

BASIC INCOME MODEL OF THE FINNISH GREENS

Background

The Finnish Greens have been talking about the possibility of a basic income since 1980's. Initially the term 'citizen's wage' was used, but in the 1990s the term 'basic income' became standard. 2007 marked a big step forward in the basic income debate; that year, the Greens presented their first comprehensive basic income model. It established for the first time that a transition to a basic income model is possible. The basic income model was calculated using micro-simulation modelling as a cost-neutral and feasible model with a view to showing how Finnish social security could be organised in a new way so that it would be more just and supportive for everyone. In 2007, the Greens proposed that a basic monthly income of €440 be distributed to all Finns, and that a related tax reform be implemented.

Because the Finnish social security system was reformed and the associated minimum benefits improved, the Greens needed to update their basic income model. This update was done in 2014. The basic income level was then set at €560, which is still equivalent to the minimum level of social security for an unemployed person.

The Greens' 2014 basic income model did not restate the objectives of the model, since these were detailed in the context of a paper published with the 2007 model. This model has also been translated into English. The basic income model presented by the Greens in 2014 is still highly topical. When they published the model, the Greens insisted on a pilot study of the basic income, which the current Government of Finland has now implemented. In the basic income pilot, a small number of unemployed people receive a basic income of €560, which they will not lose even if they find work or receive other income. The pilot study is in many respects incomplete, but it is nevertheless yet another step towards realising the utopian idea of the basic income in practice.

The Finnish Greens based the calculations for their 2014 model on the micro-simulations calculated by the Finnish Parliament's information service. The analysis based on the simulations can be accessed at www.vihreat.fi/perustulo (in Finnish). The analysis was very thorough, and it also showed many of the problem areas in the basic income model. For example, it argued that it is very difficult to combine the basic income with housing benefits. Nor does the basic income model also remove all economic disincentives. Even so, the analysis does provide a credible basis for the model proposed.

Next, the Finnish Greens aim to modify the model on the basis of the results of the ongoing pilot study. At the same time, the Greens have started discussing how housing benefits can be combined with the basic income model, and how implementing the real-time income register could enable social security automation as intended by the basic income model.

Helsinki, 15 November 2017

Author: Ville Ylikahri
Secretary General,
The Green Cultural
and Educational Centre Visio

Writer of the Basic Income
model of the Greens 2014.



Visit our website to find out more:



Follow our social media to stay informed about our latest activities and events taking place all over Europe

GEF_Europe



GreenEuropeanFoundation



GEF_Europe



Contents

The Green basic income model 2014

The basic income model in a nutshell

Impact of the basic income model on different population groups

The basic income pilot

Basic income FAQs

The Green basic income model 2014

The Green position is characterised by the following:
The long-term goal is to introduce a basic income model where the basic income is equal to the current basic social security, that is, €560.

The basic income model should be piloted, and the specific issues faced by different population groups should be resolved on the basis of this pilot study.

Additional decisive steps should be taken towards a basic income system and towards a simpler and more supportive basic social security system.

The basic income model in a nutshell

Basic income: €560 per month

Earned income tax rates:

- ▶ 41% of an annual income below €50,000 (annual income of up to €6,720 is tax-free, i.e. basic income is not taxed, but it contributes towards total annual taxable income)
- ▶ 49% of an annual income above €50,000

Capital income tax rates:

- ▶ 33% of an annual income below €40,000
- ▶ 35% of an annual income above €40,000

