



# Can Universal Basic Income solve future Income Security Challenges?

Some tentative answers from the Finnish Basic Income (BI) experiment

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# Can Universal Basic Income solve future Income Security Challenges?

- **I do not know! (Yet?)**
- Strong arguments in favour and against basic income
- Disagreements about future of employment and the 4<sup>th</sup> industrial revolution
  - Disagreements on consequences and remedies
- There are lots of strong opinions but very little evidence
- Experiments might shed light on the issue
  - Often statistical analyses
  - Often static mirco-simulations
    - Seldom dynamic simulations
  - Difficult to model behavioural effects

# Problems for answering the question a priori

- Every country is unique: some similarities but lots of differences:
- Therefore, answering to the question depends on conditions, therefore:
  - a universal 'yes' would be a wrong statement and
  - a universal 'no' would be a wrong statement, as well
- Much depends on circumstances and on the problems BI seeks to solve:
  - Differences between countries
- Some examples from the previous experiments
- Something more about the Finnish experiment

# The U.S. experiments with negative income tax models in the 1970s-1980s

- New Jersey Income Maintenance 1968-72
- Seattle-Denver Income Maintenance experiment 1970-77
- Rural Income Maintenance Experiment 1970-72
- Gary Income Maintenance Experiment 1971-74
- Different benefit levels and different tax levels
- **Main results**
  - **Labour force participation decreased, among females in particular**
  - **Income levels dropped**
  - **No health consequences except less under-weight new-borns**
  - **Divorce rates increased**
  - **Children's literate rate and educational attainment increased**

# Canada: Winnipeg & Dauphin 1974-79

- A randomized controlled experiment in Winnipeg , in Dauphin all the 10,000 residents were eligible for a treatment (60% of low income level) that reduced the benefit guarantee by 50 cents for each dollar earned
  - **No significant effects on employment**
  - **Care-related hospital visit decreased**
  - **Children's well-being increased**
  - **No strong conclusions**
- 2017, the Ontario basic income experiment has set aside roughly \$19 million to replicate the 1970s experiment

# India 2010-2013

- two experiments in the state of Madhya Pradesh, in which more than 6,000 people received small monthly payments of 3-4.5 \$ for 18 months.
- **Mainly positive consequences reported:**
  - **Economic activity increased**
  - **Investments in agriculture and small enterprises**
  - **Nutrition and health status improved**
  - **Female empowerment**
  - **Children's school attendance increased**

# Kenia

- 1,400 participants, unconditional cash transfer program
- **Consumption increased in all other items except tobacco and alcohol**
- **Beneficial health outcomes due to decreased level of 'economic stress'**
  - **Lower level of cortisol in blood measured**
- A new experiment in 2017 planned
  - 40 villages will receive roughly \$22.50 per month for 12 years. Meanwhile, 80 villages will get the same amount for just two years, another 80 will get a lump sum equal to the two-year amount, and 100 villages will get no money.

# The Netherlands. Experiment with social assistance receivers

- Tentatively slated for early 2017, the basic income experiment in Utrecht will last for two years and involve 250 Dutch citizens on government assistance receiving about \$1,100 per month.
- There are six groups each receiving varying amounts paid out according to different work requirements.
- One group, for example, gets an extra \$161 at the month's end if they do volunteer work. Another gets the money up front but must give it back if they don't volunteer.
- While local towns eager to proceed, the central government hesitant



# New ongoing and planned experiments on BI or schemes mimicking BI

- Italian city Livorno, began giving 100 people \$537 a month. In 2017, expansion to 100 more (?).
  - The pilot will be small in scope, lasting just six month
  - Motivation: to help people get back on their feet without the state patronage
  - Following Livorno other Italian towns such as Ragusa and Naples are considering pilots of their own.
- Germany: Mein Grundeinkommen, a small-scale program
- France: some local experiments planned
- Lithuania is planning to start an experiment
- Plans in Korea to implement a BI program financed by land and property tax
- Uganda

