

Experimenting Basic Income in Finland

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ECAS –

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Basic income experiment in a nut shell – Why?

- <https://www.youtube.com/watch?v=8xPAIEkT0kk>

Basic income experiment is one of those actions which aim to

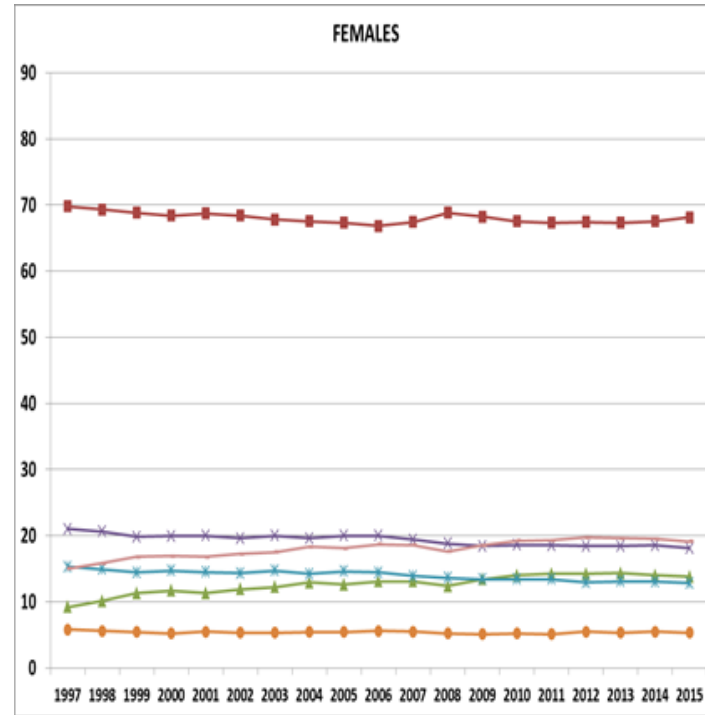
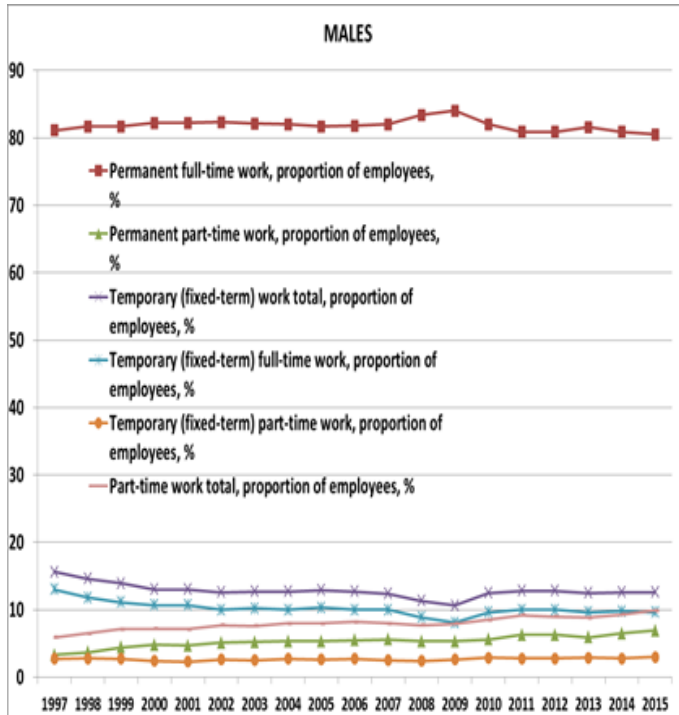
- *Develop social security to more participating and incentive for work (Main goal in Finland's trial)*
- Renewing social security to answer better to changes of working life
- Reduce byrocracy
- Simplify the complexity of the social security system

