

The Finnish Basic Income Experiment

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The structure of the presentation

- Background for the experiment
- The essential findings of the preliminary study
- The recommendations of the research group

Background for the experiment

- idea discussed in Finland since the 1970s
- the Nordic welfare system based on universalism
 - extensive social security & free/quasi-free public services
 - still, most of the benefits means-tested
- activation policies since the mid-1990s
 - stricter sanctions and obligations
 - few expected a basic income experiment to be launched
- the BI experiment planned to be launched in the beginning of 2017
 - lasts two years
 - the results will be analysed in 2019
 - the preliminary study published 30 March 2016, final report's deadline 15 November 2016

Background for the experiment

- currently a number of means-tested benefits are paid in addition to each other
 - joint effect: different work disincentives
- government's main target: to diminish disincentives in social security = to increase employment by emphasizing labour supply
 - continuation of the activation policies
 - at the same time with the experiment stricter sanctions and obligations will be implemented
 - the basic income experiment is not a paradigm shift

How to measure the disincentives?

- unemployment traps = economic disincentives to participate in labour markets
 - indicator: participation tax rate $> 80\%$ (how much your gross salary is diminished by taxes, lost benefits and earnings-related service charges (e.g. day care charges) if you start to work)
- income traps = economic disincentives to increase workload
 - indicator: effective marginal tax rate $> 70\%$ (how much your gross salary is diminished if you increase your workload)
- bureaucracy traps = psychological disincentives
 - due to the means-testing: delays, reporting, falling through the social security net

The assignment handed down by the Prime Minister's Office

- the assignment of the Prime Minister's Office outlined four different options to explore and develop:
 - full basic income
 - the level of BI high enough to replace almost all other benefits
 - partial basic income
 - could replace the most of the basic security benefits (e.g. basic unemployment benefit, labor market subsidy, sickness allowance, rehabilitation allowance, minimum parental allowances, startup grants), but insurance-based benefits left intact
 - current basic security benefits are approximately €550 (10 900 Mexican pesos)
 - negative income tax
 - basic income via taxation system
- other possible models

Different budget-neutral BI models, flat rate taxes and effects on income distribution and poverty

The model	Flat rate tax	Gini	Poverty (60%)	Winners	Losers
Present system	--	26.9	15.6	--	--
BI €500	41.5	26.4	15.3	1,849 000	774 000
BI €550	43.5	26.0	14.8	1,807 000	816 000
BI €600	45.0	25.7	14.3	1,826 000	796 000
BI €650	46.5	25.4	13.9	1,832 000	791 000
BI €700	49.0	25.0	13.5	1,770 000	853 000
BI €750	50.5	24.6	13.1	1,786 000	836 000
BI €800	52.5	24.2	12.6	1,752 000	871 000

The essential findings of the preliminary study

- budget-neutral full basic income economically not realistic (flat rate taxes 60% €1000 BI & 79% €1500 BI)
- negative income tax experiment not reliable before an access to real-time information of incomes
- budget-neutral partial BI does not automatically remove economic disincentives (housing allowances, additional social assistance or earnings-related benefits cannot be replaced)
 - strengthening economic work incentives either costs or means diluting the current level of social security
- bureaucracy traps can be partly solved: less delays, reporting and falling through the social security net

Research group's recommendations

- power calculations: sample of 10 000 people needed in order to observe statistically significant results (if employment changes 2%).
 - €20 million budget for two years suffices for 1 500 people (may be expanded to 4800) = more substantial budget essential
- two-pronged and compulsory randomization: nationwide (representative sample = generalizable results) & more intensive, regional (externalities), weighted sample possible
- partial basic income (min. €550/mth) the most realistic option, would not replace earnings-related benefits, additional social assistance or housing allowances
 - ideal situation: different amounts and levels

Legal preconditions

- the principle of equality in the Finnish constitution
 - may limit the number of models
 - sets conditions for the sampling
 - obligatory or voluntary sample?
- constitutional right to basic income security
- in the last resort the Constitutional Committee decides
 - has been previously very restrictive to ‘human experiments’
- must be based on a law
- EU law and social laws

Is BI worth the experiment?

- according to Finnish empirical studies the effect of removing work disincentives on the elasticity of labour supply is relatively moderate = BI will not solve the unemployment problem alone
 - however, an experiment is the only reliable way to produce knowledge on the elasticity of labour supply in a BI scheme
- produces knowledge on the weak spots of the current system
- studying the dynamic effects will improve the validity of micro-simulation models
- technological change and the possible threat of increasing technological unemployment will intensify the basic income discussion

Gracias!