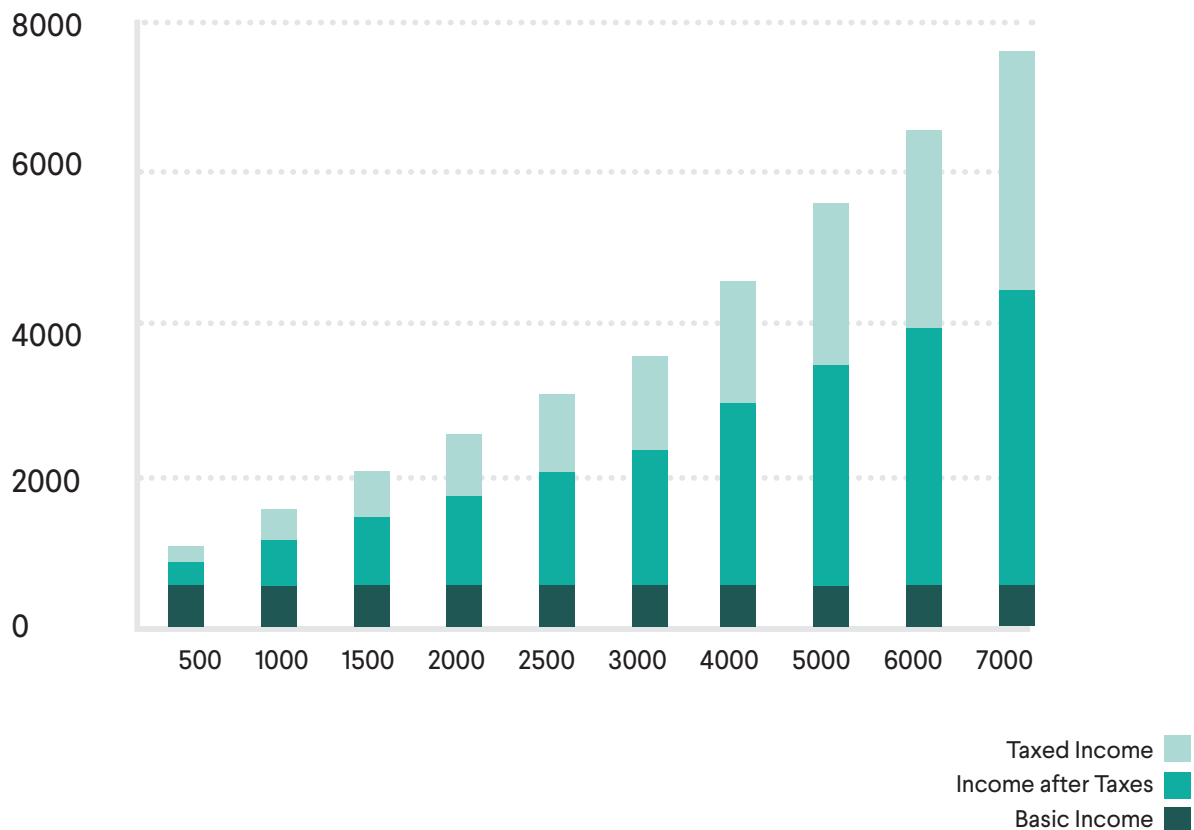
Cumulative effect of basic income and taxation at different income levels

Basic Income	Employment income	Taxed income	Income after taxes	Take-home employment income after tax	Effective tax rate*
560	500	205	295	855	-71%
560	1000	410	590	1150	-15%
560	1500	615	885	1445	4%
560	2000	820	1180	1740	13%
560	2500	1025	1475	2035	19%
560	3000	1230	1770	2330	22%
560	4000	1640	2360	2920	27%
560	5000	2114	2886	3446	31%
560	6000	2604	3396	3956	34%
560	7000	3094	3906	4466	36%

*Social insurance payments are calculated on top of the proposed tax rate, as is done currently, now approx. 6%».



Basic income and earned income at different employment income levels



To balance the financing of the basic income model, indirect taxation shall be modified as follows:

- ▶ Real estate tax is to be increased by €120 million. The Green position is that the tax burden should be shifted from employment taxation to property taxation.
- ▶ - Environmentally harmful tax subsidies shall be reduced by €600 million in accordance with the Green tax policy. The Ministry of Finance estimates that environmentally harmful tax subsidies total €2.7 billion.

A large proportion of tax deductions would be eliminated. The benefits which are higher than the basic income would be preserved, but they would be netted off in such a way that the total including the basic income would be higher. The basic income is linked to the basic deduction, which reduces the low-income tax rate and encourages people to take up employment. The protective aspects of the present system which were added at the Greens' request have significantly improved incentives, and it must still be worthwhile to take on small temporary jobs under the basic income model. The basic deduction is not yet included in the model because further calculations are needed to determine its size, effectiveness and the necessary financing. The basic deduction can nevertheless be financed by income from indirect taxes.

Impact of the basic income model on different population groups

A basic income would constitute a major change. Since social security is now very different for different population groups, the groups are affected by the transition to the basic income in different ways. Different groups are considered in the information service analysis, but this is not yet sufficient in all respects.

Pensioners

Pensioners are outside the basic income model. Their basic income is covered by the current guaranteed pension, which amounts to €743 per month.