Some history

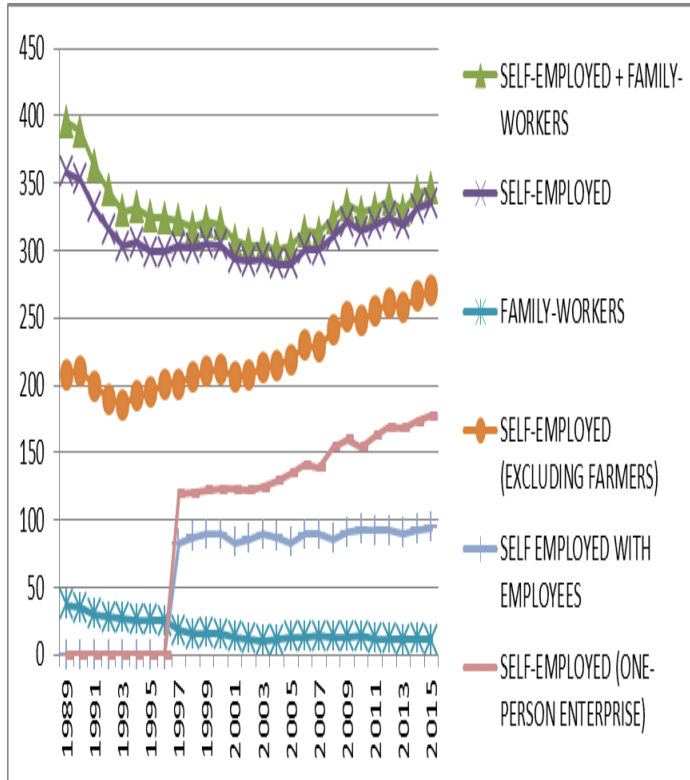
- Discussions and proposals about basic income since 1980s
- Basic income as a goal in party programmes and election platforms: Green League and Left Alliance (since 2007)
- Prime Minister Sipilä's Government (since May 2015)
 - Center Party + Coalition Party (conservatives) + True Finns (right-wing populist)
 - In the programme of the government one sentence in the section about key projects:
 - “A basic income pilot study will be performed”
- Research project launched in winter 2015/2016
 - Kela (Social Insurance Institution) & VATT (Government Institute for Economic Research) & Universities & Think Tanks etc.
 - Preliminary report March 2016, Final report November 2016
 - Research group led by professor Olli Kangas

Strong continuity: no destruction of standard employment ?

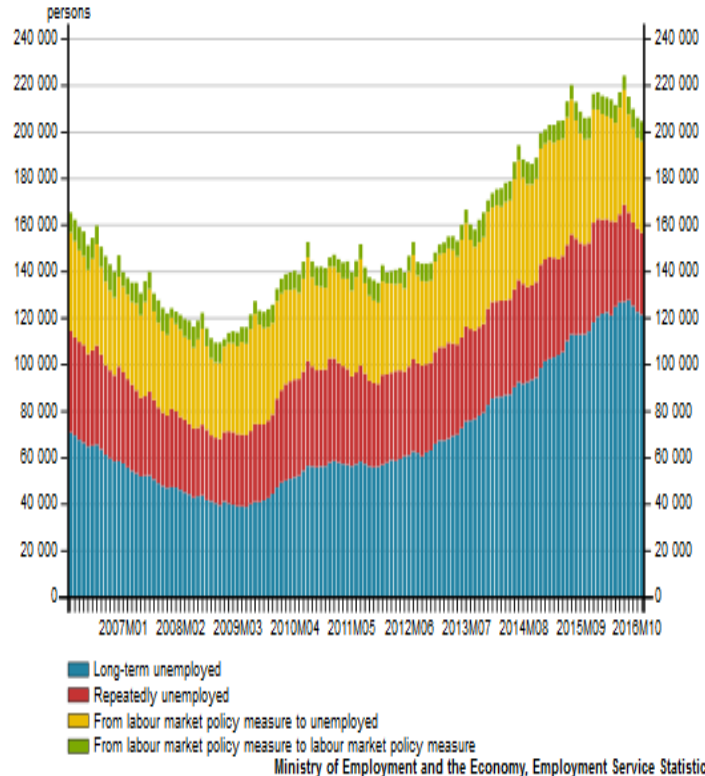
Employees (% of employees) by the type of employment and gender
in Finland 1997-2015. (Statistics Finland 2016)



