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**Basic Income in the Finnish Context**

The basic income experiment is one of the key projects in the governmental programme of Prime Minister Juha Sipilä’s centre-right government. The experiment is being carried out in 2017-2018 and will be followed by an assessment of its results in 2019. The government considers basic income to be a possible policy measure to reform the Finnish social security system in order to better adjust to changes in working life, to make social security more participatory, to diminish disincentives to working, to reduce bureaucracy and to simplify the overly complex tax-benefit system.

In the autumn of 2015, the Prime Minister’s office called for tenders to design the basic income experiment. After an evaluation of the scientific quality and competence of
the participating research groups, the planning of the experiment was entrusted to a consortium led by the Research Department of the Finnish Social Insurance Institution (Kela). The planning group was assigned the following tasks:

- Produce a detailed description of the basic income models suitable for the experiment and determine the appropriate level of basic income for these models (euros per month);
- Propose methods to integrate earnings-related benefits and different types of basic social security benefits into the basic income;
- Determine the taxation for the different models;
- Evaluate the strengths and weaknesses of the different basic income models; and
- Consider Finnish constitutional aspects and EU law.

The government proposed four different general basic income models as a basis for the assignment:

- A full basic income model, wherein most current social benefits would be abolished;
- A partial basic income model, which would leave certain basic social security benefits and earnings-related benefits intact;
- A negative income tax model; and
- Other possible basic income models.

The four options were extensively discussed in the first report our research group delivered to the government on 30 March 2016. On the basis of that report, the government decided that the experiment should focus on partial basic income models. In accordance with this decision, we will limit our analysis to this class of basic income models. In this paper, we use a static microsimulation model to analyse the impact of a partial basic income on income taxes, benefit expenditure, income inequality and work incentives. The structure of the basic income model in the actual pilot experiment (2017-2018) and the experimental setting are also briefly described in Box 1. The legal constraints on the implementation of a basic income – which were extensively discussed in the preliminary report of the working group – are analysed elsewhere.2

### Modelling basic income

The effects of the different basic income models presented in the subsequent sections are analysed using a microsimulation model.3 In this paper, we will briefly de-

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1 https://www.youtube.com/watch?v=8xPAIEkT0kk.


3 The SISU microsimulation model is developed and maintained by Statistics Finland. Here, taxes and benefits are simulated both for hypothetical and observed households (service data of income distribution for the year 2013, based on a sample of around 23,000 persons). For more information, see https://www.stat.fi/tup/mikrosimulointi/index_en.html.
scribe the effects of a basic income on the governmental budget, income distribution and work incentives (participation tax rates). The models are based on the following choices:

- Basic income is paid to all individuals aged 18 and above, but not to pensioners (who will continue to receive old-age pensions and disability pensions);
- Basic income is deducted from taxable insurance-based social benefits (e.g. earnings-related unemployment allowances, basic unemployment allowances, labour market subsidies, sickness allowances, parental allowances, child home care allowances and student benefits);
- The tax system is replaced with a simple flat tax model: earned income and capital income are taxed at the same rate with no tax-exempt dividends; basic income is taxable earned income, but a tax deduction corresponding to basic income will be applied to earned income; and
- Basic income diminishes a person’s housing allowance and social assistance.

Our simulations are of a static nature, which means that any behavioural effects of basic income are not modelled. All models are budget-neutral. This is achieved by adjusting the tax rate to a level at which the total consumable income of the population is the same as in the current system. Budget effects are analysed for monthly basic income levels of €450, €550, €650 and €750, but participation tax rates – which describe the proportion of additional market income that is lost because of paid taxes or decreases in benefits – are computed only for the €550 and €750 levels.

### Budget effects

In the partial basic income model, the level of benefits is rather low, and the aim is not to replace the other transfers entirely. However, in the ideal case, basic transfer schemes such as basic unemployment allowance, minimum sickness and rehabilitation benefits, and social assistance would be replaced by a partial basic income. In the models used in this paper, the degree of replacement depends on the level of the basic income. For monthly basic income levels from €450 to €750, a large proportion of the social benefits, such as earnings-related benefits and housing allowances, would not be replaced by the basic income, and as such they would continue to provide individuals with additional income security.

