

Steps towards Basic Income – Case Finland

Abstract

We outline two future steps towards basic income and estimate the outcomes by micro-simulation. The first step is the betterment of the basic social security so that it is 750 euro per month for pensioners and for those who are entitled to unemployment, parental, sickness or student allowances. The basic component of the last resort social assistance paid by local authority will be increased to 620 euro per month. The second step is the basic income of 620 euro per month for every adult but not for pensioners, who will get at least 750 euro/month as a result of the first step. The betterments of the first step will remain and so those, who are entitled to unemployment, parental, sickness or student benefits, will get 130 (750-620) euro per month in addition to basic income. The second step requires a different system of taxation. The other forms of social security remain during the both steps as they are now.³ We estimate by micro-simulation what are the costs of the two above steps and what income tax rate will cover the costs of benefits. We estimate the economic outcomes for different groups of people. Micro-simulation indicates that the two steps meet many desires connected to basic income and the changes among population groups are moderate. Moreover the economic burden of basic income to taxpayers is reasonable.

The basic features of the Finnish basic social security

- The most important earnings-related benefits are old-age and disability pensions, unemployment allowance and sickness-, maternity- and parental leave benefits. They are taxable.
- In addition to earnings-related pension there is a complementary national pension system based on the residence. It includes to all pensioners guarantee pension of 714 euro/month in 2012. The national pension is subject to tax but because of pension deductions no taxes are paid if there is no other taxable income.
- In addition to earnings-related unemployment allowance there is the basic unemployment allowance. It is 674 euro/month in 2012. There are child supplements in basic unemployment allowance. The benefit is taxable.
- In addition to earnings-related sickness-, maternity and parental leave benefits there is the minimum sickness-, maternity and parental leave benefit. It is 575 euro/month in 2012. The benefit is taxable.
- Child home care allowance is designed to support the child care of small children at home. The child home care allowance includes two components: an flat rate

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³ The steps are proposed by a working group of the Left Alliance, a political party in Finland.

allowance and a supplement, which is means-tested against other family income. The allowance is paid after parental leave benefit until the youngest child reaches the age of 3 years. With full supplement and in case of one child less than 3 years the allowance is 503 euro/month in 2012. The benefit is taxable.

- Child benefit is a universal flat-rate benefit paid for every child under 17 years of age. If there are more children in household, the amount of child benefit per child is larger up to the fifth child. The amount of the benefit for the first child is 104 euro/month in 2012. The child benefit is not taxable.
- Study grant is a benefit paid for full-time studies after comprehensive school. The number of months the student receives study grant is affected by student's own income. Study grant for a living alone student in higher level is 298 euro/month in 2012. The study grant is taxable.
- General housing allowance decreases the housing costs of low-income households. The allowance is admitted only to the reasonable housing costs. The size of the benefit depends on the number of persons living in the household, the monthly household income and the location of the dwelling. There are separate housing allowance for pensioners and student housing supplement which differ to some degree from general housing allowance. The housing allowances are not taxable.
- Local authority income support is the last resort social security. Anyone (any family) whose income and wealth are insufficient to meet the subsistence needs is entitled to the income support. The benefit includes two components: a) a basic component which covers basic needs (e.g. costs of food, clothing, hobbies, TV, telephone and minor health care expenditures) and b) a supplementary component which covers certain other expenses (e.g. day care fee, additional housing costs and additional health care costs). The full basic component for alone living is 461 euro/month in 2012 (the other members of the household get less). The income support is means-tested against all personal or family income after taxes and contributions. The benefit is not taxable.

Regent changes in the Finnish basic social security

The gap between basic social security and earned income has widened since the beginning of 1990th. Simultaneously basic social security has grown away of the principles of basic income. The universal character has decreased and the role of means-testing has increased.

But some very recent reforms of Finnish social security have been steps towards the basic income. Such are the introduction of guarantee pension and remarkable increase in basic unemployment benefit and the decision, that its dependence on the income of the spouse will be abolished.

Regent changes reflect the political wrangling between the universal principles of basic income and tendency towards earnings-related and means-tested social security. Both seem to have political power behind themselves.

