

# “Basic income” experiment in Finland: motivation and experimental design

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# Background of the Finnish experiment

The Center-to-right coalition cabinet took BI experiment in its working program by referring to:

- **Changes in the labor markets**
  - Does our social security system properly correspond to changes in labor markets?
    - Or are there any changes at all?
      - ‘No’, say the opponents of BI
      - ‘Substantial’, say the proponents of BI
- **Elimination of incentive traps**
  - Too many cases where work does not pay (enough)
- **Elimination of bureaucratic traps**
  - Clients’ fears on bureaucratic machinery
  - To create a more transparent system

# Mission impossible: tasks given by the Government

- **TO STUDY...**
- Which models are the most suitable for the experiment
  - What is the level of the monthly payment
- How to combine BI with income-related benefits and other basic benefits
- Tax treatment of different models
- What are the strengths and weaknesses of different models in the context of the EU legislation and the Finnish Constitution
- Give recommendations on the experiment

# In the EU, BI is not only a national issue

- **The role of the EU**
  - legislation
- Exportability question:
  - Inclusion and exclusion of non-citizens
  - In Finland residence-based social security
  - Citizenship does not play a role
- Exportability of the BI depends on what benefits the BI would replace

Intensity of the EU involvement

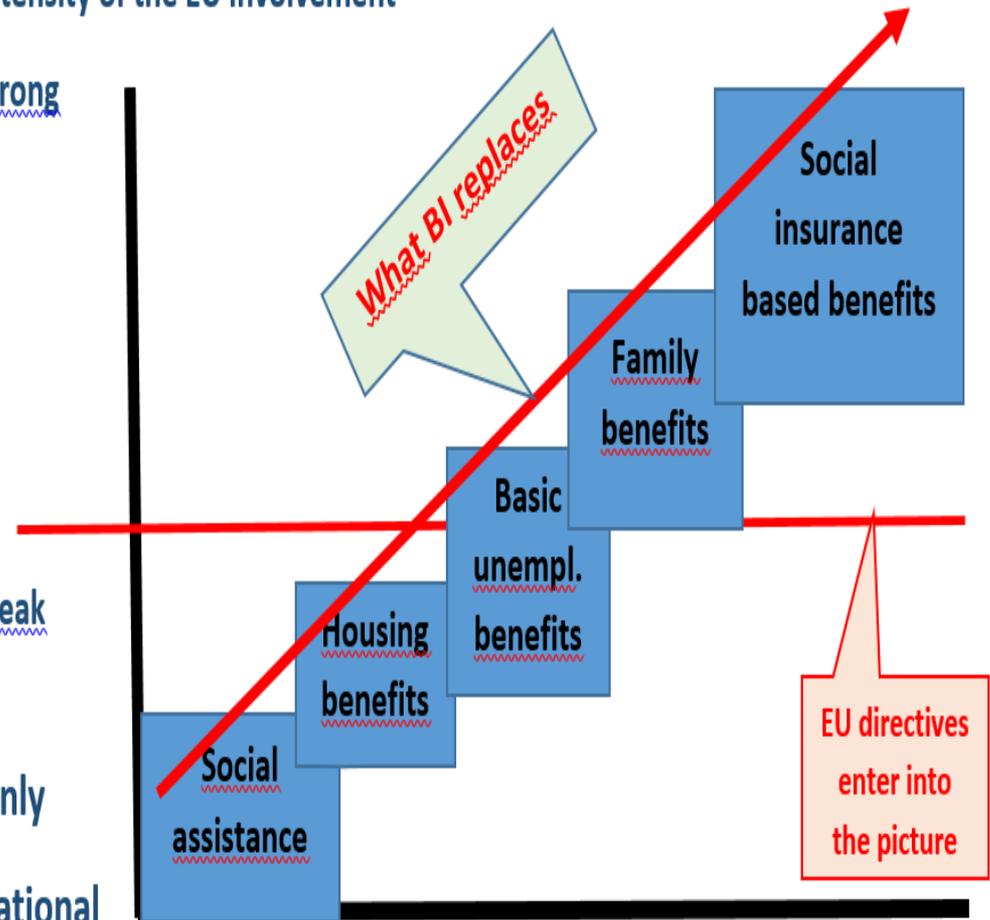
strong

weak

Only

national

legislation



# 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

# 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 experimental setting planned by the expert group (by 30 March 2016)

