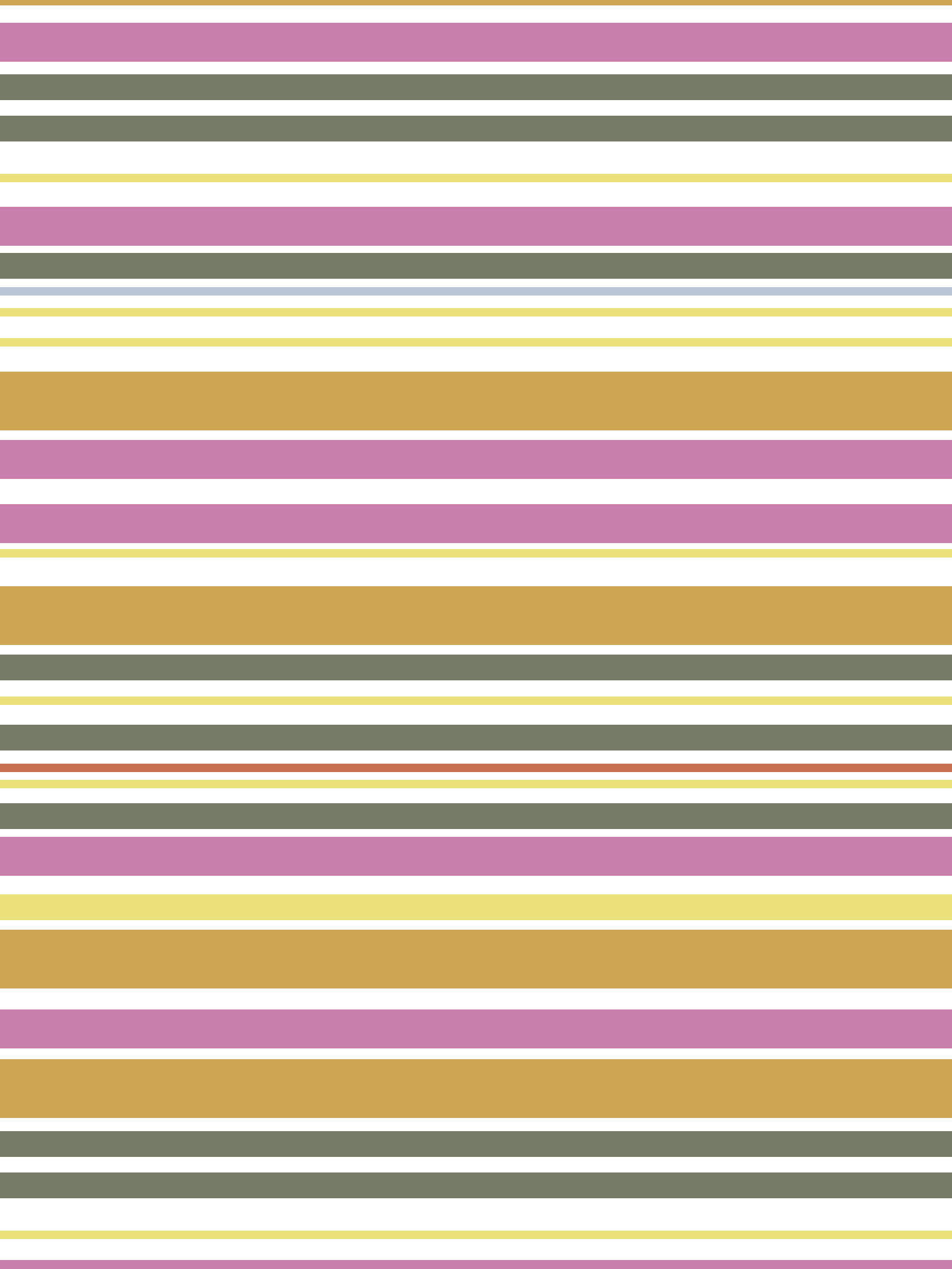
Eva Johansson, Nutek Project Manager  
+46 (0) 8 681 96 61, [eva.johansson@nutek.se](mailto:eva.johansson@nutek.se)  
[www.socialaforetag.nu](http://www.socialaforetag.nu)

**Nutek** is the Swedish National Agency for Economic and Regional Growth. Nutek's mission is to contribute to the creation of new enterprises, help existing enterprises grow and strengthen regional growth – and thus promote sustainable economic growth throughout the country.

Nutek, Swedish Agency for Economic and Regional Growth  
Liljeholmsvägen 32, SE-117 86 Stockholm, Sweden  
+46 (0) 8-681 91 00 Fax: +46 (0) 8-91 68 26  
[www.nutek.se](http://www.nutek.se)

NTG Social Enterprise – a way to the labour market

Orders: [eva.johansson@nutek.se](mailto:eva.johansson@nutek.se) or +46 (0) 8-681 96 61





## From the public perspective

In this report, *Socioeconomic Reports*, we clearly demonstrate the substantial public profits generated by the two studied enterprises, *Vägen ut! kooperativen* and *Basta Arbetskooperativ*. Reports like this can and should be used as input when decision-makers discuss interventions towards rehabilitation and enterprise.

Can we afford not to make these long-term social investments in *new enterprises for sustainable growth and common welfare*? And what will be the price *if we do not*?

Nutek promotes sustainable economic growth throughout Sweden by contributing to the creation of new enterprises, helping existing enterprises to grow and by strengthening regional growth.

**NUTEK**

Swedish Agency for Economic and Regional Growth

Liljeholmsvägen 32, SE-117 86 Stockholm  
Phone: +46 8 681 91 00 Fax: +46 8 19 68 26  
[www.nutek.se](http://www.nutek.se)