

**יוזמות חדשות בהתמודדות עם עוני** **Innovations in Poverty Policy**

סדרת הכנסים על שם הרברט מ' סינגר Herbert M. Singer Conference Series



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# Experimenting Basic Income (BI) in Finland

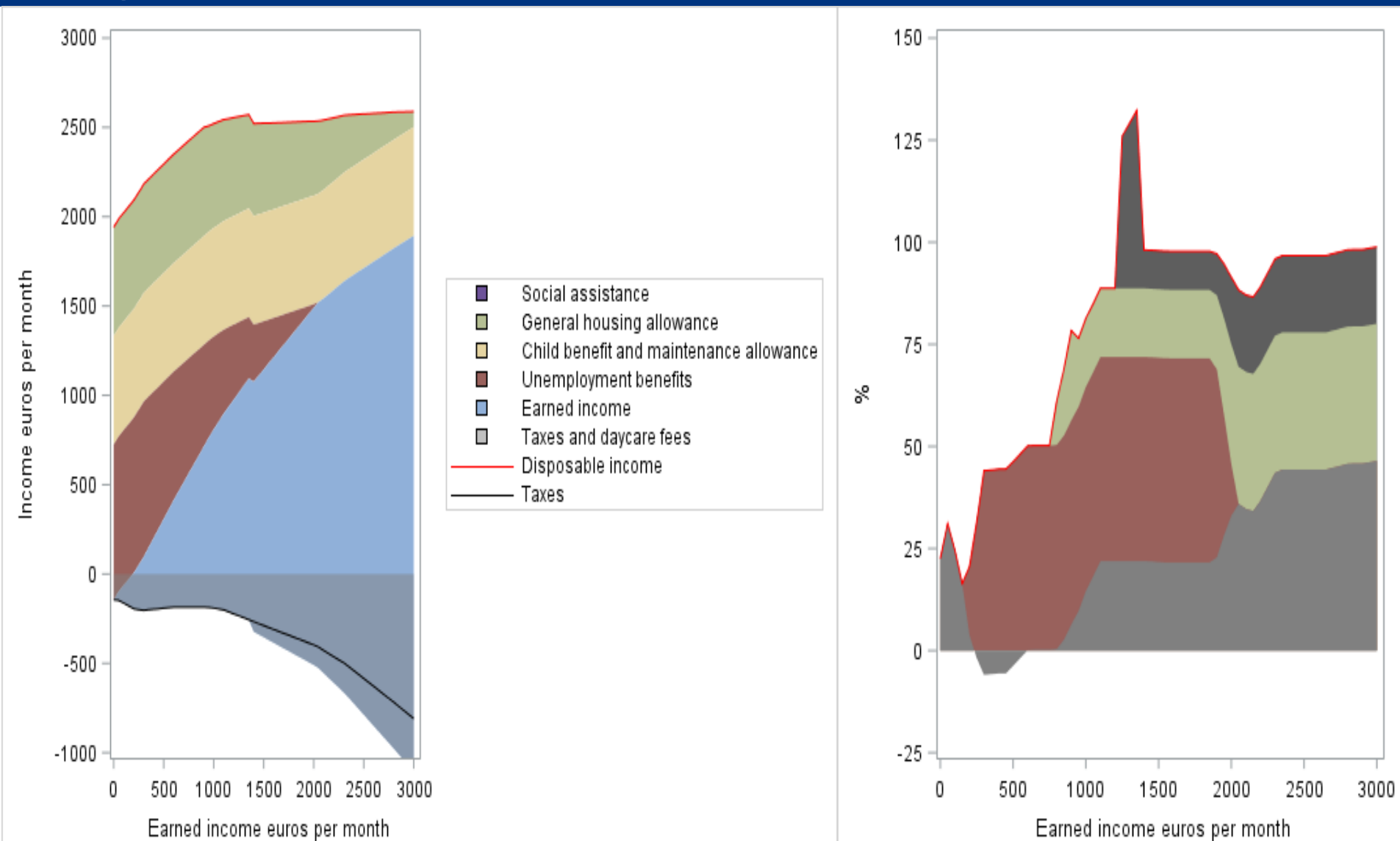
Taub Center, Jerusalem,  
1<sup>st</sup> December 2016