# 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<sup>12</sup>

Intensity of the EU involvement

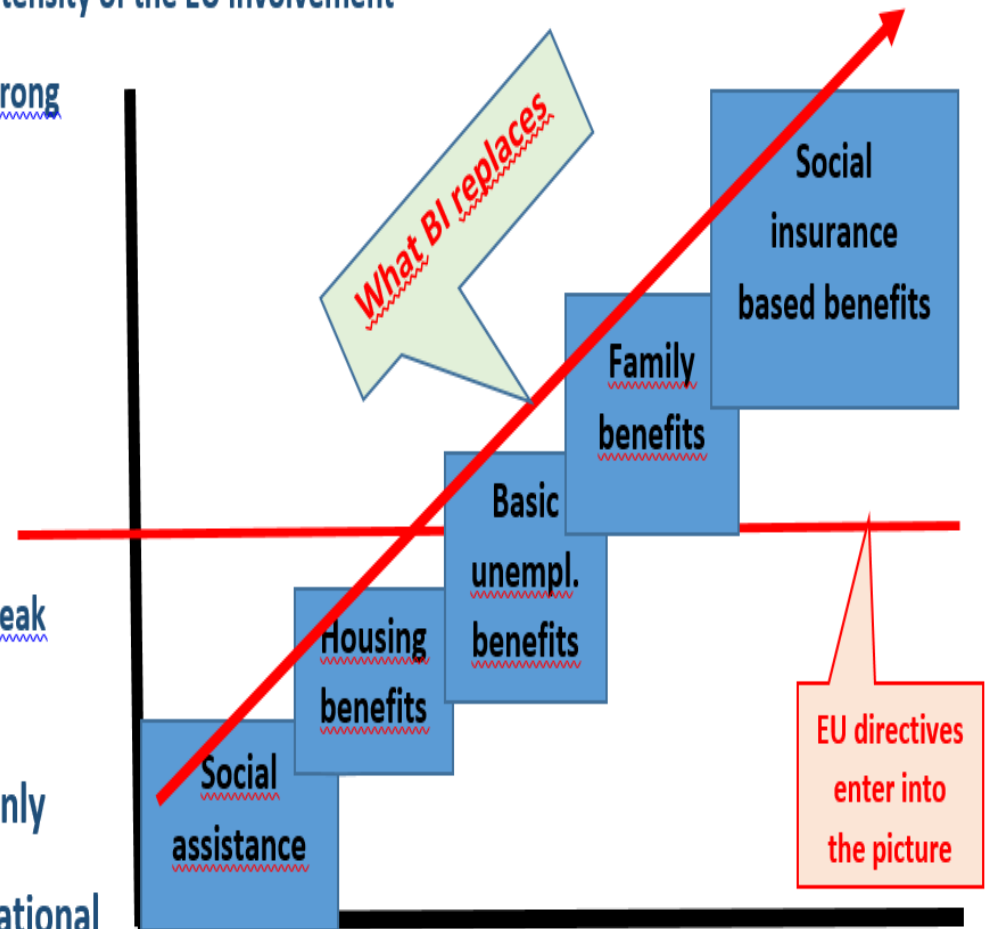
strong

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

BI €1,000 and €1,500 a month and the replacement of other social transfers, microsimulations on income registered data on 27,000 individuals.

	Current legislation	Basic income 1,000 euros/month	Basic income 1,500 euros/month
Flat tax rate, %		60	79
Basic income expenditure		35,016	52,524
Disposable income	113,251	113,168	112,948
Unemployment expenditure	3,928	801	273
Sickness allowance	1,402	574	308
Child home care allowance	419	72	72
Pensions paid by Kela	2,202	2,202	2,202
Student allowance	531	7	7
Students' housing supplement	268	268	268
Pensioners' housing allowance	472	465	460
General housing allowance	603	263	92
Social assistance	586	48	36
Child benefits and child maintenance allowance	1,665	1,665	1,665
Disability benefits	345	345	345
Current transfers, total	12,419	6,709	5,728

