4. Tackling poverty and social exclusion with unconditional money: Notes on the Finnish basic income experiment[20]

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The idea of a basic income, "an income unconditionally granted to all on an individual basis, without means test or work requirement"[21], has been discussed in Finland for decades. Yet, it is fair to note that basic income was never widely considered a politically feasible option before a reference was made to a basic income experiment in the governmental programme of the centre-right wing coalition government of Prime Minister Juha Sipilä in May 2015.

The reference to a basic income experiment was a surprise for many since the coalition parties the Centre Party of Finland (agrarian, economically centre-right), the Finns Party (nationalist, populist, economically centre-left) and the National Coalition Party (liberal and conservative factions, economically right) have not been the most noticeable advocates of basic income, even though a few Centre and National Coalition Party members have been in favour of the idea in recent years.

Regardless of the many universal elements in the Finnish welfare state (e.g. extensive social security and free/quasi-free public services), the idea of paying unconditional money for everyone has not resonated with the prevailing strong work ethic of the social democratic welfare state. Partly due to this the Social Democratic Party and social democrat led trade union movement have been critical against the idea of a basic income. Another reason for the reluctance has been anxiety that basic income would be

[20] This chapter will be also published in Scottish Anti-Poverty Review, No. 22
[21] The definition of basic income by the Basic Income Earth Network (BIEN).

combined with weakening of labour laws and collective agreements, even though this is not inherent in the idea of a basic income.

The most prominent advocates of basic income have been traditionally green-left politicians, scholars and activists. A mid-size Finnish party the Green League was the first party to publish their own micro simulated basic income model in 2007 (revised model in 2014), followed by another mid-size party the Left Alliance in 2011. Both models are partial models: the level of basic income corresponds roughly to the levels of the current basic security benefits and the models leave for instance housing allowances and earnings-related benefits intact. Less unexpectedly, the leftist model is more generous and has greater impacts on income distribution.

It is important to note that discussing basic income at a general level is not a sustainable starting point since level of basic income, taxation model and replaceable benefits determine what kind of effects basic income has. Due to this it is clear that even testing a basic income involves many political decisions which have their consequences on the results.

An illustrative example of the problematic nature of general level discussion is also two Kela surveys carried out in autumn 2015. According to the first survey 69% of the Finnish people were in favour of a basic income scheme *as such*. When probable levels of basic income and needed flat rate taxes were included, the support collapsed to 30–40%.

The Finnish basic income experiment has received a great deal of international interest. What is repeatedly forgotten in foreign media is that the Finnish government is *testing* a basic income scheme, not *implementing* one. This is why the experiment should not be automatically interpreted as a paradigm shift in Finnish social and labour market policies. In tandem with the experiment the Finnish government is implementing more conditional elements in social security. That is, instead of a paradigm shift, more truthful motivation for the Finnish experiment is the government's endorsement for promoting evidence-based policies and experiment culture.[22] In addition to the basic income experiment, also other social experiments will be carried out.

[22] The expression used by the Prime Minister Juha Sipilä's government.

Setting the agenda – Diminishing disincentives in social security

After evaluation a consortium[23] led by the Finnish Social Insurance Institution Kela was appointed to study the suitability of different basic income models for the experiment. The assignment handed down by the Prime Minister's Office outlined the following options:

1) full basic income (the level of BI high enough to replace almost all other benefits, perhaps excluding earnings-related benefits)

2) partial basic income (would replace most of the basic security benefits, but leave some)

3) negative income tax (politically determined unconditional minimum income for those who cannot earn it otherwise)

4) other possibilities to test basic income (the research group analysed participation income and the British Universal Credit, but these systems would not enable one to test the effects of basic income due to their conditionality).

In the assignment only one clear target was emphasised: diminishing disincentives in social security. In the Finnish basic income discourse basic income has been often seen as a practical measure to make work always pay. In other words, employment became the primary indicator in the Finnish basic income experiment.

This target resonates with the strong work ethic of the social democratic welfare states, but has also a connection to the activation policies pursued in Western welfare states in recent decades. Removing disincentives in social security has been a major target of all Finnish governments since the mid-1990s.

