

# Basic Income (BI) Experiment in Finland

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# 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 4<sup>th</sup> 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

# Strong 'cheap' support, not that strong 'expensive' support

	SUPPORT TO BI; AMOUNT AND TAX GIVEN					
	SUPPORT FOR BI		€ 500	€ 600	€ 700	€ 800
	2002	2015	40 %	45 %	50 %	55 %
LEFT	82	86	47	45	43	41
SDP	59	69	26	29	27	27
GREENS	71	75	37	33	45	39
CENTER	62	62	39	40	32	29
T FINNS	ND	69	40	41	45	33
CONS	48	54	33	31	21	16
CHRIST D	63	56	44	37	18	26
SWEDISH	64	83	17	8	6	4

- The idea of basic income is supported
- Support goes down when the taxes are told
- **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

# EU and the national welfare state

Kallioma-Puha, Tuovinen & Kangas (2016): “The basic income experiment in Finland”, JSSL Vol 23:2, pp. 75-88;

- 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**

Intensity of the EU involvement

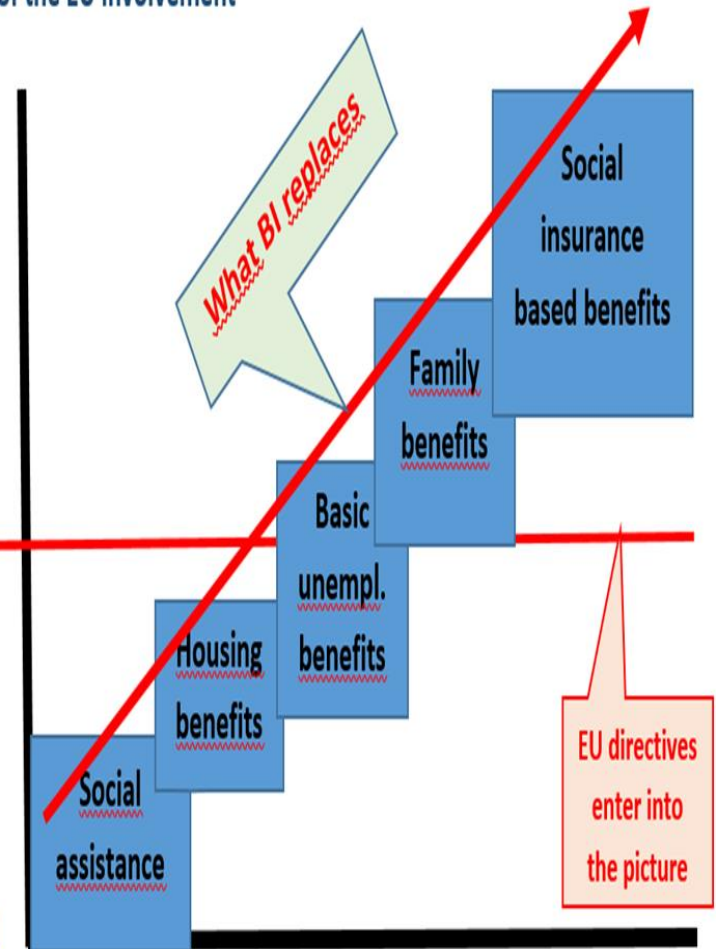
strong

weak

Only

national

legislation



# 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

Model	BI €	Tax rate
A0	590	PRESENT
A1	590	40%
A2	590	45%
B1	690	45%
B2	690	50%

- 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

# 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



## RATIONALE OF THE BASIC INCOME EXPERIMENT

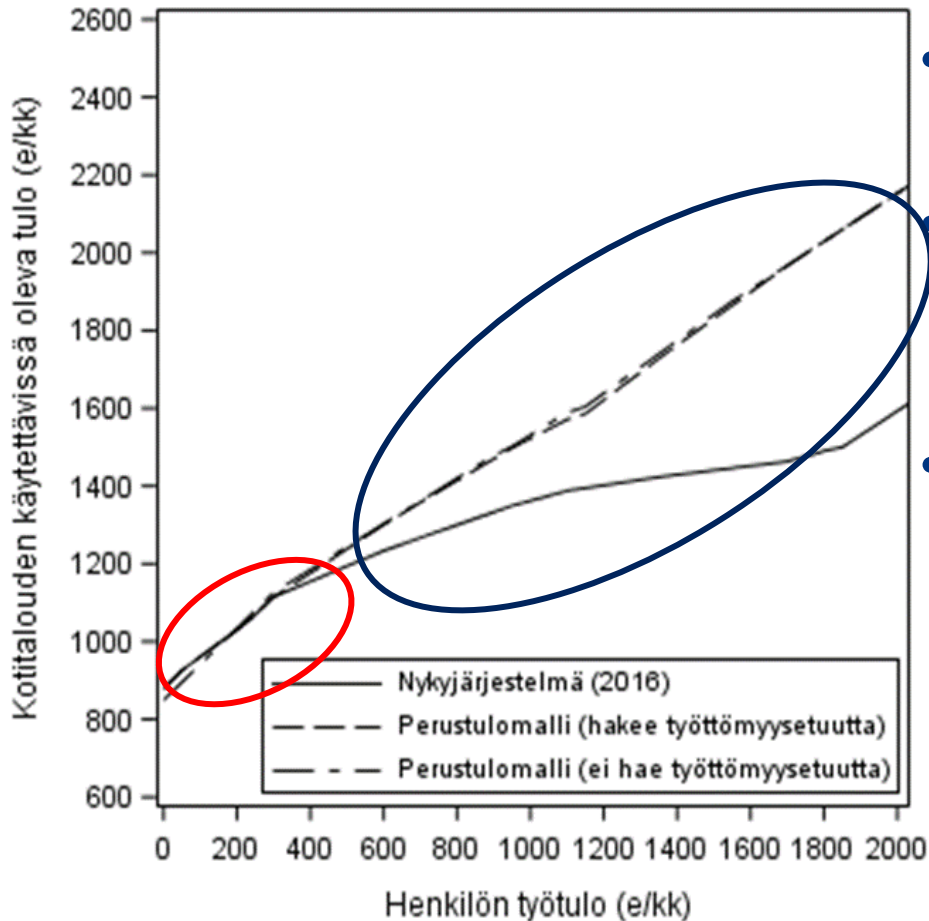
# The experiment in a nutshell

- <https://www.youtube.com/watch?v=8xPAIEkT0kk&feature=youtu.be>
- <http://www.kela.fi/web/en/experimental-study-on-a-universal-basic-income>

# 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 those 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 studied
- 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

- <https://helda.helsinki.fi/bitstream/handle/10138/167728/WorkingPapers106.pdf?sequence=4>
- <http://blogi.kansanelakelaitos.fi/arkisto/3316>
- <https://www.youtube.com/watch?v=8xPAIEkT0kk&feature=youtu.be>
- <https://helda.helsinki.fi/bitstream/handle/10138/167728/WorkingPapers106.pdf?sequence=4>
- <http://blogi.kansanelakelaitos.fi/arkisto/3491>
- <http://www.helsingitimes.fi/finland/finland-news/domestic/14472-kela-s-researchers-voice-concerns-about-media-interest-in-basic-income-experiment.html>
- <http://blogi.kansanelakelaitos.fi/arkisto/3648>