Basic Income (BI) Experiment in Finland

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Olli Kangas (olli.kangas@kela.fi)
Director of Governmental Relations,
KELA, The Social Insurance Institution of Finland
olli.kangas@kela.fi
Content of the presentation

• Background:
  • why to carry out the experiment?
• Political support for the BI in Finland
• Planning the research setting
• The final set up of the experiment
  • What, how and why
• What next?
• How to evaluate results from the experiment
  • Microsimulations
  • Registers, surveys and interviews
• Some tentative conclusions – so far
Background

The Center-Right coalition cabinet (nominated 28. May 2015) took basic income (BI) experiment in its working program by referring to:

- changes in the labor markets
  - Challenges of the 4th industrial revolution for the industrial welfare state
- elimination of incentive traps
  - Income-tested benefits paid on top of each other -> too many cases where work does not pay (enough)
- elimination of bureaucratic traps
  - Clients’ fears on bureaucratic machinery
  - To create a more transparent system
- increasing employment
The idea of basic income is supported
Support goes down when the taxes are told
• **Cheap vs. expensive** support and commitment

<table>
<thead>
<tr>
<th>Party</th>
<th>SUPPORT FOR BI 2002</th>
<th>SUPPORT FOR BI 2015</th>
<th>SUPPORT TO BI; AMOUNT AND TAX GIVEN</th>
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<td>€ 500 40%</td>
<td>€ 600 45%</td>
<td>€ 700 50%</td>
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<td>86</td>
<td>47 45 43 41</td>
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<td>17 8 6 4</td>
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SUPPORT FOR BI
SUPPORT TO BI; AMOUNT AND TAX GIVEN

• **Cheap vs. expensive** support and commitment
Steps towards the experiment...

- €20 Mill. for the experiment
  - Some extra funds for planning and evaluating the experiment
- Kela consortium selected to plan the experiment
- Work began in the mid-October 2015
- The first report delivered 30. March 2016
- The final report delivered the 16 December 2016
- The experiment started 1.1. 2017 and lasts 2 years
Models explored and developed

• **Full basic income (BI)**
  • The level of BI is high enough to replace almost all insurance-based benefits
  • Must be rather a high monthly sum, e.g. 1 000€-1 500€. Realistic?

• **Partial basic income**
  • Replaces all 'basic' benefits but almost all insurance-based benefits left intact
  • Minimum level should not be lower than the present day minimum level of basic benefits (€ 550 - € 600 a month)
  • Plus income-related benefits and housing & child allowance

• **Negative income tax**
  • Income transfers via taxation system

• **Other models**
  • Perhaps low BI plus 'participation' income
• Must be legislated
• Goals must be acceptable;
• The law must be precise
• The duration of the experiment must be limited
  • However long enough to produce reliable results
• Unequal treatment must not be too unequal
• Must be based on acts of public authorities
• Duties and rights of each partner
• The role of the EU – legislation
  • Portability of the UBI
MICROSIMULATION MODELLING (static): based on 27,000 individuals and 11,000 households (2013 data and 2013 legislation).

- BI is paid to all individuals aged 18 and over but not to pensioners
- BI reduces earnings-related unemployment allowance, basic unemployment allowance, labour market subsidy, sickness allowance, parental allowance, child home care allowance, housing allowance and social assistance
- Study grants will be replaced by BI
- A simple flat-rate tax model: earned income and capital income are taxed in the same way with no tax-exempt dividends, basic income is taxable earned income but a tax deduction corresponding to basic income will be directed at earned income
The planned experimental setting

In order to get out behavioural effects we planned different levels of benefits and different levels of taxed collected on income coming on top of the BI.

