Basic income: Finland's final verdict

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The coronavirus crisis has renewed interest in the notion of a universal basic income. The full report of a two-year Finnish experiment has just appeared.

On January 1st 2017, Finland began the most careful experiment with basic income undertaken in a developed country. Two thousand long-term unemployed, aged between 25 and 58—at the time recipients of the means-tested, minimum-income benefit of €560 a month—were randomly selected. For two years, they were given that same amount unconditionally—irrespective of with whom they were living, how much they were earning and whether they were actively looking for a job.

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The experiment terminated, as planned, on December 31st 2018. As the researchers wanted to observe their subjects as unobtrusively as possible, they announced that they would publish the final report only after all relevant administrative data could be collected and analysed. This report was published on May 6th.

Key question

One key question the experiment aimed to answer was whether the unconditional character of the benefit would boost or depress beneficiaries' participation in the labour market. Would it enhance that, as a result of the benefit not being reduced or lost when starting a job? Or would it lessen participation, as a result of the beneficiaries no longer being forced to keep looking for a job or accept a job when one became available?

In the first year of the experiment, as documented in a preliminary report published last year, the difference in working days—those in which at least €23 was earned through a wage or self-employment—with respect to the control group was slightly positive, but not statistically significant. Some feared, however, that the whole relevance of the experiment would be shattered, as a result of a major social-policy reform which entered into force precisely at the beginning of the second year.

On January 1st 2018, the right-of-centre Finnish government introduced the so-called 'activation model', a general reform of the means-tested benefit schemes which made them more constraining: if benefit recipients failed to work a sufficient number of hours or follow suitable training in each quarter, their benefits were to be cut by about 5 per cent.

This reform, undone since by Finland's current government, was in force throughout the second year of the experiment and applied, at the beginning of the year, to about two thirds of the control group. It also applied to slightly less than half the members of the experimental group, because they could claim, on top of their basic income, means-tested child benefits of some €150-300 according to the number of their dependent children, and means-tested housing benefits up to €600 or more according to their place of residence.

Employment went up in both groups from the first to the second year. How much was due to the 'activation model' is impossible to say, since no randomised experiment was conducted. However, whether large or small, this effect was necessarily more significant in the control group than among basic-income recipients, as fewer of the latter were concerned by the tightening of the conditionality.

The question then becomes: did the implementation of this activation model, with its stronger grip on the control than on the experimental group, reverse the basic income recipients' slight advantage in terms of labour-market participation during the first year? It did not. On the contrary, the gap widened considerably and became statistically significant: in the second year, basic-income recipients worked on average six more days per year than individuals in the control group. And had the activation reform not taken place, one can safely conjecture that this differential would have been even greater.

Structural effect

Does this suffice to show an unconditional basic income is a good idea? Of course not. It hardly even contributes to showing that an unconditional basic income, introduced at that level within Finland's current framework, would be economically sustainable.

No randomised experiment can help us with that question without including in the sample people who are currently at work and who would be enabled—as intended—to reduce their working time or take a break, thanks to the basic income. Nor can we answer the question without taking into account the implications a generalised basic income would need to have for tax profiles, none of which was simulated in the experiment.

Most importantly, the long-term sustainability of a generous unconditional basic income hinges far less on the immediate impact on labour supply than on the structural effect on health, skills and motivation that can be expected from a smoother lifelong back-and-forth between employment, education and voluntary activities.

By showing a significant positive impact on employment, the experiment did not prove the economic sustainability of a basic income of €560, conditionally supplemented in the various ways mentioned above. Nor was it supposed to do so. But it did yield interesting results which will stimulate further thinking about how best to phase in a basic income and what accompanying measures would facilitate the transition.

One striking result, for example, concerns the quarter of the subjects with a native language other than Finnish or Swedish. In this category, consisting mostly of recent immigrants, basic-income recipients worked on average 13 days more than the corresponding control group, whereas the difference was only 3.6 days for the others.

Also significant is that the positive effect was less in Helsinki (1.8 more days of employment) than in rural municipalities (7.8 more days), where means-tested housing benefits are less frequent and lower and therefore the remaining unemployment trap is less deep. By contrast, despite the availability of means-tested child benefits, the positive effect of the basic-income regime was higher in households with children (13.7 more days) and for single parents (9.5 days) than in childless households (1.6 more days).

Subjective perceptions

No less interesting are the results based on a survey conducted at the end of the second year with members of the experimental and the control groups. These results were already recorded in the preliminary report and have been refined in the light of in-depth interviews. A statistically significant difference in favour of basic-income recipients emerged in their subjective perceptions of health and stress and their trust in other people and institutions.

Making access to the formal labour market easier for the excluded is an important purpose of a basic-income reform. But it is by no means the only one. Its far broader aim is to make our economy more resilient and our society more just, by increasing the economic security and freedom of choice of those with least of those.

Four years ago, Switzerland courageously organised a national referendum on a very bold basic-income proposal. A few months later, Finland started a carefully designed, real-life experiment with a far more modest version. Whatever its limitations, this experiment provides food for thought and action to all those who believe basic income is the way to go.

And with the pandemic shattering the economic security of many around the world, there are more of them than ever before. Thank you, Finland!