



Basic income experiment in Finland

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Juha Sipilä's government announced an experiment on basic income in Finland. The motivation behind the experiment is manifold: to combat work disincentives, make work pay, streamline the benefit system, diminish bureaucracy, and tailor social policy better to adapt to changes in the labour market. The budget for the experiment is €20 Mill for 2017 to 2018.

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Description

Juha Sipilä's right wing government in place since 29 May 2015 and consisting of the Centre Party, the True Finns Party and the Conservative Party has decided to experiment with basic income in Finland. The government has reserved €20 Mill for the experiment, which will take place in 2017-2018. Through this experiment, the government wants to explore how to diminish, and possibly abolish, the work disincentives and income traps which it thinks weakens the present social transfer system in Finland.

There are currently a number of income-tested "basic" benefits (e.g. labour market subsidy, housing allowance, social assistance etc.) that are paid in addition to each other. The joint effect of these layered benefits is that if a person who is receiving these benefits finds a job, his/her effective marginal tax rate (the percentage of an extra euro that the recipient loses due to income taxes and decline in welfare entitlements) becomes very high (80% to 100%) and consequently, work does not necessarily pay (e.g., Viitamäki 2015). The government also refers to "bureaucratic traps" i.e., to situations where the claimants lose their benefits for certain periods of time, or have too long waiting periods when shifting between employment and

social security which makes the claimants hesitant to accept short-term job offers. Furthermore, there are difficulties in combining social benefits and short-term employment. Also, current changes in the labour market ("zero hour contracts", new forms of self-employment and precarious work etc.) are further reasons for the government's initiative.

The government organised a bid for the planning aspects and, after an independent scientific evaluation, a multi-disciplinary consortium was chosen to carry out the planning of the experiment. The consortium is led by the Social Insurance Institution (Kela) and consists of universities of Tampere and Turku, VATT Institute for Economic Research and The Finnish Innovation Fund Sitra.

The consortium will have to evaluate four different models and their possible sub-models: 1. Full basic income (BI), when the level of BI should be high enough to replace almost all insurance-based benefits; 2. Partial BI, when most of the "basic security" benefits would be replaced, but almost all insurance-based benefits would be left intact. The latter would "float" on top of the BI. The minimum level of the BI should not be lower than the present day minimum level of basic benefits (ca net €550 a month); 3. Negative

income tax, which would be paid via the taxation system. Levels could be set as in sub-models (1) and (2); 4. Other possible ways to experiment with BI, e.g. low BI plus "participation" income conditional to participation requirement, consisting of a range of socially useful activities such as caring for an elderly relative, volunteering in a neighbourhood project or engaging in a human capital enhancing activity (e.g., Atkinson 1996).

The deadline for the preliminary report is 30th March 2016. On the basis of this report, the government will decide which model will be further evaluated and how the experiment will continue (nation-wide or regional sampling, local municipal experiments, or a combination of these options). The deadline for the final report is 15th November 2016. The "real world" intervention experiment is planned to start in 2017.

Outlook & Commentary

The consortium will propose an experimental setting consisting of a nation-wide random sample, which allows for a treatment group and a control group, plus a regional county-level sample and municipal experiments. The government will decide on the precise geographical scope later in spring 2016. Each of these approaches has its strengths and weaknesses. While the local experiments allow analyses to be made of external and networking effects, they cannot be used as a basis for generalisations at the national level. The national and regional

samples facilitate randomisation, but do not say anything as to networking effects (i.e., how people interact when residents in a small municipality are receiving the benefit). Due to financial restrictions, the sampling will focus on low income households, where labour market effects are assumed to be the strongest. Additionally, some specific groups (e.g., freelancers, long-term unemployed) subject to precarious labour conditions will be included in the sample. All in all the sample size will be 2,000 participants.

There are some question marks on the experiment. First, social partners are against BI and thus also against the experiment. The same goes for the Social Democrats, the major party in opposition. Second, it is not sure that the government will carry out the experiment. The True Finns (the second biggest party in the government) is not sure about the characteristics of the BI - especially whether it is subject to the EU Directives on the Coordination of Social Security Schemes (Directive 2004/38/EC) and, thus, be an exportable benefit. If it is an exportable benefit, the experiment may raise a number of issues and tensions which could jeopardise the experiment. Should the target population of BI be limited to the recipients of social assistance (e.g., as in the Dutch experiments [see Blommesteijn & van Waveren 2015]), then the EU Directive 883/2004 would exclude the possibility of exporting the benefit. Should it be applied to the wider target population, this would immediately accentuate the discussion of exportability and bring it under the scope of EU-legislation.

Further reading

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Blommesteijn, M. & van Waveren, B. (2015). Dutch municipalities announce experiments with "basic income", ESPN Flash Report, available at: <http://ec.europa.eu/social/BlobServlet?docId=14489&langId=en>

Kela (2015). Universal basic income options to be weighed. <http://www.kela.fi/web/en/-/universal-basic-income-options-to-be-weighed>

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Viitamäki, H. (2015). Työnteon kannustimet - mitä jää käteen? [Incentives to work – what is the net effect?], Helsinki: VATT Muistiot 50. https://www.vatt.fi/file/vatt_publication_pdf/muistio_50.pdf.

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