Students

Financial aid for students is currently totally different from other types of social security. Accordingly, the changes caused by the basic income affecting students should be considered very carefully. The information service analysis seeks to ensure that the income distribution between groups changes as little as possible.



Because the basic income in itself raises the average level of student support by replacing study grants and housing allowances, the right to a general housing benefit for students is not included in the calculation. However, the basic income model makes it possible to implement the Greens' long-term goal of raising student social security to the same level that other population groups are entitled to, that is, in the future students would qualify for a general housing benefit.

The Green model continues to provide access to student loans and meal subsidies.

The basic income model reduces students' need to accept deskilled work and provides them with good conditions to concentrate on their studies. This contributes to social equality and access to education for all regardless of family background and parental wealth.

Young people

The basic income would have a notable impact on social security for many young people. The follow-up studies and basic income pilots should therefore pay special attention to young people's choices within the basic income system. Active support measures are needed to reduce the risk of social exclusion of young people even if the basic income model is adopted.

It is possible to include a requirement similar to the current model to ensure that young people under the age of 25 are entitled to a basic income only if they are working or studying. Those young people who are not in education, employment or training would have access to active employment and training opportunities during which they would be paid the basic income just like everyone else. This presupposes that there is a sufficient number of study places available.

Child home care allowance

The Greens are pushing for flexible child care solutions that meet families' needs so that women do not have to bear all the financial responsibility for caring for children at home. The basic income model analysis shows that the incentives to increase employment would be less efficient than they are under the current home care allowance. Yet, the basic income model is not an obvious step towards a housewife society since it is in many ways more flexible than the current home care allowance model.

The home care allowance is one of the few family-based benefits. The Greens consider that benefits should be personal and at a level that does not give rise to economic dependence between adult family members.

A personal basic income higher than the home care allowance will also increase the incentive to care for children at home. In the current model this goal is often not achieved

because families estimate that, due to women's lower wages, it makes more economic sense for mothers to stay at home.

The basic income system is simpler than the current system of benefits, and enables families to find new childcare solutions. Childcare-related choices are influenced by many other things besides economic incentives, and there is no one-size-fits-all solution. The impact of the basic income on childcare solutions is one of the most important issues that can actually be examined only by a basic income pilot.

The basic income pilot

The basic income model has already been studied with computer models to such an extent that its economic feasibility can be substantiated by static analysis. What we need now is more information about how a basic income model would work in practice.

The hardest part is to predict the dynamic effects of a basic income, that is, how people choose to live in a world with a basic income. What kind of choices would it enable? Would fathers stay home with their children more often? Would more small businesses be set up? These choices and their knock-on effects can best be examined by a pilot study.

The results of the Mincome pilot carried out in Canada in the 1970s are very encouraging. Employment went down only very slightly. In contrast, children's learning results and people's state of health improved considerably. Hospital visits decreased by 8.5%. In particular, the level of mental health problems was reduced.

A basic income pilot could be done on a regional basis, or randomly, targeting a random group of people. A basic income pilot should be included on the next government agenda.

Basic income FAQs

What is a basic income?

A basic income is paid on a monthly basis to each adult living in Finland. The basic income is a tax-free benefit, and you do not need to apply for it. The monthly amount to be paid would be €560.

Philosophically speaking, the idea behind the basic income is to move away from the old paternalist society towards a 'liberating well-being society': the task of the state is to support people's independence and their own choices rather than taking the current approach of classifying and managing people according to bureaucratic needs.



Why are the Greens pushing for a basic income?

Our social security no longer meets today's needs. Our current system is based on permanent and full employment. Yet the reality is different, and our system is not able to resolve the problems. Social security for temporary workers, project workers and entrepreneurs is weak. At the same time, it is not worthwhile for unemployed people to take on short-term work.

The Greens are pushing for a basic income to improve social security and to create a fairer labour market. A guaranteed basic income for all citizens increases freedom of choice and makes it possible to combine work and social security flexibly. The basic income provides people with more power over their own lives. The basic income makes it more profitable to take up work outside traditional employment, such as entrepreneurship, working with the support of a grant or scholarship, or project work.

Why should everyone be paid free money? Wouldn't a basic income make people more lazy and work-shy?