Olli Kangas ([olli.kangas@kela.fi](mailto:olli.kangas@kela.fi))  
Professor, Director of Governmental Relations  
Kela, Social Insurance Institution of Finland

# BACK GROUND: Why a BI experiment?

- The Center-True Finns-Conservatives coalition cabinet (nominated 28. May 2015) took basic income experiment in its working program
- BI is seen as a solution to a number of problems:
  - Changes in the labour markets / non-standard employment
  - To abolish / mitigate monetary disincentives
    - Income-tested basic benefits paid on top of each other create high effective marginal tax rates of 80-100%
    - Eg. labour market subsidy + housing allowance + social assistance and income-related day care fees
    - Making all work pay
  - Bureaucratic traps
    - Shifts in employment / social security statuses may cause problems and uncertainty among the benefit recipients
- To simplify and tighten the basic security safety net

# Composition of income (left-hand panel) and effective marginal tax rate (right-hand panel) for an unemployed single parent (two children in day care).



# Steps towards the experiment...

- €20 Mill. for the experiment
  - Some extra funds for planning the experiment
- Open competition on the funds
  - 15. September 2016 Kela's consortium was selected to plan the experimental setting and the model(s)
- Work began in the mid-October 2016
- The first report delivered 30. March 2016
- The final report will be deliver the 16 December 2016.
- The experiment starts 1.1. 2017 and lasts 2 years

# 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

# 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

# Strong public support? Or not?

Political affiliation	Basic income		Negative income tax	
	2002	2015	2002	2015
The Green League	71	75	83	80
Christian Democrats	63	56	95	81
The Finns Party*	-	69	-	77
Swedish People's Party	64	83	68	83
The Left Alliance	82	86	85	84
Centre Party	62	62	80	73
The National Coalition Party	48	54	63	56
Social Democrats	59	69	81	76

