

The Model of Unconditional Basic Income in the Finnish Basic Income Experiment and its Potential Extensions

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Finland is conducting an experiment of a particular model of unconditional basic income in order to find new ways to reform the existing tax-benefit system. The experiment started in 2017 and lasts for two years. It is targeted at unemployed individuals. The treatment model guarantees a monthly minimum income equal to the level of basic unemployment benefits, unconditionally. Furthermore, it increases incentives to get employed during the experiment as the eligibility to basic income is not linked to individual's labour market status and because basic income benefit does not affect his/her income taxes.

This paper analyses in detail the basic income model tested in the experiment. It explores the model from the point of view of work incentives, level of bureaucracy, income distribution and costs. Work incentives are here measured as changes in consumable income (marginal and participation tax rates). The level of bureaucracy is analysed by investigating the changes in the eligibility to other conditional benefits. The paper provides detailed information on the differences of the model in the experiment (the actual treatment) and the current tax-benefit system, and illustrates the potential effects of some hypothetical extensions of it (if implemented as a real policy and covering a larger part of the Finnish population).

The analysis is made with SISU microsimulation model. The simulation model can be run both on hypothetical households and on microdata representing the Finnish population. It covers most central income taxes and social benefits in the Finnish tax-benefit system. The paper reports simulation results as distributions, population averages, and graphical representations. It compares the current tax-benefit system to the basic income models chosen for the analysis. The results provide a comprehensive picture of what is being tested in the pilot experiment and what is required in order to turn the treatment model into an economically feasible tax-benefit system. Finally, the paper draws a more general picture on advantages/disadvantages and possibilities/risks in introducing basic income into a tax-benefit system of a welfare state.