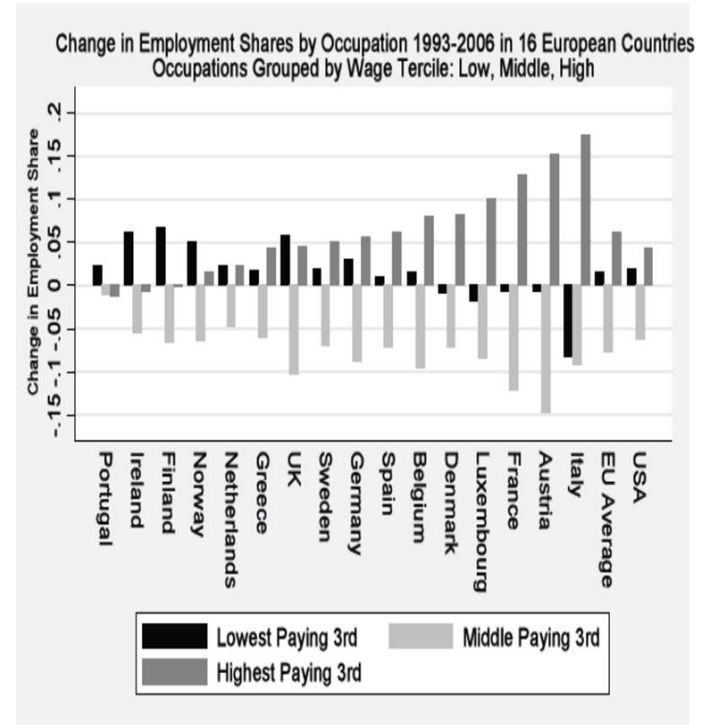
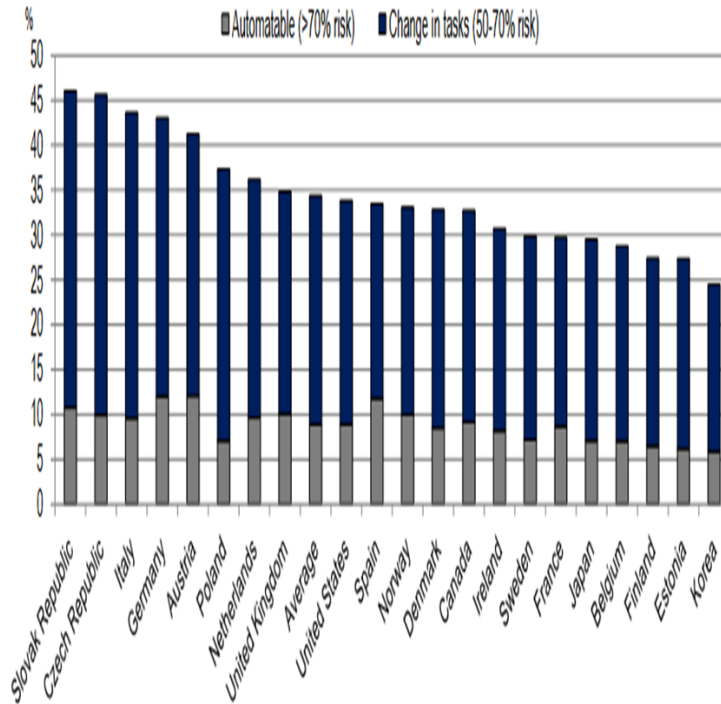
But there is a flip-side: Self-employment (000, left-hand panel) is increasing and structural unemployment (right-hand panel) is high



Those difficult to employ (structural unemployment) 2006M01-2016M11



Automation and Independent Work in a Digital Economy (OECD 2016)



