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The UBI Finnish experiment and why it won't work

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The Finnish basic income experiment

What is it and what can we learn from it?

Description of the experiment

- 2000 people selected at random.
 - Ages 25-58.
 - Received basic level unemployment benefits in November 2016.
 - Mandatory participation.
- Receive 560 euro/month basic income.
 - The amount is subtracted from other social benefits.
 - Can be augmented with other social benefits.
 - Taxes do not change, so a big windfall for those who find work.
- Effect of UBI: differences in outcomes between the UBI recipients and others who were unemployed in November 2016

The experiment doesn't reveal the full effect of universal basic income

- Differentiating the effect of removing conditionality from the improvements in financial incentives.
 - Because taxation is not part of the experiment, UBI is a windfall for those who find work → incentives to work improve dramatically.
- The experiment only applies to prime working age people.
 - The (negative?) effects on youths and nearing retirement are not seen.
- Only applies to those who were unemployed
 - Possible shifts from employment to unemployment are not studied.
- Limited length of the study
 - How many would choose living solely on UBI as a longterm plan?
- However, this is still the best experiment in social policy Finland has conducted. Randomization is rare and important!

How to make a better experiment?

- A "revenue neutral" UBI model would focus on UBI rather than financial incentives.
 - Difficult because it would require changes to taxation as well and it would probably reduce the benefits of some participants.
- Testing various different UBI levels would be useful.
- Rather than test full UBI, experiment could focus on conditionality (eg. changing sanctions, availability criteria, job search requirements).
- Longer study and expanding to all age groups.
 - Obviously costs more. Focus on a smaller homogenous group can make sense if resources are limited.



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Why UBI is not the answer.

Or what is the question it is trying to answer?

What UBI does and doesn't do?

What it doesn't do

- Improve incentives to work
- Solve the problem of "end of work"

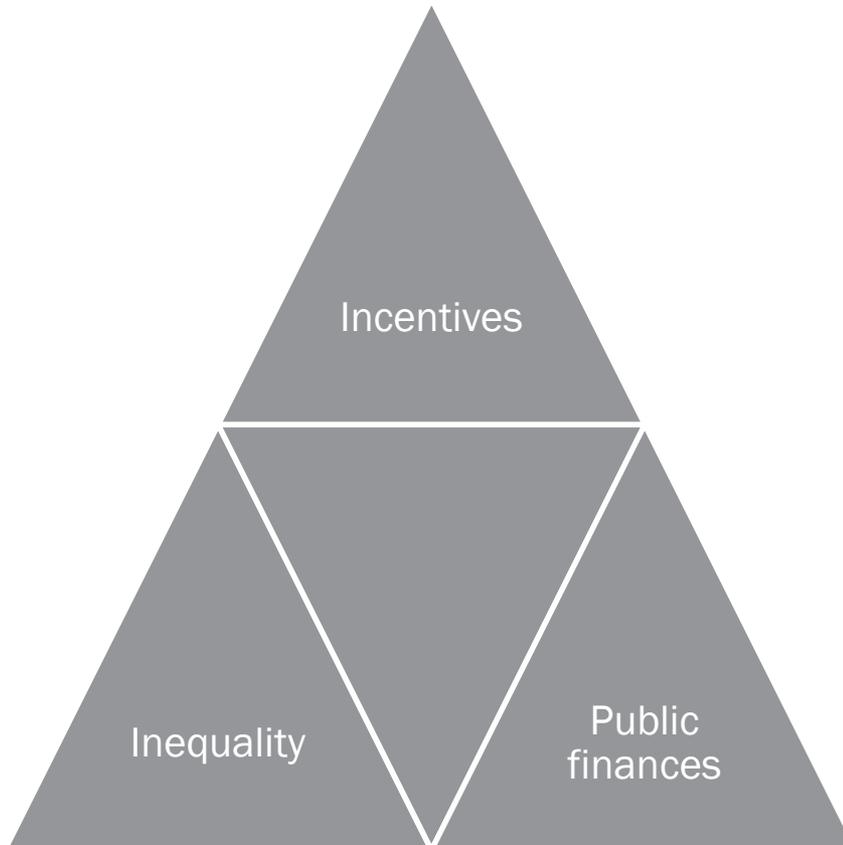
What it does but could be done otherwise

- Cut bureaucracy
- Support starting a new business

What it does (but we don't want)

- Liberate people from paid unemployment
- Support unproductive entrepreneurship

The trilemma of improving incentives



- Improving incentives is not easy.
- Two methods:
 - tax cuts or more benefits to those working → public finances worsen.
 - Cuts to the benefits of the unemployed → inequality increases.
- UBI is not a silver bullet solution.

Conditionality is the answer to the trilemma

- Conditionality pushes people towards work even if the economic incentives are poor.
 - Social benefits conditional on looking for work, education or training.
- UBI removes this tool by making benefits unconditional.
- Without conditionality employment could decrease:
 - Longer home-care of children? Reduced job search intensity? Higher reservation wage for taking up work? Early retirement? More NEETs (youths not in employment, education or training)? Slower integration of immigrants?
- Maintaining conditionality remains important.