# BI €550 and €750, expenditures and cost neutral flat-rate tax (current transfers €12,4 billion)

Basic income (euros/month)	Adults (excl. pensioners)		Individuals aged 24 and over (excl. pensioners)	
	Basic income expenditure (million euros/year)	Tax rate (%)	Basic income expenditure (million euros/year)	Tax rate (%)
450	15,757	40.0	13,317	39.0
550	19,259	43.0	16,276	42.0
650	22,760	46.5	19,236	45.0
750	26,262	50.5	22,195	48.5



# Participation tax rates of a wage earner living alone, current model and basic income of €550 and €750 a month

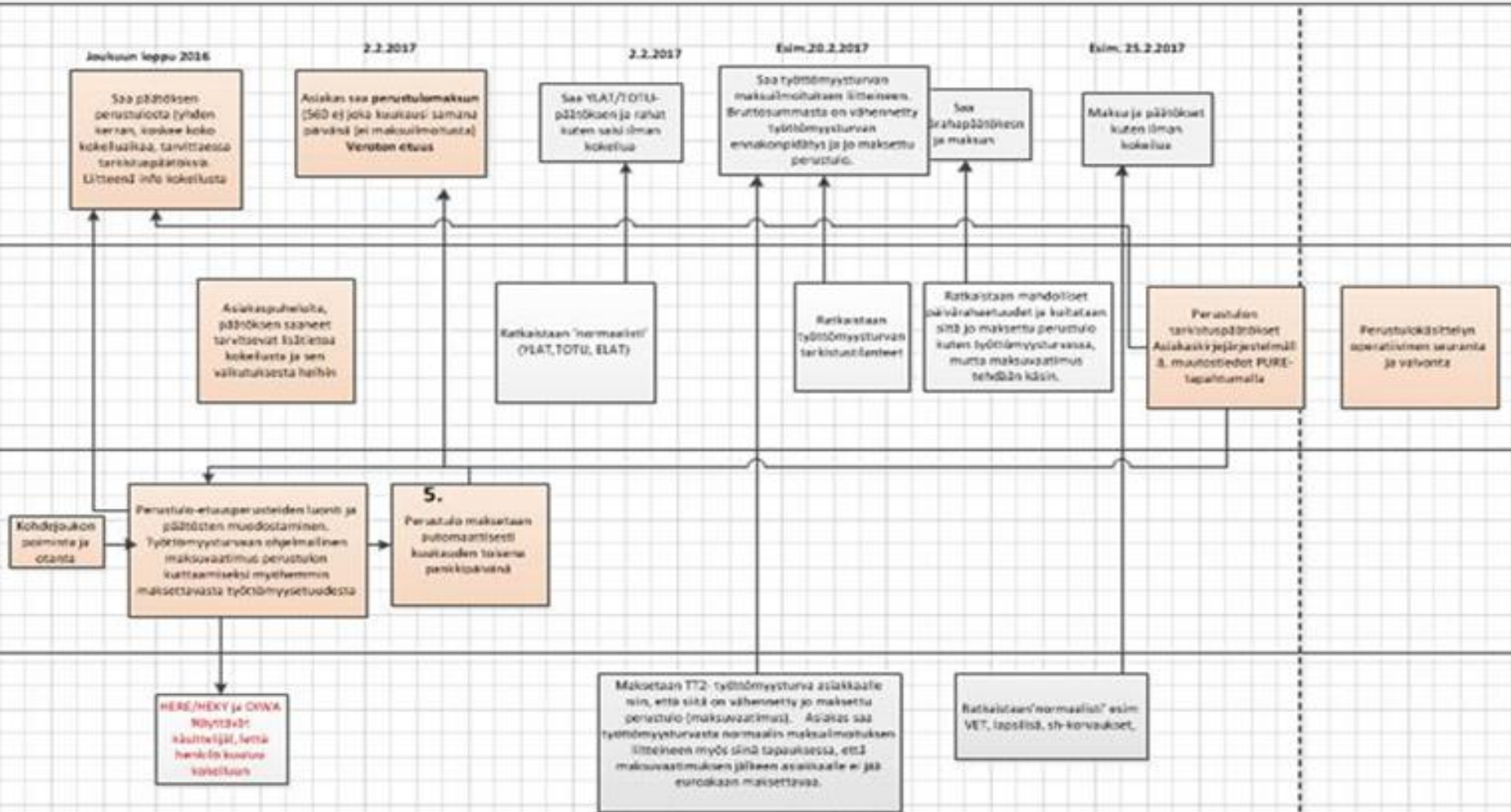
Change in wages	Current legislation	Basic income (BI) 550 euros/month and tax model		Basic income (BI) 750 euros/month and tax model	
		Flat tax	Current, tax-free BI	Flat tax	Current, tax-free BI
No social insurance based benefits but eligibility for housing allowance and social assistance					
0 > 500 euros	80.0	50.2	31.8	63.9	38.5
0 > 1,000 euros	65.1	63.6	47.0	74.0	50.3
0 > 2,000 euros	65.2	60.8	45.9	66.2	44.2
1,000 > 2,000 euros	65.3	58.0	44.9	58.3	38.2