Table 1 shows that, for example, in a basic income model of €550 per month, the unemployment allowances paid by the state would decrease from €3.9 billion to €1.5 billion annually, and the allowances paid under Finland’s Sickness Insurance Act would decrease from €1.4 billion to €0.9 billion. Furthermore, annual social assistance expenditure would decrease from about €590 million to about €240 million. With a monthly basic income of €750, social assistance expenditure would decrease much further, to about €90 million. Total sums of disability benefits, child benefits, child maintenance allowances, students’ housing supplements and pensions paid by Kela would remain unchanged, as the models do not call for any changes to these programmes. The total sum of child home care allowances would decrease from €420 million to €70 million, and practically the only study grants left would be those paid to recipients under the age of 18.

Table 2 shows budget-neutral flat tax rates for partial basic income levels. In the models, the reported tax rates are applied to all earned and capital income. For basic income levels from €450 to €750, the tax rate ranges from 40% to 50.5%. Excluding the population aged 18 to 24 from the basic income would reduce the cost-neutral tax rate by about one or two percentage points (based on monthly basic incomes of €550 and €750, respectively).

### Distributional effects

It is also interesting to know how basic income would affect income distribution and who the winners and the losers in these models would be. The effects of lower basic income models are quite modest, because a low basic

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**Table 1**

| Impact of different basic income levels on other social expenditure items |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
|                             | Current legislation | BI €450 | BI €550 | BI €650 | BI €750 |
| Unemployment expenditure    | 3,928             | 1,740   | 1,546   | 1,357   | 1,184   |
| Health insurance            | 1,402             | 989     | 898     | 815     | 741     |
| General housing allowance   | 603               | 547     | 513     | 482     | 407     |
| Social assistance           | 586               | 373     | 238     | 147     | 92      |
| Basic income                | 15,757            | 19,259  | 22,760  | 26,262  |         |
| Additional financing        | 12,018            | 15,066  | 18,169  | 21,294  |         |
| Flat tax                    | 37,459            | 40,123  | 43,243  | 46,870  |         |
| Other taxes                 | 32,638            | 5,981   | 5,981   | 5,981   | 5,981   |

**Source:** Author’s elaboration based on SISU microsimulation model.
income does not increase the level of social security and because the current Finnish social security system already covers a large proportion of the population with low or no market income. At the monthly basic income levels of €550 and €750, the Gini coefficient would decrease from the current value of 0.264 to 0.261 and 0.242, respectively. A basic income of €750 would reduce child poverty (from 13.2% to 11.7%), whereas a basic income of €550 would cause a slight increase in child poverty (from 13.2% to 14.0%).

A basic income of €550 would improve the disposable income of students, housewives and low-income wage earners, whereas, somewhat surprisingly, individuals with unemployment benefits would be the largest group of losers. For them, the basic income would only partially replace their existing benefits, and the taxes on their remaining unemployment security benefits (such as various supplements and earnings-related components) and on their market income would be higher than under the current system.

**Work incentives**

One of the main goals of the Finnish experiment is to ascertain whether basic income is an efficient tool to combat various work disincentives built into the present system. One way to analyse the effects of basic income models on monetary work incentives is to compare participation tax rates in the current system and in different basic income models for different types of households.

Table 3 describes the participation tax rates for one-adult households in two different scenarios. In the first scenario, the individual does not receive any insurance-based benefits (i.e. they are eligible only for a housing allowance and social assistance). In the second scenario, the individual receives basic unemployment benefits that are adjusted for part-time work.

We see that under the current legislation (i.e. no insurance-based benefits), the participation tax rate for part-time work earnings of €500 is just over 80%. If someone’s monthly earned income increases from €0 to €1,000, from €0 to €2,000 or from €1,000 to €2,000, the participation tax rate is about 65%. At the basic income level of €550, however, the participation tax rate is lower than under the current model in all four of these cases. A basic income of €750 produces a participation tax rate that is higher than under the current model for someone whose earnings increase from zero to €1,000 or €2,000. This is the result of a significantly higher tax rate for market income in the basic income model than in the current system for this particular income bracket.