[23] The consortium consists of the Finnish Social Insurance Institution Kela, the Government Institute for Economic Research, the Universities of Helsinki, Tampere, Turku and Eastern Finland, the National Fund for Research and Development Sitra, the think tank Tänk, and the Federation of Finnish Enterprises. The Association of Finnish Local and Regional Authorities contributed also to the review.

Research group's recommendations

Based on extensive theoretical analysis and numerous microsimulations, the research group recommended in its report (published on 30 March 2016) testing a partial basic income which would correspond to current basic security benefits (e.g. basic social assistance, basic unemployment benefit, labor market subsidy, sickness allowance, rehabilitation allowance, minimum parental allowances). A full basic income scheme was considered to be too expensive and politically unfeasible to test.

Testing a negative income tax scheme in a reliable manner would have required an access to people's real-time information of incomes. Such a digital income registry will be implemented in the coming years. However, economic implications at macro and micro level would be mathematically almost identical in a basic income and a negative income tax scheme.

In an ideal research setting several models with different taxation systems should be tested to achieve better understanding on the dynamic effects of basic income.

To produce generalizable and reliable results the research group recommended a nationwide and compulsory randomisation. To capture possible externalities (that is what happens when more people in a certain area receives the new benefit) more intensive regional sample would also be necessary. The research group recommended focusing on low-income households since the budget (€20 million for two years) is limited and the elasticity of labour supply is supposed to be greatest among this group. According to power calculations by economist Jouko Verho, a sample of approximately 10 000 people is needed in order to observe statistically significant results if employment changes two percentage points.

According to the microsimulations, it is clear that improving economic incentives consistently is not possible with a partial basic income which is financed budget neutrally[24]. This results from the relatively high income tax rates needed to finance basic income budget neutrally and the benefits such

[24] The budget neutrality requirement means that no one's net income is allowed to change drastically in comparison to the current system and the basic income is financed from inside the current social security system and by increased taxes on labour and capital income.

as preventive and complementary social assistance, housing allowances and earnings-related benefits which cannot be replaced by a partial basic income. In order to improve economic incentives of low income households it is necessary to apply progressive taxation or dilute the current level of social security.

Basic income and social exclusion

In addition to the incentive target the assignment handed down by the Prime Minister's Office mentioned a need to make social security more inclusive. Even though the incentive approach has been emphasised by the Finnish government, we concentrate next on poverty and social exclusion.

In order to discuss social exclusion in a scientifically meaningful manner, it is important to name explicitly the indicators which are considered to lead to social exclusion. Otherwise the obvious risk is we end up moralising about people who are bad off.

The most explicit risk factor behind social exclusion is undoubtedly unemployment. In addition to declining incomes, unemployment may produce for instance weaker social relationships and both physical and mental health problems. The Finnish basic income experiment studies will test whether better economic incentives and less means testing produces higher employment rates. In other words, tackling social exclusion by supporting better employment is an empirical question which will be studied.

Based on older Finnish studies on the effects of lowering income taxes, it seems relatively clear that economic incentives do not have a crucial effect on employment. In the case of basic income, however, diminishing the bureaucracy traps may ease working on a part-time basis or going into self-employment since basic income reduces reporting obligations and delays. Regardless of these factors, it will not be reliable to verify whether a basic income can tackle social exclusion via better employment before the evaluation of the results in 2019.

During the five negative income tax experiments in the United States and Canada in the 1960s and 1970s labour supply declined moderately, but these results cannot be translated directly into the context of Finland in the 2010s.

The experiments had also methodological weaknesses which had effects on the reported results. With reference to social exclusion these results were not as negative as it might look at first sight since young people educated themselves further and mothers looked after their children instead of working.

In addition to employment there are naturally many other indicators which might indicate social inclusion or exclusion and on which basic income may have a direct or indirect effect. For instance health, educational attainment, subjective well-being, stigmatisation of social security, housing, and indebtedness can be evaluated, but *ex ante* research on these indicators is highly speculative. According to a study by Evelyn Forget negative income tax had considerable positive effects on health, and especially mental health, during and even after an experiment which was carried out in Dauphin Manitoba, Canada, in 1974–1979.