Step one: betterment of basic social security

The main elements of the basic social security are raised to the level of 750 euro/month in 2012. They include basic pension guarantee, basic unemployment allowance, minimum sickness-, maternity and parental leave benefits, child home care allowance with full supplement and study grant for living alone students (for those students living with parents the amount is 375 euro/month). The basic component of the last resort social assistance paid by local authority will be increased to 620 euro per month for living alone recipient (the other members of the household get in same proportion what they get now compared to living alone recipient).

The entitlement to the other forms of social security does not change. Thus housing allowance, earnings-related benefits, child benefit, child supplements in basic unemployment allowance and the supplementary local authority income support remain as they are now.

This step is not an introduction of basic income but it elaborates basic social security closer to basic income in two respects. It is easier to change from one to another mode of basic social security and in that way it facilitates the problems of complexity of social security system. The other and perhaps more important is, that it decreases the role of means-testing. Both mean steps towards universal social security.

According to micro-simulation calculations the costs of betterment are about 1.2 billions euro/year. To evaluate the realism of this increase in Finnish public expenditure let us compare it with the reduction of the tax rate. During the last ten years the reduction has been about 6 billions euro i.e. with the tax rate of the year 2002 the tax revenues would be 6 billions euro more than they are in 2012. In other words the costs of betterment of the basic social security are one fifth of the reduced tax revenues.

Step two: introduction of basic income

The step two is the introduction of basic income. The amount is 620 euro/month in 2012 for adults. The pensioners are excluded in calculations i.e. the recipients of guarantee pension will get further 750 euro/month and otherwise the pensions and taxation of pensions will stay as it is now.

The improved social security of the step one will remain. Thus those entitled to basic unemployment allowance, minimum sickness-, maternity and parental leave benefits, child home care allowance with full supplement and study grant for living alone will get in addition to basic income 130 euro per month (750 euro's basic social security – 620 euro's basic income).

As during the first step, the entitlement to the other forms of social security does not change.

The idea is, that step one precedes step two but to make the calculations easier, we assume that all legislation (concerning the today's legislation and legislation needed for step one and step two) is in 2012 level. Because the statistical data is from the year 2009, also all legislative parameters are deflated into 2009 levels. Thus e.g. the calculated basic

income is 576.60 euro/month, which is 0.93×620 . All figures in appendix tables (euro, person and household) reflect to year 2009.

The basic income requires the change of the income taxation system. The basic income is not taxable. The exceeding incomes are taxed by a progressive income tax. Just over the basic income it is 32 % and at its height 57 %. This tax rate is determined so, that it balances the budgetary situation of the public economy.

Results of micro-simulation

Tables 1 – 7 and Figure 1 in appendix show the main results of micro-simulation.

Table 1 shows that basic income expenditures are more than 19 billion euro, and that tax income is almost 17 billion euro more than in 2012 legislation. Thus the main part of the paid basic income is collected back by income tax. Taxable income transfers (unemployment allowance, sickness-, maternity and parental leave benefits, child home care allowance and study grant), housing allowance and local and local authority income support are paid about 2.6 billion less. So much social security is compensated by basic income. The last row in table 1 shows that the public finances is succeeded to keep in almost perfect balance when defining the income tax system in basic income alternative.

According to tables 2 and 3 the two steps benefit the low- and middle-income groups and the biggest loser is the highest income decile. The changes of net income shares are however modest. Tables 4 and 5 indicate, in another way, that vast majority of the people profit from the two steps.

Table 6 shows that students, pensioners, homemakers and long term unemployed are the winners of studied system. The advantage of students, pensioners and long term unemployed is not caused by basic income but by better social security. But as well blue collars and lower white collars are doing rather well and that is partly due to basic income. The losers are upper white collars and entrepreneurs. But it is to be noted that in all socio-economic groups there are winners and losers. The only exception is homemakers who seem to locate completely among winners.

Table 7 indicates that two steps towards basic income mean steps towards income equality. Gini-coefficient describes the overall equality income distribution. The lower the gini-coefficient the more equal income distribution. Poverty (60%) tells the share of the people whose income is less than 60% of medium income and poverty among children (60%) tells the share of children who live such households.

