

## Summary of the Seminar:

# Experimenting with Basic Income (BI) in Finland

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On 23 February 2017, LIEPP hosted a talk by Olli Kangas on the basic income experiment in Finland.

The incumbent Finnish government, formed of a Center-True Finns-Conservatives coalition, launched an experiment on basic income at the onset of 2017 and put Olli Kangas in charge of it. The aim of the experiment is two-fold:

- i) to assess whether basic income can change the incentive structure for the many benefit recipients for whom work does not pay off, and
- ii) to examine whether simplifying the welfare system would improve the beneficiaries' experience.

Therefore, the experiment is primarily interested in the impact of basic income on employment, work volume and disposable income as well as its impact on the overall efficiency of the Finnish welfare system from the recipients' perspective. Secondary outcomes such as the impact of basic income on economic stress, general well-being, health, social relations and experiences of bureaucracy will also be studied via surveys and interviews with the recipients.

Basic income has been a politically salient issue in Finland. There is a clear political divide between the pro- and anti- basic income parties. The Left-Wing League, the Greens and the Centre Party have been in favour of basic income, while the Social Democrats, Conservatives and the other bourgeois parties are against it. There is high public support for basic income on all sides of the political spectrum, but only until taxes, which are meant to finance it, are mentioned. For example, in 2015, 86% of the Left-Wing League voters supported the implementation of basic income in Finland. When tax was added to the question, the support dropped to 47% for the basic income amount of €500, as a flat income tax of 40% would be required for its financing. The support dropped further to 41% when the proposed amount increased to €800 because this would require a tax increase to 55%.

The Finnish experiment allocated basic income to around 2,000 randomly selected unemployed individuals who are also low-income earners between 25 and 63 years of age. The rest of the registered unemployed (app. 130,000) form the control group. The available government funding of €20 million only allowed for a partial basic income (€550-€600 per month) to replace all basic benefits, while work and income related benefits and housing and child allowance remain intact. Given the limited resources allocated to the experiment, it was difficult to select a group that would be large enough to provide answers to all questions that the government would require to assess the feasibility of the basic income scheme. Finally, the experiment had to pass a constitutional committee since it is being conducted on people whose the participation is obligatory. These concerns also determined its final design.

The experiment builds on the microsimulation model which the same working group run by Olli Kangas built to analyse the different tax and benefit scenarios. Microsimulation is a tool which models the behaviour of micro-units such as households and individuals by bringing

together their income, cash benefit entitlements, income tax and social contribution liabilities and testing them under different assumptions. By taking all these inputs into account, the model can estimate the effects of policy changes, such as different tax rates or different benefit receipts, on household income. The basic income microsimulation model was built on a sample of 27,000 individuals from 11,000 households from a nationally representative household survey. The model used a simple flat-rate tax, because this is what the government asked for, but they also made additional tests with more complex structures of the tax system.

Policy insights from the microsimulation model have not been very straightforward, which is the underlying reason why the 'real life' experiment was launched. For example, the tool showed that receipt of basic income does not remove the incentive to apply for other benefits unless it is very high at €1,000-€1,500 per month. Yet if the higher basic income is paid out, the problem becomes the very high tax levels (between 70% and 80%) that would need to be imposed on income from employment to finance the scheme. If very high taxes are collected, people do not have an incentive to seek employment since benefits become too high in comparison to what one can earn in the labour market.

The complexity that underpins the design of the basic income policy is further uncovered if we consider the differences between single beneficiaries vs. those who have children. While the model suggests that basic income could create work disincentives for a single person in the lower income brackets, for an unemployed single parent with two children in day care, the incentive problem becomes severe. For example, an increase in earnings by €1,000 to €3,000 does not necessarily increase their net income. Nevertheless, if the design of basic income is changed to account for the different family circumstances, it defeats its own purpose, since the scheme's premise is to offer a uniform, simple benefit that everyone is eligible for. Finally, according to the microsimulations, only the higher income earners would benefit from basic income, which is also an undesirable effect.

Ambiguous results of the microsimulations have raised several important questions about the actual design of the basic income policy. It is the key reason why the experiment was created – to collect data on 'real life' behavioural effects of basic income recipients which will later be imputed into the static microsimulation model. The results of the experiment will be available in two years. There are also plans to start a new experiment in 2018 and the next one in 2019 with target groups representative of the total population. The fate of these additional experiments depends on the political decision of the government.

During the talk, we also learned that there are many administrative challenges involved in managing the implementation of basic income. Implanting a seemingly simple system into a very complex social policy system is not easy, since there are many factors which need to be considered and which affect each other simultaneously. Another drawback is that the tax authorities have not been involved in the experiment and it would be difficult to change the benefits system without their inputs. Finally, if the system becomes more efficient from the recipients' perspective because bureaucratic traps get eliminated, more potential beneficiaries would be expected to claim basic income, which could hike the overall cost of the social benefits system.