It has been argued that an unconditional basic income might also increase social exclusion. Since basic income is unconditional by definition, it would make current activation measures voluntary and people could refuse to participate both in labour markets or the activation measures offered without a threat of sanctions. Many commentators have been particularly worried about youths. Partly due to the possibly increasing risk of social exclusion of NEETs (not in education, employment or training), the research group recommended to exclude youth under 25 years old from the Finnish basic income experiment.

To tackle moral connotations and speculations, we concentrate next on the direct effects of a basic income on social exclusion. The indicators which we can analyse *ex ante* and which we consider meaningful in this context are poverty and income distribution. The negative effects of poverty and asymmetric income distribution on social exclusion indicators such as health, nourishment and social cohesion have been widely discussed in research literature.

The effects of different basic income models on poverty and income distribution

The research group made extensive calculations and simulations with different basic income models, especially with different levels of partial basic income which replace basic benefits while earnings related benefits are adjusted with the basic income. One example: if the agreed basic income is 600 euros per month, it replaces basic unemployment benefits, sickness benefits, maternity benefits, child care benefits and study grants if these are less or equal to €600 per month. Earnings related benefits in unemployment and sickness insurance are in most cases greater than €600. In hypothetical models these benefits are adjusted so that the gross benefit, including basic income, does not diminish. E.g. if originally the earnings related benefit is €1000 per month, the person gets in the basic income model €600 of basic income and still €400 of an earnings related benefit. In these calculations housing benefits and social assistance are paid according to the current rules. In general basic income lowers the demand for these means-tested benefits, but it does not totally eliminate them.

When basic income is paid for the whole population, it cannot be financed only by the benefit expenditures it is replacing. A big reform must be carried through also in the tax system. In the hypothetical simulations the research group implemented a flat tax rate on all taxable income (labour income, benefit incomes and capital income; basic income itself is always excluded from the tax base). This flat tax replaces all current income taxes and with the help of the simulation model a budget neutral tax rate is sought. Also tax systems which modified the current system were experimented with, because a general flat tax is not realistic, and not even a desirable alternative in the Finnish context.

In the simulation experiments the basic income was paid for the adult population (age at least 18 years) excluding individuals having pension income. Pensioners were excluded because the current pension system has already many features corresponding to a basic income. So there is a universal, non-means tested minimum pension level (so called guaranteed pension) and old-age pensions are not means-tested against labour income. The pensioners are nevertheless still included in the figures describing the income distribution of the whole population.

In Table 1 we can see some results from these simulations.

Table 1. Basic income, tax rates and income distribution

Basic income, euros/month	Flat tax rate, %	Gini	Poverty-rate, %
0 (current system)	NA	26.51	13.03
450	41.5	25.94	12.29
500	43.5	25.50	11.98
550	45.0	25.15	11.74
600	46.5	24.79	11.39
650	48.5	24.33	11.10
700	50.0	23.96	10.91
750	52.0	23.49	10.47
800	53.5	23.11	10.21

We see that the flat tax rate is rising quite steeply when higher basic income levels are experimented. A basic income of €600 per month presumes of flat tax rate of 46.5%. At the same time the effect on income distribution is clearly equalizing: the higher the basic income, the lower the Gini-coefficient and the poverty rate are.

The research group also made many calculations regarding different household types with different incomes in order to study the income and incentive effects of various basic income models. Incentive problems can be serious in the current system if the person or the family is receiving different means-tested benefits at the same time: wage-adjusted unemployment benefit, housing benefit and also social assistance. The situation is aggravated when there are children in the family, because these benefits are also dependent of the number children. In these situations also child-care fees make the situation more complex. In some income brackets the marginal effective tax rate can be 80 – 100 percent and even more.

Experiments with basic income schemes showed that in many cases the incentive problems are easing off, but it is difficult to eliminate them totally and in some situations or models they even aggravate. In the partial basic

income models housing benefits are still needed in many cases, because the basic income cannot cover the high housing costs, especially in urban areas in Southern Finland. In general dependence on the housing benefit system creates incentive problems. In every case one advantage of basic income schemes is simplification of the system and this can alleviate at least the so called bureaucratic traps; delays, reporting obligations and falling through the social security net.

