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.
- Recieve 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 recepients and others who where 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.
Why UBI is not the answer.

Or what is the question it is trying to answer?
## What UBI does and doesn’t do?

<table>
<thead>
<tr>
<th>What it doesn’t do</th>
<th>What it does but could be done otherwise</th>
<th>What it does (but we don’t want)</th>
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<td>• Improve incentives to work</td>
<td>• Cut bureaucracy</td>
<td>• Liberate people from paid unemployment</td>
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<tr>
<td>• Solve the problem of ”end of work”</td>
<td>• Support starting a new business</td>
<td>• Support unproductive entreprenership</td>
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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.