- Nation-wide random sampling plus local experiments
- Ca 10,000 participants

<table>
<thead>
<tr>
<th>Model</th>
<th>BI €</th>
<th>Tax rate</th>
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<tr>
<td>A0</td>
<td>590</td>
<td>PRESENT</td>
</tr>
<tr>
<td>A1</td>
<td>590</td>
<td>40%</td>
</tr>
<tr>
<td>A2</td>
<td>590</td>
<td>45%</td>
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<tr>
<td>B1</td>
<td>690</td>
<td>45%</td>
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<tr>
<td>B2</td>
<td>690</td>
<td>50%</td>
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Law on the experiment

- BI 560€ net a month
- Present taxation on income exceeding 560€
- Social benefits exceeding 560€ will be paid out as previously
  - Nobody will loose
  - Housing allowance and social assistance are tested against basic income
- Work income ‘float’ on BI
- Obligatory participation
- 1.1. 2017 ends 31.12.2018

- 2 000 unemployed who get flat-rate benefit from Kela
  - Random nation-wide selection into the treatment group
  - The rest of the Kela unemployed (app. 170 000) form the control group
- The follow up studies:
  - Registers on income, employment, use of medicine, medical treatment
  - Surveys and interviews on:
    - Other aspects of welfare
    - Experiences on bureaucracy
The Finnish BI experiment

Rationale of the basic income trial
The experiment in a nutshell

- [https://www.youtube.com/watch?v=8xPAIEkT0kk&feature=youtu.be](https://www.youtube.com/watch?v=8xPAIEkT0kk&feature=youtu.be)

WHY THE EXPERIMENT WAS SQUEEZED / DWARFTED? (except the too small budget)

- Constitutional constraints
  - Question on equal treatment
    - Different levels and different tax systems ruled out
- Tax authorities (=Ministry of Finance) no willing to participate
  - Tax-free benefit & present tax system
- Only Kela unemployed
  - Easy to make a random nationwide sampling
  - Easier to write legislation for one specific group than for many heterogeneous groups
- Kela benefits can be used for experimental purposes
- Other legal constraints
  - Implementing BI in a complex institutional setting was very demanding
- Time pressure
  - To write and pass the legislation
  - To create a ICT platform for paying out the benefit
- Creating proper ICT systems for payments limited the size of the treatment group
  - Partially manual decisions and payments
What is actually tested?

- Solid line = the present system
- Dotted line = basic income model (BIM)
- BIM more generous for all whose who will get €400 from employment
- Problem: we do not know exactly if the change (if there will be any) is caused by less bureaucracy (red circle) or generosity of the BI (blue circle) or both
Possible steps ahead?
http://blogi.kansanelakelaitos.fi/arkisto/3648

- Inclusion of all kinds of low-income individuals and all age groups
- Bigger sample size
- Nationwide random sampling
- Regional experiments if the budget can be increased
- A proper tax model compatible with the basic income
- Better coordination between different sectors of government
- Series of experiments linked to the ‘experimental culture’ enchanted by the Sipilä government
- A proper budget €40-70€ Millions
How to evaluate the success of the experiment?

- From three viewpoints the experiment already is a success
  - An obligatory randomized field experiment passed the constitutional test
  - Data on behavioural effects to impute them into static microsimulation models
  - We know what to do and what not to do
- Employment, work volume and income are the main outcomes
  - Registers are the main source of information
    - No surveys or interviews when the experiment is running
  - Government will be informed (partially) and a thorough evaluation of the experiment will be done in 2019
- Secondary outcomes will be studied via surveys and interviews
  - Economic stress, general well-being, health, social relations, experiences on bureaucracy etc.
Criticism against the model and the experiment

- Not a genuine BI experiment
  - Only unemployed included
    - No possibilities to evaluate replacement effects
    - Increase but not decrease in labour supply can be studies
- Local experiment would be better (to study externalities)
- Not a cost-neutral model
  - The present taxation is applied -> not possible to implement to the total population
    - Huge deficit
- Too small treatment group
  - No statistical power
- The experiment period is too short
  - People would react differently if the experiment would last longer
Something more

- http://blogi.kansanelakelaitos.fi/arkisto/3316
- https://www.youtube.com/watch?v=8xPAIEkT0kk&feature=youtube.be
- http://blogi.kansanelakelaitos.fi/arkisto/3491
- http://blogi.kansanelakelaitos.fi/arkisto/3648