In the example above, the individual is not getting any insurance-based unemployment benefits. Thus, her case is rather “simple”. The situation changes when we increase the degree of complexity and examine individuals with a basic unemployment allowance (or labour market subsidy). Under both basic income models discussed above, participation tax rates are higher for part-time work than they are under the current system. When monthly income increases from €0 to €500, the participation tax rate is lower (36.9%) in the current model than in these basic income models (50.2% and 63.9%). However, when an individual moves from unemployment or part-time work (with an income of €1,000) to full-time employment (with an income of €2,000), the participation tax rates of the basic income models are lower than they are in the current system.
often considered to be an improvement for individuals working in temporary jobs and those with part-time contracts. In partial models, basic income is thought to replace the current insurance-based benefits.

While a partial basic income could offer a solution for bureaucratic traps, gaps and delays in the payment processes of current benefits and perhaps increase the administrative cost-effectiveness of the current system, it would not necessarily increase the monetary incentives for part-time work. The level of basic income, the level and form of taxation, and the manner in which current social benefits are reformed all have a substantial impact on the resulting participation tax rates.

Moreover, if the goal is to decrease poverty or increase the level or coverage of social security, low basic income levels would mean only a slight (if any) improvement. A great deal of bureaucracy would also remain, due to the additional social benefits that would still be required.

If understood as a tool for employment policy, there might be other disadvantages with a basic income. For example, replacing child home care allowances (a cash-for-care system) with basic income raises the question of how it would affect women’s employment. The current child home care allowance scheme is already considered to have a negative effect on women’s labour market position. If the basic income level was higher than the current home care allowance, the choice to stay home would become economically even more attractive.

An advantage of a basic income model is that it would provide a regular minimum income for people with uncertain or irregular market income flows. If there is a rising number of people to whom this applies, then their livelihood problems will be given more prominence and attention in the social policy discourse. Basic income would also offer possibilities to simplify the current benefit system by merging various basic security benefits paid by the Social Insurance Institution of Finland. Thus, it would make life easier for those low-income people whose income package is composed of different income-tested basic security benefits. First, they would have fewer bureaucracies to deal with, and second, they would no longer need to be afraid of losing their benefits if they accepted job offers. The goal of the Finnish experiment that started this year is to try to get some evidence on how a new social policy instrument mimicking a basic income would work and what kind of behavioural consequences it would have. At this point, there are many strong arguments being made both in favour of and opposed to basic income. Unfortunately, there are not enough facts yet. The Finnish experiment hopes to change that.

### Conclusions

The Finnish basic income debate has largely been focused on partial basic income models. Basic income is

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**Table 4**

**Impact of basic income on participation tax rates of single parents**

<table>
<thead>
<tr>
<th>Change in wages, in euros</th>
<th>Current legislation</th>
<th>Basic income €550 a month</th>
<th>Basic income €750 a month</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 → 500</td>
<td>29.3</td>
<td>54.4</td>
<td>60.4</td>
</tr>
<tr>
<td>0 → 1,000</td>
<td>42.0</td>
<td>64.7</td>
<td>72.8</td>
</tr>
<tr>
<td>0 → 2,000</td>
<td>70.3</td>
<td>81.2</td>
<td>87.8</td>
</tr>
<tr>
<td>0 → 3,000</td>
<td>78.4</td>
<td>82.7</td>
<td>87.3</td>
</tr>
<tr>
<td>1,000 → 2,000</td>
<td>98.7</td>
<td>97.8</td>
<td>102.9</td>
</tr>
<tr>
<td>2,000 → 3,000</td>
<td>94.6</td>
<td>85.6</td>
<td>86.4</td>
</tr>
</tbody>
</table>

Note: The estimates here are for single parents who shift from unemployment to employment, taking into account the adjusted basic allowance, eligibility for housing allowance and social assistance, and day care fees.

Source: Author’s elaboration based on SISU microsimulation model.