Contradictory ideas and expectations

- Basic income as a means of promoting work incentives
 - Simplified benefit formulas and tax schedules probably diminish marginal effective tax rates and make additional work efforts more remunerative?
 - Easier to start small scale own business?
 - Combinations of low wages and basic income attractive for employers?
- Basic income as a means of promoting freedom and self-determination
 - Activities outside wage labour made possible and economically feasible:
 - voluntary work, household labour?
- Basic income as a means of reducing poverty

Government's motivation for the experiment

- Would basic income be an economically feasible policy for...
 - ...Renewing social security to adapt to the changes of working life
 - ...Increasing incentives for work
 - ...Reducing bureaucracy
 - ...Reducing poverty
 - ...Simplifying the complex social security system
- We already have some answers based on simulation studies
- The experiment aims at finding out behavioral effects of the policy

Basic income models in the preliminary study

- Calculations with many parameters
 - Basic income adjusted to current social security system (not replacing it totally)
 - Basic incomes replaces basic benefits almost totally and earnings-related benefits partly (as far as they are equal or smaller than the amount of basic income)
 - In addition housing benefits, social assistance, child benefits etc. paid according to the current rules
 - A flat tax rate guaranteeing a cost-neutral solution is sought
 - Also more realistic tax models are studied and calculated
 - Many legal questions were studied
 - Basic income in the light of the EU legislation and Constitution of Finland

Some features in the Finnish experiment

- Limited target population
 - Individuals who received basic unemployment benefits in November 2016
 - Age 25 – 58 years
- Randomized controlled trial
 - One treatment group (2 000 individuals) and one control group (175 000 individuals)
- Compulsory participation
 - Participants are chosen randomly from the target population
 - Benefit is paid to the bank account found in the unemployment benefit registry
 - Individuals are monitored through official registers
- Nationwide random experiment
- Regulated by a law
- Administered by public institutions

The basic income model in the experiment

- Limited model
 - No other changes to the current tax-benefit system
 - New benefit: unconditional basic income of 560 euros per month
- Basic income is deducted from basic unemployment, sickness and parental benefits
 - No major changes in the income of the unemployed
- No changes to income taxation
 - A significant increase in the income if employed and getting a job
- Possibility to apply for same benefits as in the current system
 - The level of income will not decrease because of the experiment
- Some changes in the status prevent the payment of BI

Basic income experiment compared with models studied

- Budget-neutral BI models
 - No significant increase in monetary work incentives
 - Basic income funded through income taxation
- This experiment
 - Significant increase in monetary work incentives
 - Expensive model if extended to the whole population
 - Provides important information on how individuals react to the monetary work incentives
 - Small sample size requires large change in employment

Target population

- Individuals who received basic unemployment benefits in November 2016
 - Mainly individuals with long unemployment history
 - Also individuals with no work history
 - Some of them have become unemployed a short time before to the experiment
 - Payment of basic income might not start because of social status (moved abroad, applied for student benefits or child home care allowance, getting pensions etc.)

Options for the persons in the treatment group (possible paths)

- Possible paths for persons in the sample population (treatment group)
 - 1) Remaining unemployed, behaving according to the rules of unemployment benefit legislation
 - No change in income, taxes and benefits; basic income 560 € is a part of the unempl. benefit
 - 2) Remaining unemployed, but not behaving according to the rules of unemployment benefit legislation
 - Basic income 560 € paid; no unemployment benefit or taxes; other benefits normally
 - 3) Getting a job and having a wage income or entrepreneurial income
 - Basic income 560 € paid in addition to the labour income; other benefits possible
 - 4) Moving to sickness benefits or parental benefits
 - Analogous to the case 1); income according to the current rules; basic income as a part of the benefits
 - 5) Getting pension, moving abroad, getting study grant or child home care support
 - Excluded from the experiment

In all cases 1 – 4 at least the basic income 560 € is guaranteed for the person

In all cases 1 – 4 housing benefits, social assistance etc. paid according to current rules, if possible

Experiment in practice

- Started in January 2017
- First monthly payments on January 9th
- Benefit decision and info letter for participants
- Special telephone service for participants
 - How basic income affects other social benefits
 - How work income affects basic income
- Extensive public informing (Kela)
- Extensive media attention (both national and international)
 - Although the experiment is limited, it is very challenging and even ambitious in international comparison
- Media has made reports on participant's experiences
- Some information on participant's experiences through customer service (Kela)

When are the results studied?

