"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
  - What BI replaces
  - Social insurance based benefits
  - Family benefits
  - Basic unempl. benefits
  - Housing benefits
  - Social assistance

- 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, in the experiment there are:

- Different levels of B
- Different levels of tax rates

<table>
<thead>
<tr>
<th>Model</th>
<th>BI (€)</th>
<th>Tax rate</th>
</tr>
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<tbody>
<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>
</tr>
<tr>
<td>B1</td>
<td>690</td>
<td>45%</td>
</tr>
<tr>
<td>B2</td>
<td>690</td>
<td>50%</td>
</tr>
</tbody>
</table>
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 lose
  • 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…
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

Something more

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