Figure 1 describes the income tax rate in a simple case. The blue curve expresses the net tax rate in the case of basic income. Basic income is a negative tax in this curve. The blue curve shows that the amount of income tax exceeds the amount of basic income when the earned income exceeds 1570 euro/month i.e. to that point income earner gets more basic income from the state than pays income tax to the state. The blue curve shows in addition that those, whose earned income is less than 2980 euro/month, are winners in this basic income system.

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Our aim has been to describe a possible pathway in Finland which includes two steps, an improved social security and a basic income. Micro-simulation indicates that the pathway meets many desires connected to basic income, the changes of the economic positions among population groups are moderate and the economic burden of basic income to tax payers are reasonable. Thus the steps we might be the steps towards a society where basic income is an essential feature.

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More detail description is needed to show the consequences of basic income in practice. We know that many of those poor people who now get local authority income support do not have any immediate profit from supposed basic income but on the other hand basic income may give for them more capabilities i.e. more options in making their life. We know that many of those who have temporary job contracts are those who profit from basic income and basic income would free them from complicated conciliated adjustable unemployment allowance. We should have much more concrete description of the consequences of basic income in addition to that, what we have had possibility to describe in this paper.

The micro-simulation calculations used in this paper are static. It means that dynamic consequences are not taken into the calculations i.e. the behavioural effects are not included. Much research is needed to enable believable dynamic simulation.

We hope that our paper provoke discussion about the possible steps towards the basic income and tempts researchers and activists to clarify the concrete consequences of the different pathways to a basic income.

Table 1. Micro-simulation results by the expenditures and incomes in national level, million euro

	Today	Basic income	Change
Gross expenditure of the basic income	0	19 250	19 250
The taxable income transfers (without pensions and basic income)	5 854	3 577	-2 277
Housing allowance	1 077	886	-190
Local authority income support	440	286	-154
Income tax	26 845	43 566	16 721
Disposable income	89 147	89 133	-13

Table 2. Micro-simulation results: incomes by income deciles, million euro

	Today	Basic income	Change
1	4 627	5 471	844
2	5 908	6 408	500
3	6 675	7 106	431
4	7 377	7 661	284
5	8 219	8 396	177
6	9 076	9 155	79
7	10 217	10 140	-77
8	11 240	10 991	-249
9	13 302	12 840	-462
10	21 362	19 822	-1 540
Total	98 002	97 989	-13

Table 3. The share of incomes by income deciles calculated from simulated incomes

	Today	Basic income	Change
1	4,2%	4,9%	0,7%
2	5,6%	6,2%	0,6%
3	6,7%	7,2%	0,4%
4	7,7%	8,0%	0,3%
5	8,6%	8,8%	0,2%
6	9,5%	9,6%	0,1%
7	10,5%	10,4%	-0,1%
8	11,7%	11,5%	-0,2%
9	13,7%	13,2%	-0,5%
10	21,8%	20,3%	-1,5%
Total	100,0%	100,0%	0,0%

Table 4. The income changes between persons - basic income model compared with 2012 legislation

	Million euro	Number of persons
Positive (or 0)	3 720	3 892 205
Negative	-3 733	1 379 327

Table 5. The income changes between households - basic income model compared with 2012 legislation

	Million euro	Number of households
Positive (or 0)	2 917	1 742 585
Negative	-2 930	788 915

Table 6. The income changes among persons in different socio-economic status, million euro - basic income model compared with 2012 legislation

	Positive	Negative	Net
Entrepreneur	354	-656	-303
Upper white collar	290	-1 448	-1 157
Lower white collar	611	-372	239
Blue collar	725	-373	352
Student	356	-15	341
Pensioner	243	-20	223
Homemaker	48	0	47
Long term unemployed	260	-16	244
Other	30	-29	0
Total	2 917	-2 930	-13

Table 7. Micro-simulation results: indicators of income distribution

	Today	Basic income	Change
Gini-coefficient	25,5	22,3	-3,2
Poverty (60%)	13,2%	9,1%	-4,1%
Poverty among children (60%)	14,2%	9,0%	-5,3%

Figure 1.

Comparison of tax rates: current system and basic income model

