

Simulations for Basic Income Experiment in Finland

BIEN Congress Tampere 24th August 2018

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Some history

- 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

Basic income models in the preliminary study

- Calculations with many parameters
 - Basic income adjusted to current social security system (not replacing it totally)
 - Basic income 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
 - Pensions excluded from the simulation experiments
 - Pensions paid and taxed according to the current rules = data

- Simulation model
 - SISU-model
 - Maintained by Statistics Finland
 - Developed in cooperation with Kela
 - Income Distribution data 2013 (about 28 000 individuals)
 - Fictive examples (individuals and families) calculated with JUTTA model and SISU model
 - E.g. ordinary wage earner
 - Partly unemployed person (adjusted unemployment benefit + part time job)
 - Lone parent with two children
 - Etc.

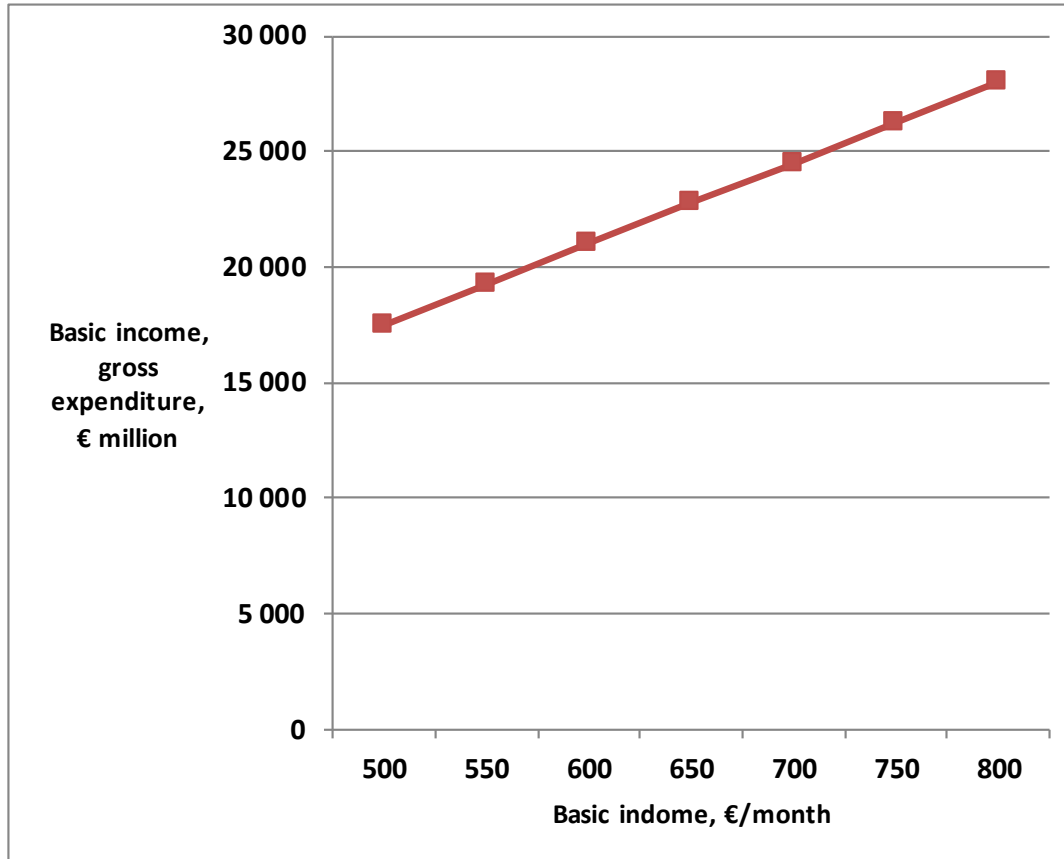
Main features of the simulation

- In the simulation basic income is paid for all persons aged 18+, except for pensioners
- Basic income replaces study grants and totally or almost totally the child home care support
- Basic income replaces unemployment benefits, sickness benefits and parental benefits to the amount of the basic income; the remaining part of the benefit is paid normally
- Basic income is taxable income but everybody gets a tax allowance corresponding to the amount of the basic income
- The whole income tax system (including employee social security contributions) is replaced with a flat tax system or with a simplified progressive tax system