A basic income would help to make social security simpler and fairer. It makes taking up employment – including temporary or part-time work – profitable in all circumstances. The basic income remains the same regardless of earned income unlike the current social security. In practice, the current social security system forces unemployed people to be inactive. The basic income would not only improve access to employment but also job seekers' ability to influence their conditions of employment in that a basic income would guarantee basic security in all situations.

Wouldn't a basic income be too expensive? How would you finance that?

A basic income would not be any more expensive than the current social security system. The micro-simulation calculations demonstrate this. The basic income model would be implemented so that it did not increase the cost of public services, that is, there would be no extra cost to the state and the municipalities. In practice, the basic income replaces the current social security benefits, and middle and higher income is taxed so that take-home income will not change significantly. Of course, the basic income would change people's behaviour which, in turn, would affect tax income. Therefore, it needs to be piloted.

How would social security change?

A basic income would make social security significantly simpler by replaying the minimum social security benefits. Easing the bureaucracy enhances the support for people who need personal guidance and frees them from the shackles of administration. Of the current social security, at least income support and housing benefit would be retained. They are added to the basic income as needed. All income-related benefits would be retained so that take-home income would barely change (that is, unemployment insurance, parental benefits, daily sickness benefit and earnings-related pension). Child benefit would also be retained.

Would taxation change?

Yes. The basic income model combines the basic income with a new type of earned income tax. In principle, approximately 40% tax is paid on each euro earned. We propose a basic reduction in the tax rate for people on low monthly incomes. Combined with the basic income paid to everyone, taxation is progressive. People on very low incomes would get more support than they pay taxes. The real middle-income tax rate would remain about the same as at present. Capital income tax would be stepped up a little because people with capital income also receive the basic income.

Would a basic income encourage entrepreneurship?

Yes. Our current social security system does not support entrepreneurs sufficiently. A basic income would also promote entrepreneurship, because every citizen – including entrepreneurs – would have the security of a basic income. This would help small businesses to get started in particular, because the risk of becoming an entrepreneur and concerns about the entrepreneur's own livelihood would no longer be so great. In our model, the existing business subsidies are retained in addition to the basic income.

Would the basic income help to combat poverty?

Yes. A basic income would be fairer than the current social security system. Above all, it reduces exclusion from employment and thus poverty. Basic security would no longer be something you would have to apply for, and the basic income would enable people to make a decent living from a job or hobby, which is not financially viable at the moment. The basic income also improves the quality of life for the less well-off. Employment and social services can focus their energies on promoting and enabling people's working capacity rather than on their classification. As such, the basic income model can be used, just like the current model, to implement political decisions with a view to reducing poverty.



Will immigrants receive the basic income?

Immigrants would receive the Green basic income and other social security under the same conditions as they do now. In Finland, social security is based on residency, and the basic income would replace the minimum benefits. The current discretionary and earnings-related benefits that a citizen is entitled to receive in addition to the basic income would also be retained. So, according to our basic income model, “Finnish” means everyone resident in Finland, not just people who have Finnish citizenship.

How would a basic income affect the national economy?

A basic income would not cost more than social security does now as long as basic income is understood as part of a whole system of taxation and social security. The national economy would benefit from the fact that taking up employment would always make economic sense. The model would boost SME entrepreneurship, in particular. It also facilitates the integration of social security and employment, which would reduce social exclusion. While the basic income also makes it easier for parents of young children to reduce their working hours, we believe that this is a valuable contribution to improving quality of life. We expect that all of these dynamic effects, as they are called, will significantly increase state income and reduce expenditure.

This is because complete exclusion from employment, which is currently widespread in our society, is very expensive and often linked to multiple social and health problems.

Will a basic income increase bureaucracy?

A basic income will reduce bureaucracy and save the state money. Employment and social welfare administrators can better focus on giving people personal guidance and enhancing their working capacity.

Should a basic income system be implemented in the next parliamentary term?

The Green objective is a transition to a basic income model as quickly as possible. Nevertheless, it is more likely that this will happen step by step. Before the basic income is introduced, we can pilot it locally or with a given group of people. This would tell us more about the dynamic effects of the basic income.



Green European Foundation asbl
3 Rue du Fossé – 1536 Luxembourg
Brussels office: 15 Rue d’Arlon
B-1050 Brussels – Belgium



STUDY & DEBATE

Tel.: +32 (0) 2 234 65 70
Fax: +32 (0) 2 234 65 79
Email: info@gef.eu

With the financial support of the European Parliament to the Green European Foundation.