- The entire adult population (excl. pensioners) is used as a basis for the sample
  - age and income selection criteria
  - low-income earners
  - 25 and 63 years of old
  - Weighted sample of particularly interesting groups
- Nation level randomization to get representative results for the whole country
- local experiments in order to capture networking, institutional and interaction effects and externalities
  - A number of municipalities with 10%, 30% random sampling.
- To increase the sample size:
  - Kela benefits will be used as a source of extra funding (sample 9,000)

# Experimental setting

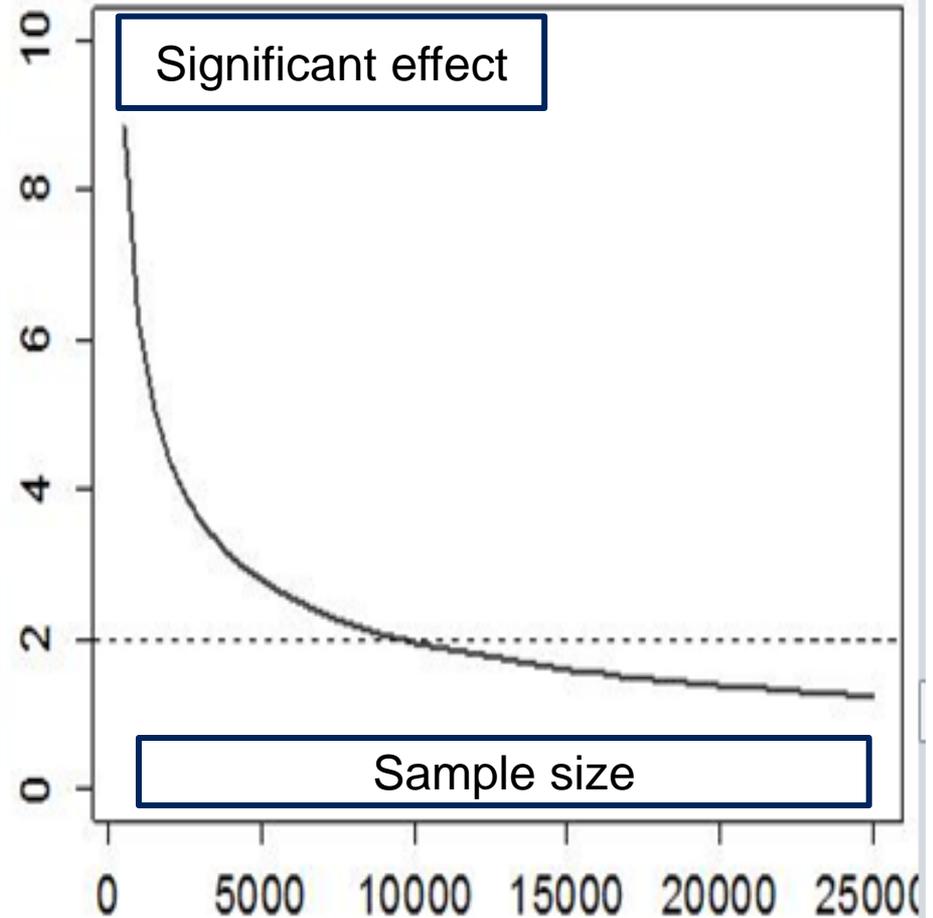
In order to get our behavioral responses<sup>4</sup>

In the experiment there are:

Different levels of BI

Different levels of tax rates

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



# Law on the experiment

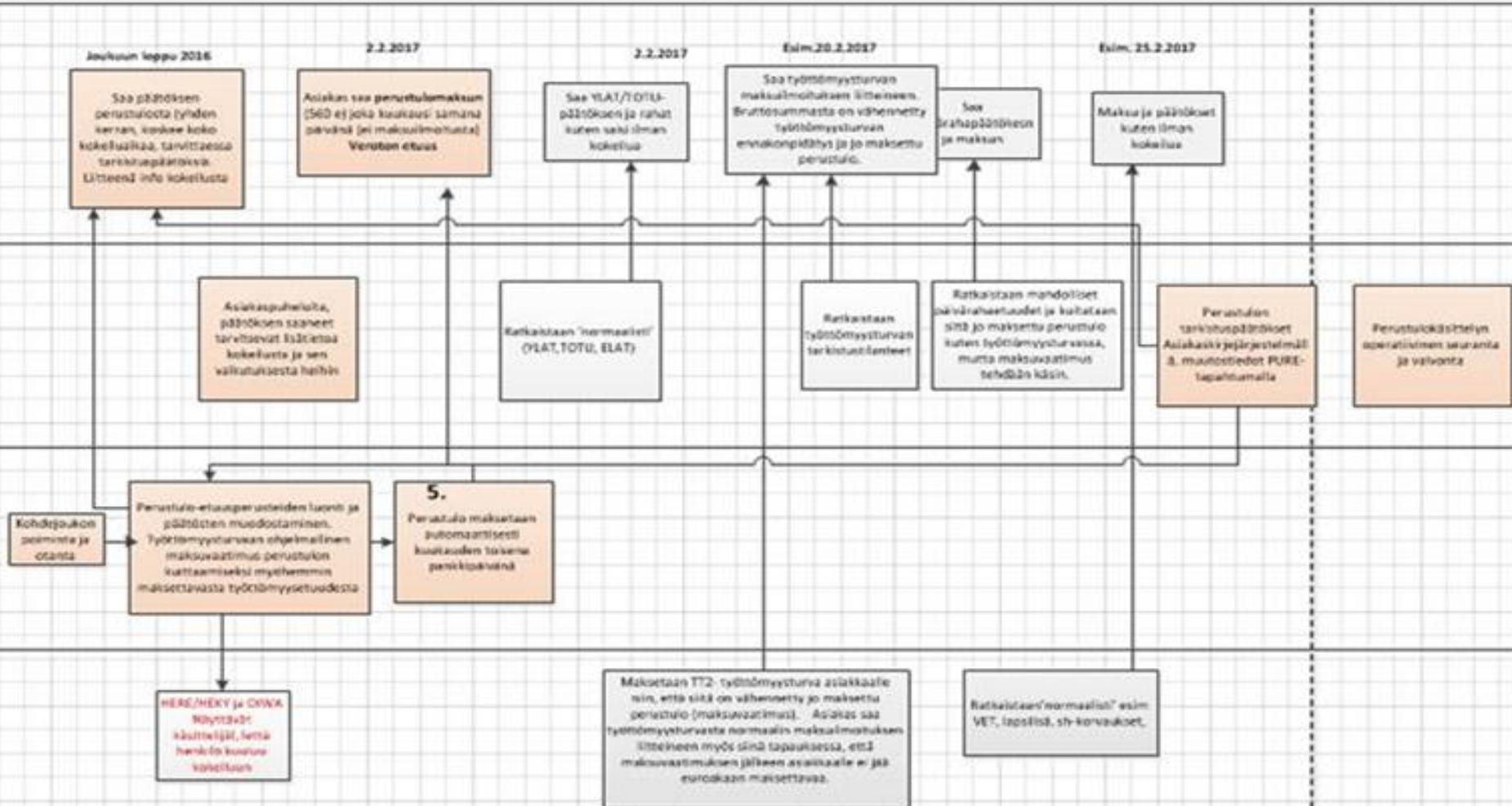
- BI 560€ net a month
- Present taxation on income exceeding 560€
- Social benefits exceeding 560€ will be paid out as previously
  - Nobody will loose
  - Housing allowance and social assistance are tested against basic income
- Work income 'float' on BI
- Obligatory participation
- 1.1. 2017 ends 31.12.2018
- 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. 130 000) 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

# WHY THE EXPERIMENT WAS SQUEEZED?

- Constitutional constraints
  - Question on equal treatment
    - Different levels and different tax systems ruled out
- Tax authorities not involved in writing the law
  - Tax-free benefit & present tax system
- Only Kela unemployed
  - Easy to make a random sampling
  - Easier to write a law for one specific group than for many groups
- Kela benefits can be used for experimental purposes
- Other legal constraints
  - Implementing BI in a complex institutional setting is very demanding
- Time pressure
  - To write and pass the legislation
  - To create a ICT platform for paying out the benefit
- Changing Kela's ICT systems limited the size of the treatment group
  - Partially manual decisions and payments

# Implanting a seemingly simple system into a very complex social policy system is no that easy...

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# 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.

# 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>

# 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>
- Kallioma-Puha, Tuovinen & Kangas: “The basic income experiment in Finland”, Jnl.Soc.Sec.Law 2016, Vol 23:2, pp. 75-88;