Participation tax rate of a single parent who is unemployed/becoming employed (adjusted basic allowance, eligibility for housing allowance and social assistance, day care fees considered), work income of €0->€2,000, current transfer system and basic income of €550 and €750 current tax system and flat-rate taxes

Change in wages	Current legislation	Basic income 550 euros/month and tax model		Basic income 750 euros/month and tax model	
		Flat tax (cost-neutral)	Current (not cost-neutral)	Flat tax (cost-neutral)	Current (not cost-neutral)
0 > 500 euros	29.3	54.4	28.8	60.4	27.7
0 > 1,000 euros	42.0	64.7	43.7	72.8	36.6
0 > 2,000 euros	70.3	81.2	64.6	87.8	59.9
0 > 3,000	78.4	82.7	71.2	87.3	65.8
1,000 > 2,000	98.7	97.8	85.6	102.9	83.1
2,000 > 3,000	94.6	85.6	84.5	86.4	77.8

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

un kuuluvan asiakkaan etuuksien käsittely 2017 - 2018



# The experiment in a nutshell

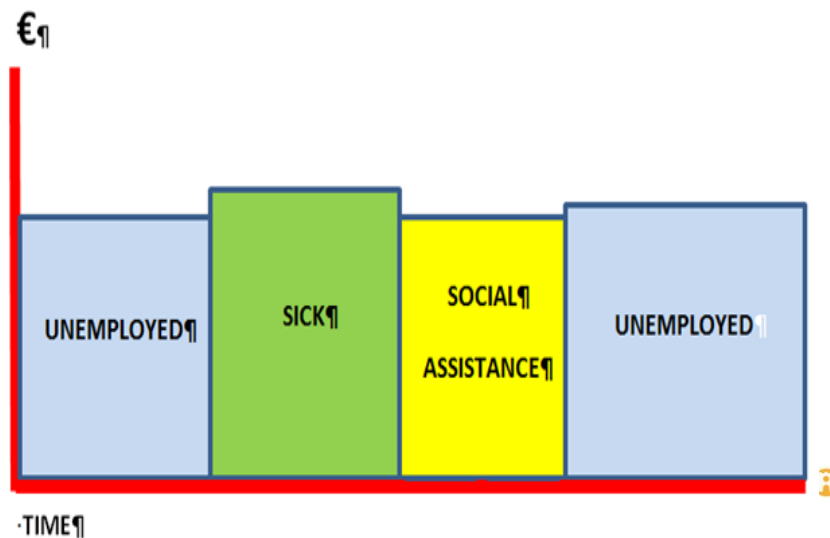
- <https://www.youtube.com/watch?v=8xPAIEkT0kk&feature=youtu.be>
- <http://www.kela.fi/web/en/experimental-study-on-a-universal-basic-income>

# 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.

# Some tentative conclusions (on BI on the basis of the Finnish experiment, so far)

- Every country is a special case
- BI as such is not a patent solution to all incentive problems
  - Housing allowance is the problem
- BI must be combined with activation measures
- Financing???
- Highly politicized issue
  - Interest groups
  - Easy to get cheap support but
  - difficult to get substantial support
- BI may be a solution in simplifying basic security and in making the safety-net more tight
- Initial steps might be to unify 'basic' benefits paid by Kela
  - Exportability may be a problem



# 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;