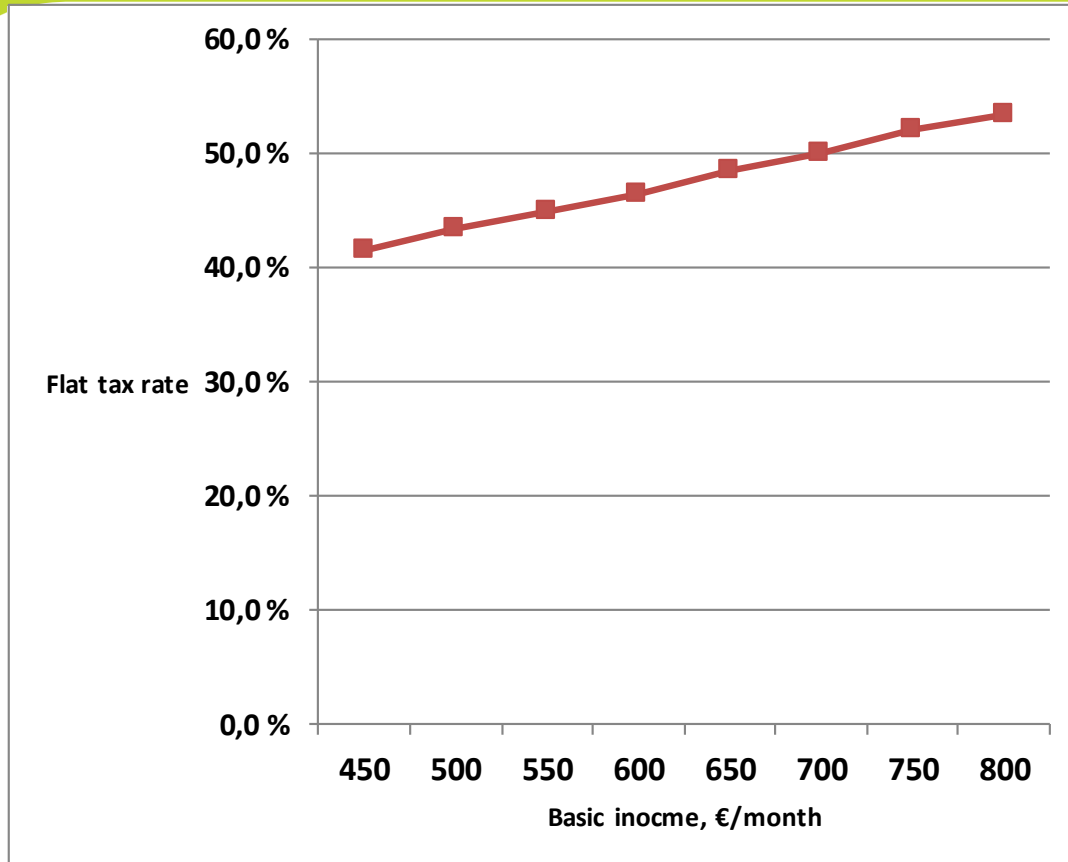
Some results from the simulation calculations