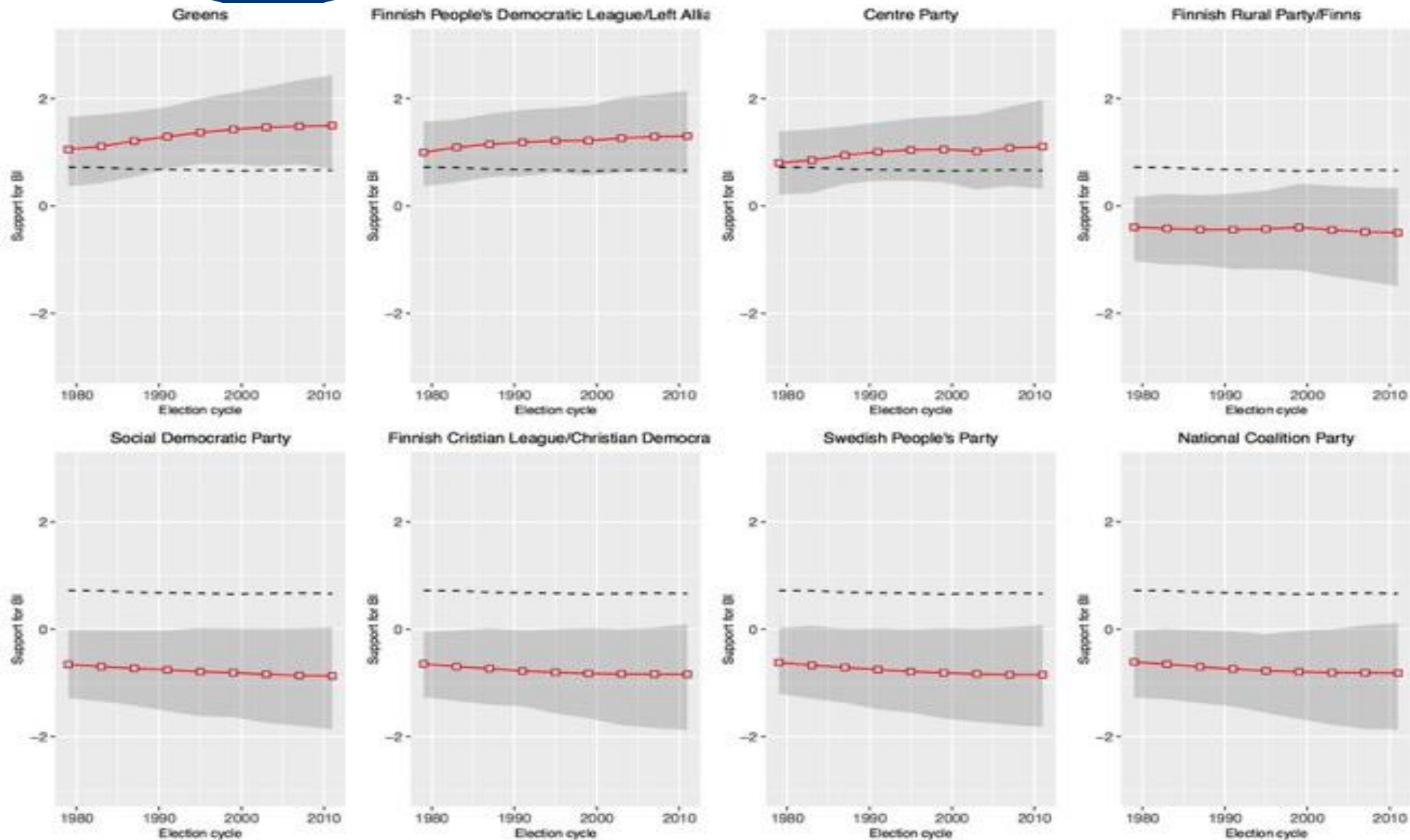
\*In the 2002 survey, data for The Finns Party are not available because of too few respondents.

- The support went down to
  - 35 per cent for BI of €500 with flat rate tax of 40% collected from income exceeding the BI.
  - BI of €800 and tax rate of 55% were supported by 29% of Finns.