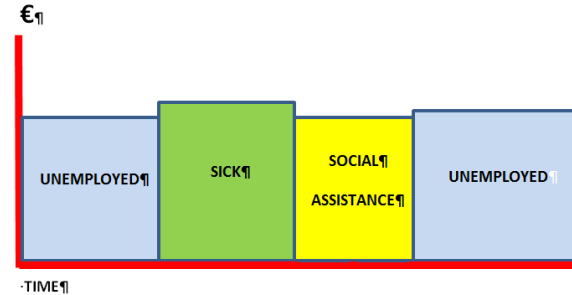
- The effects will be studied **after** the experiment through official registers
 - Employment, work income, labour supply, employment measures, take-up of different benefits etc.
 - Compensation for medicine costs, medical treatment
 - Information from population registry
- Possible surveys will be conducted in the end of the experiment (2 years)
 - Other activities, perception on income security, subjective wellbeing etc.
- All results will be published **after** the experiment
 - Official evaluation program (e.g., the employment effects)
 - Other studies (also other possible outcomes, e.g., health effects)

About the evaluation process

- Follow up for administrative purposes during experiment
 - Kela's responsibility
- Final evaluation after the experiment has finished
 - The exact content and the authors havet not been decided yet
- Data available for further research
 - Also possible to link with other register information

Bureaucratic traps

- Shifts in employment / social security statuses may cause problems and uncertainty among the benefit recipient
 - The vicious combination of income traps with bureaucratic traps
 - “If I accept the job for 6 months or so, do I again qualify to that benefit I had?”
- To simplify and tighten the basic security safety net so that
 - Nobody will fall through
 - Nobody needs to be afraid of losing the safety net
 - Encourage people to take risks



- NN is unemployed, gets sick, recovers, waits for unemployment benefit and gets social assistance until gets again unemployment benefit
 - All these benefits are paid by Kela
- Then: Why not one single system?

Why is the Finland's experiment so unique?

- Experiment is **compulsory**, you cannot choose whether you want to be in it or not → came as a surprise to the participants → results will be more genuine and reliable
- Target group (2000 customers) chosen were randomly picked from the **whole group** of basic unemployment benefit receivers (175 000 persons) → **no exclusion** of certain groups from the experiment
 - Target group (2000) – control group (173 000) → can be compared together because the profile is the same
- Experiment is **nationwide**, participants are situated all over Finland

Why is the Finland's experiment so unique?

- Experiment is implemented by the **main** social insurance implementor in Finland (Kela)
- Experiment has been planned and implemented by interdisciplinary group (researchers, legislation experts, benefit experts, ICT experts) **inside** one organization
- Experiment is based on **legislation** and the law on the experiment has been proven by constitutional board in parliament

Basic income experiment– Why?

1. More incentives to take on work

- Earnings don't reduce the amount of basic income
- Basic unemployment benefit is coordinated with earnings so if you take on for example a part time job, you'll get less than the full amount of the unemployment benefit (1 euro earnings reduces 50 cents of the benefit)
- In some situations it is not worthwhile to take on a part time job because the amount of euros left in your hand is less than the full unemployment benefit (taxes, child increases etc to be considered)

Basic income experiment– Why?