Experiment design

Finally, on the 25th September 2016, the Ministry of Social and Health Affairs published its draft basic income experiment bill which was written during summer 2016[25]. In the bill on the basic income experiment the government proposes testing a partial basic income model of €560 net a month which would be paid just to Kela recipients receiving either basic unemployment allowance or labour market subsidy in November 2016. According to the bill the current progressive taxation will be applied which means that the model is relatively generous for people who find a job. In other words, it will improve work incentives substantially.

A sample of 2000 recipients will be randomised based on a nationwide randomisation which will be carried out in December 2016. The experiment's treatment group consists of persons between 25 and 58 years old living in Finland. The control group will be approximately 130 000 people. The bill's consultation period ended on the 9th September and the policy process continues normally during the autumn.

The experiment design proposed in the bill is based partly on the recommendations made by the Kela-led consortium, but its approach is not as ambitious. This can be mostly explained by time and budget constraints: building a new taxation system by the Tax Administration and a new payment platform by Kela would not have been possible until the 1st January 2017. Enabling sample size bigger than 2000 persons would have required a new payment platform.

[25] The Ministry's press release available in English: http://stm.fi/artikkeli/-/asset_publisher/sosiaali-ja-terveysministerio-pyytaa-lausuntoja-osittaisen-perustulokokeilun-toteuttamisesta?_101_INSTANCE_yr7QpNmlJmSj_languageId=en_US

Severe criticism of the bill was made by many economists and politicians was fully expected. The sample size has been criticised to be too small, target group too exclusive and the model unrealistic since budget deficit would be €11 billion if this model based on the current taxation was implemented at state level.

Given the government's aim to test basic income's employment effects, the proposed model can be described "good enough", as Heikki Hiilamo, Professor of Social Policy at the University of Helsinki, described the bill. Even though the proposed model is not budget neutral, it is probable that some sort of progressive taxation would be applied in order to improve work incentives among low income households, if basic income was implemented at state level.

At the same time it is clear that this approach will not be ambitious enough to explore all important dynamics of basic income. It will shed some light on the employment effects of partial basic income, but studying not just other low income households, but also the entire working population with multiple different models would be necessary in order to understand the dynamics of basic income better. Based on the work already done, this should not be politically unfeasible.

Conclusions

Testing a universal benefit such as basic income may sound like a simple task at first. However, the more complex the current social security system is the more complex the process will be since numerous existing laws have an influence on the process and need to be taken into account before launching an experiment. This is definitely one reason why basic income experiments may remain more popular in developing countries where the implementation process can be much simpler.

Promoting evidence-based policies and experiment culture may increase transparency and by that means even democracy if political decisions are based on scientific work more often in the future. However, this approach has its limitations too. It would be naïve to assume that social sciences, involving economics, would be free of any political connotations. As the experiments in the US and Canada in the 60s and 70s showed, the results

may also be interpreted in a manner that is not based on the actual evidence.

In order to carry out a scientifically successful experiment it is important to emphasise the need for political commitment before, during and after the process. Primarily this means guaranteeing enough time and money to plan, implement and assess the experiment, but also being aware of a demand process which requires patience and fluent cooperation between politicians, researchers, civil servants, and relevant institutions. An experiment is not "just an experiment", but a complex policy process; at least if it is carried out in a scientifically reliable way.

Regardless of the limitations of the proposed experiment design, the Finnish basic income experiment has an opportunity to produce scientifically and politically interesting data, even though a two-year experiment cannot reveal the universal truth of the nature of basic income, no matter how ambitious the research setting is. It is a political question whether the employed approach will be extended in the future, but given the current public discussion, it seems a probable scenario.

Promoting evidence-based policies may be a new creative approach to strengthen democracy, but it shall not make politics absent. Setting agendas and defining societal targets are still political questions and this should be bear in mind when discussing evidence-based policies.

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