- Cheap vs. expensive support and commitment
  - Idea is supported but not the actual model



# Party attitudes on BI in Finland 1979-2015

(Perkiö & al. 2016)



# 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

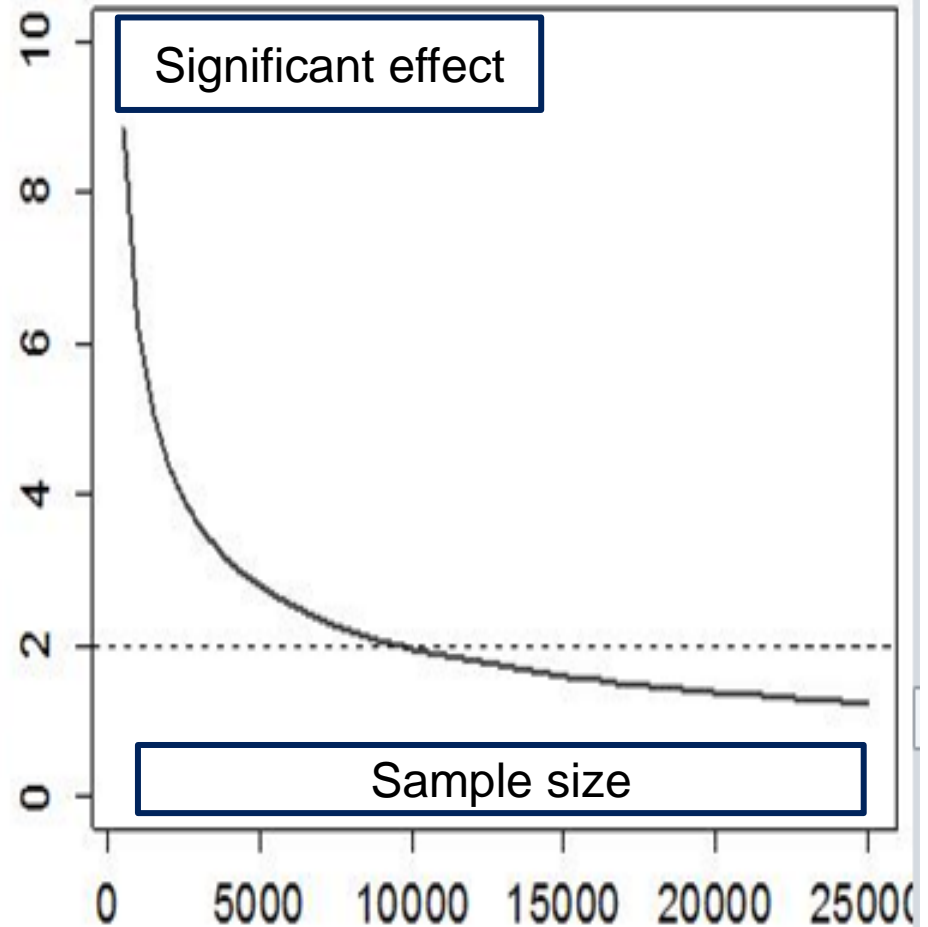
In order to get our behavioral responses<sup>4</sup>