2. Financial security guarantee (“Peace of mind”)

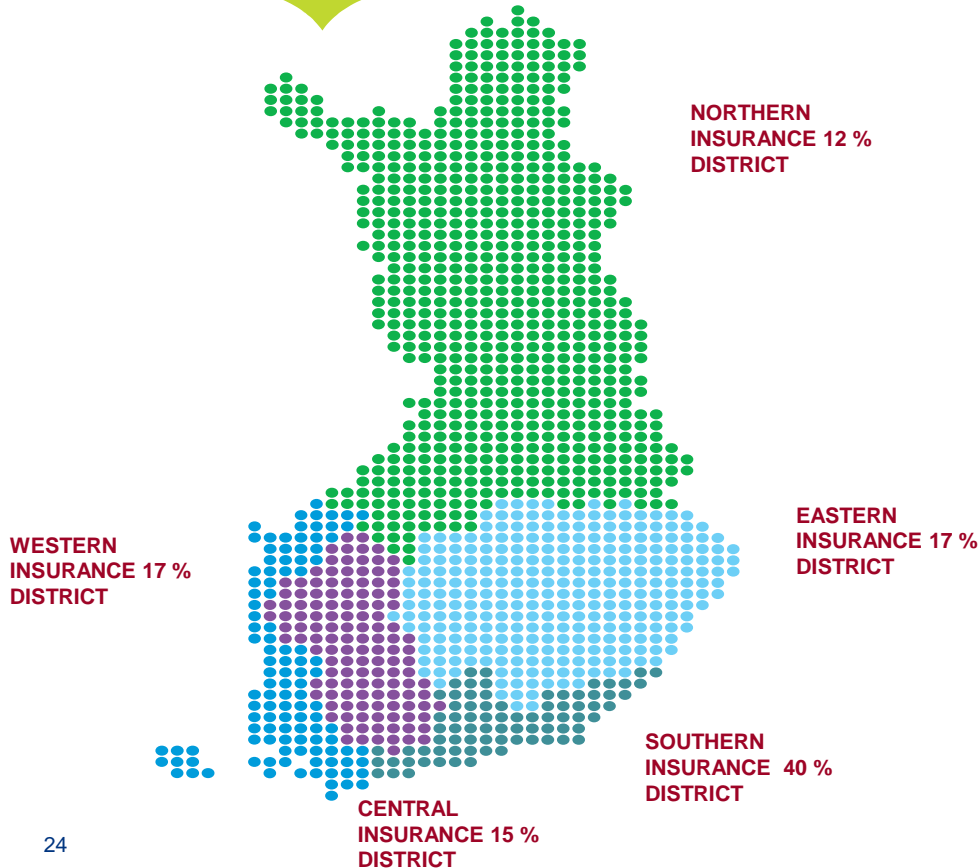
- Basic income is payed **in advance** every months **second bank day** **unconditionally without any application of other information**
- You can plan ahead your life and have certainty of the basic income
- Unemployment benefit is payed **afterwards** (in four week periods) and it’s amount is reduced by possible earnings – uncertainty how much does the benefit is especially when doing part-time job and amount of earnings vary from month to month

Basic income experiment– Why?

3. Less burocracy

- To calculate the amount of the unemployment benefit, customer needs to bring all the necessary information to Kela every 4 weeks. Pay checks, application form, other clarifications what is needed to calculate the amount of the benefit
 - Administrational work and burocracy burden for both customer and Kela
- Status changes: If person in experiment gets sick or has a baby, he or she will stay on basic income and don't have to apply for sickness benefit or parental benefit
 - Finnish basic social security system consist of 40 benefits or parts of benefits and it is sometimes impossible to customers to know what they are entitled to.
 - Benefits are calculated in different ways and so customer is forced to bring different application and other information for Kela to process applications in order to get the benefits he/she is entitled to

Target group 2000 persons



Basic income receivers:

- 48 % female, 52 % male
- 30 % aged 25-34, 29 % aged 35-44, 41 % aged 45-58
- 87 % received labour market subsidy and 13 % basic unemployment allowance

Experiment in practice

- Decisions sent by post to the target group 28.12.2016 → All of the benefit paying days for the whole 2 years have been informed to the target group
- No bureaucracy fro customers or Kela – experiment is running smoothly with almost no work at all
- Kela is not allowed to give away information about the persons in this experiment and results of the trial cannot be seen yet
 - Individual privacy
 - The results of the experiment suffer → by disturbing the customers we can alter their behavior and spoil the idea of a compulsory field trial
 - The analysis of the experiment will be take place **in the end of the trial** via for example interviewing target group or part of it and comparison with the control group will be made.