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

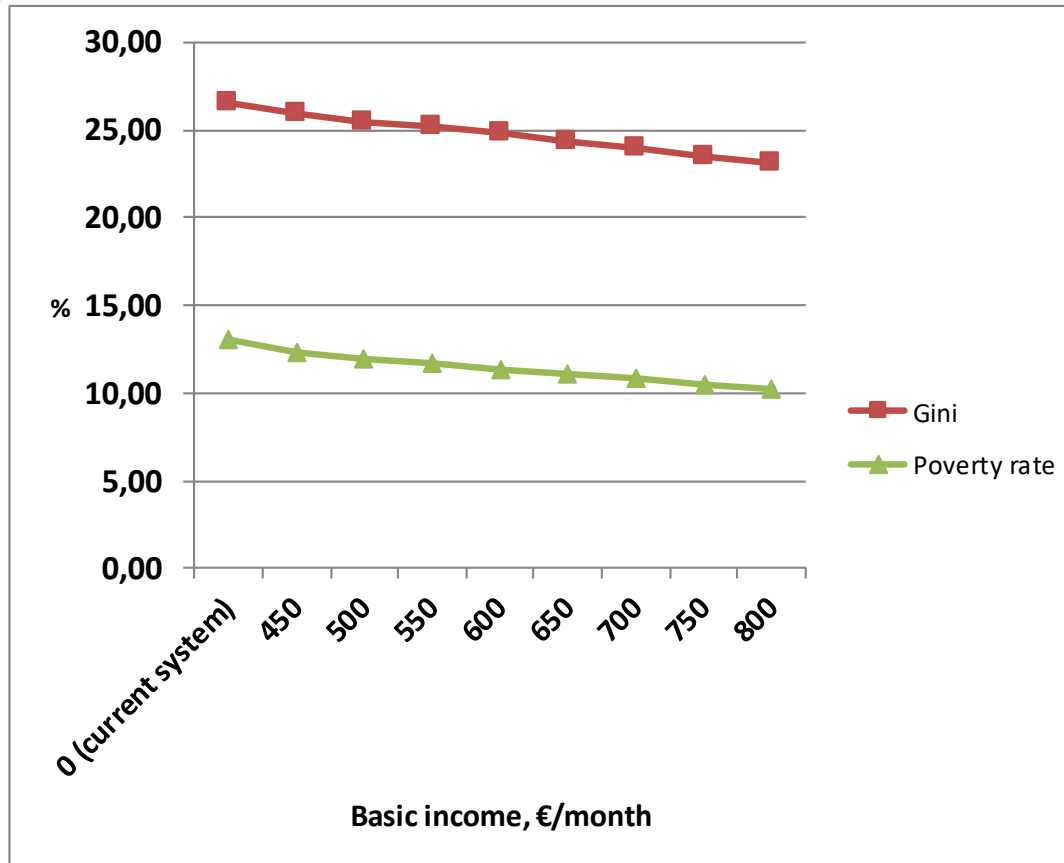
Gross expenditure



Flat tax rate



Distributional indicators



Income flows in a hypothetical basic income model

Finland, data for 2013, adult population; excl. pensioners

Basic income 600 €

	€ million
A Basic income, gross transfers	21 010
B Change in current transfers	-4 173
Basic income, net transfers (A + B)	16 837
Flat tax, gross revenue	43 516
Increase in income taxes = flat tax – current taxes	16 884
Change in disposable income, net	-48

Some changes in benefit expenditures and tax revenues

Case: basic income € 600

	Current	BI simul.	Change
	€ million		
Unemployment benefits	3 928	1 696	-2 232
Sickness & parental benefits	1 402	854	-548
Child home care support	419	72	-347
Study grants	531	7	-524
General housing allowance	603	453	-150
Social assistance	586	213	-373
Child benefits	1665	1665	0
Total selected benefits	9 132	4 960	-4 173
Basic income	0	21 010	21 010
Selected benefits + BI	9 132	25 969	16 837
State income tax	5 434	702	-4 732
Local income tax	17 395	3 765	-13 629
Other income taxes and social security contributions	9 810	1 514	-8 296
Total income taxes	32 638	5 981	-26 658
Flat tax (46,5%)	0	43 516	43 516
All taxes	32 638	49 496	16 858

Incentives

- Incentives were not studied with the help of actual data
- Calculations with fictive examples showed:
 - Basic income can make the benefit system more simple and probably reduce bureaucratic traps
 - Nevertheless in many cases it is difficult to significantly reduce the effective marginal tax rates and participation tax rates
 - High flat tax rates
 - Housing benefits are still necessary for low-income families

Basic Income as a Policy Option:
Technical Background Note
Illustrating Costs and Distributional Implications for
Selected Countries

Conclusion: "Although there would be more winners than losers among low-income groups under a BI, it would not prove to be an effective tool for reducing poverty."

- Different assumptions and parameters
- E.g. all early retirement pensions are abolished in the OECD simulation
- EUROMOD model (many shortages when compared to national models)

The actual experiment

- Limited experiment
 - 2000 randomly chosen individuals receiving basic unemployment benefits
 - Age 25 – 58 years
 - Tax free "basic income" 560 euro / month
 - Start January 2017, end December 2018
 - No other changes in benefit legislation or tax system

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)

Evaluation process

- Follow up for administrative purposes during experiment
 - Kela's responsibility
- Final evaluation after the experiment has finished
 - The Ministry of Social and Health Affairs and Kela have agreed that Kela is responsible for organising the evaluation research using also resources of the Government Institute for Economic Research (VATT) and other partners (information released on 27th June 2018)

Thank you!

- Further questions: miska.simanainen@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>
- Honkanen, Pertti: Basic Income and Negative Income Tax: A Comparison with a Simulation Model. Basic Income Studies 2014(9):1-2, 119–136