In the experiment there are:

Different levels of BI

Different levels of tax rates

Model	BI €	Tax rate
A0	590	PRESENT
A1	590	40%
A2	590	45%
B1	690	45%
B2	690	50%



# Bill on the experiment was sent 25. August 2016 for public hearing

- 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 (possibly 3 000) unemployed who get flat-rate benefit from Kela
  - Random 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

# Reactions on the Bill

- **Social democrats**

- This is a joke and nonsense
- How a researchers who have self-respect can suggest this kind of bullshit

- **The Greens**

- A deliberate falsification of the idea of BI
- Fully stupid experiment

- **Left wing**

- Where are the young, students, free lancers, micro entrepreneurs, other self-employed?

- **Conservatives**

- BI is like Charlie Brown's Great pumpkin

- **Christian Democrats**

- Universal Credit would be better

- **Center**

- Why youth excluded?
- Not a perfect model, but good enough to start with

- **Economists**

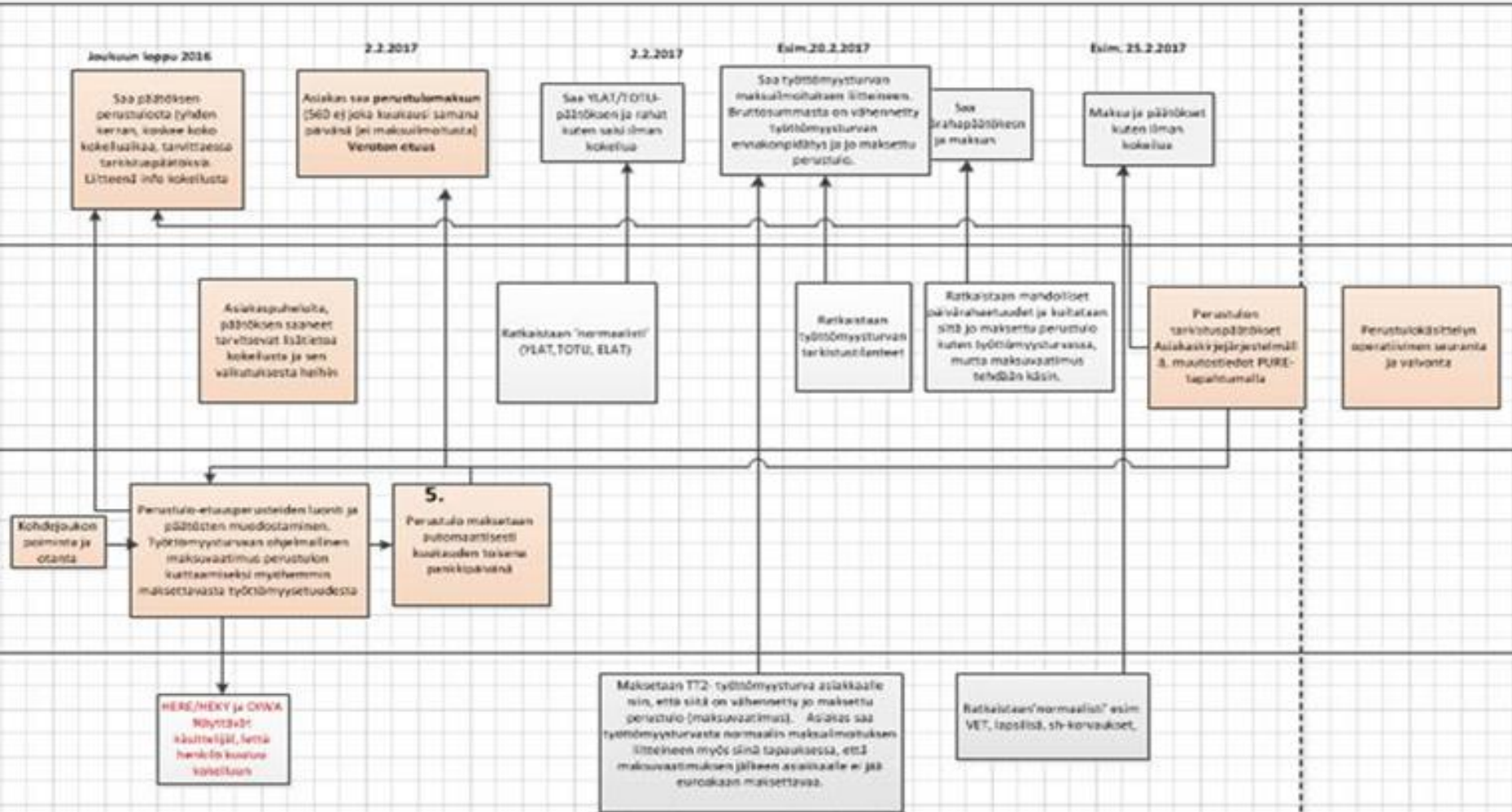
- Not a model for general implementation
- Focus on the unemployed is well-motivated
- Good enough
- Employment effects are the effects among the group selected to be the target group of the experiment

# What next?

- Dead-line for public hearing was 9. September 2016
- the Ministry of Social Affairs has reformed the Bill
- The Bill was submitted to the Parliament 20 October
- And was sent to special inspection to parliamentary committees
  - Constitutional committee was the most decisive
    - Decided that it is possible to carry out nation-wide human experiments
  - Small comments from the other committees
- Kela is planning the sampling and information to be sent to the treatment group, preparing ICT systems, training the staff needed for running the benefit, etc....

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

un kuuluvan asiakkaan etuuksien käsittely 2017 - 2018





# The present status....

- The law in force in January 2017 but payments first in February 2017
- But it demands that the law will be promulgated in time
- Random sampling from the Kela unemployed (130 000 persons) into the experimental group (2000 persons) is based on their status in mid-November.
- Decisions to the experimental group must be sent in due time
  - Information to the clients
  - Questions
  - Training the Kela staff

# AT PRESENT IT SEEMS THAT....

- A wider experiment is planned to begin 2019
- How wide?
  - New groups?
    - Power calculations
  - Local experiments?
    - Probably not
- BUT the question is about money
  - Experiment budget is €20 Mill
  - 1 000 persons without Kelan benefits will cost €14 Mill
- All depends on extra resources
- Obligatory vs. voluntary?

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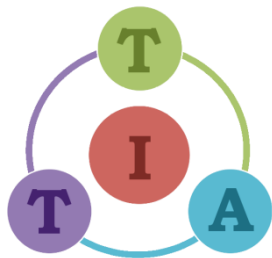
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