Customers comments and feedback

- It has been a positive surprise for many people that working and earnings from working do not affect or reduce basic income
- Many who have called to Kela are thinking of starting their own businesses
- Those who have started studies, have selected basic income instead of student benefits
- Single persons have also thinking about staying on basic income and not apply for jobs but some of them have had a reason for this (for example taking care of an elderly person)

The implementation

- Started in 30.5.2016 after the decision of the experiment was made and order to prepare for the legislation was given
- Normally a new benefit takes about 1-2 years to implement (from legislationmaking, IT-systems and organisational changes as well as education of the servants)
- The experiment was planned from the beginning with wide expertise together doing the planning (actuaries, research side, legal councils, financing experts, benefit experts, IT-programmers and technology experts) – legislation preparation, IT-systems, customer service, selection planning etc.
- Inspirational, innovative and motivative experiment 😊
 - We have to learn also from the implementation in order to be more agile

Questions and material

- Further questions: tapio.rasanen@kela.fi, miska.simainainen@kela.fi, perti.honkanen@kela.fi
- Kela's webpage on experiment:
- <http://www.kela.fi/web/en/basic-income-experiment-2017-2018>
- Preliminary report (shortened version in English) on experimenting basic income (prior to the experiment):
- <https://helda.helsinki.fi/handle/10138/167728>
- Final report (blog article) on experimenting basic income (prior to the experiment):
- <http://blogi.kansanelakelaitos.fi/arkisto/3648>

What has already happened in Finland?

Reasons for reforms

- Current legislation serves yesterday's needs eg. service society, digitalisation, AI, robotization
- Attitudes to work, incentives to work
- Long-term unemployment, youth unemployment
- Marginalisation, dropouts
- Changes in family life
- Dependency ratio
- Growing social expenditure

Working group on family leave reform

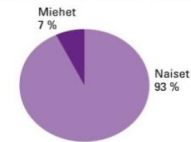
2.10. – 31.12.2017

- Reasons for reform

- Many more mothers take family leave than fathers

- Total days / parental leave: 90,5 %, mothers; 9,5 %, fathers
 - Recipients of child home care allowance: 93 %, mothers; 7 %, fathers
 - Parental leave : 20 % of fathers, no leave at all

Naisten ja miesten osuus kotihoidon tuen saajista 2016



- Balance work and family life
 - Expand access to pre-primary education
 - Address marginalization of young people
 - Cohabitation families, single-parent families, blended families and lgbt families

Participation Income Working Group 1.9.2017 – 31.3.2019

- Participation social security pilot 1.1.2018
 - Investigate measures to bring long-term unemployed back to work
 - Integrate public employment and rehabilitation services into social work
- Develop incentive model to encourage young people to take part in work life
 - Unemployed under age 25, who have been unemployed over 200 days
 - Unemployed over age 25, who have been unemployed more than 500 days
 - Labour Market Support becomes Participation Income

Working group to promote equality

- Reasons for reform
 - Promote equal opportunity for full participation in society
 - Universal faith and trust in the system which provides safety net and social /health care services

• Long-term unemployed	215 000
• Under-educated	600 000
• Young people outside school/ work	70 000 – 100 000
• People with less than full work ability	600 000

- Goals of reform
 - Raise employment rate, encourage employment and promote entrepreneurship
 - Promote equality
 - Respond to changing work life and family structure
 - Implement digitally-driven, widely accessible system/interface
- Find alternative reform models
- Broad political consensus
- Preliminary work for the next government

Basic income or not – Social security systems must be simplified and renewed