

The background of the slide features abstract, overlapping green geometric shapes, primarily triangles and polygons, in various shades of green, creating a modern and dynamic visual effect.

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Challenges of the Basic Income

The BI experiment of Finland and its anticipated effects on
employment

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Introduction

- ▶ High expectations but
 - ▶ We don't know how the BI would work in practice?
 - ▶ There is now empirical evidence - except some case study examples
 - ▶ The whole BI -project is future oriented - something may happen but we don't know what! ☐ why then this big hullabaloo among the protagonist and opponents?
- ▶ Tentative hypothesis:
 - ▶ All kind of changes in the prevailing wfs -systems creates the battle between protagonist and opponents because of the prevailing power relations
 - ▶ In the welfare state there are various players and discrepant interest - national interest are not so easily to be seen
 - ▶ Incremental changes are more easy to realise but, if an incremental solution is not enough and if an incremental change leads to revolution?

History and context matters

- ▶ "History matters. It matters not just because we can learn from the past but because the present and the future are connected to the past by the continuity of a society's institution. Today's and tomorrows choices are shaped by the past" (Douglas North, 1993)
- ▶ In the Nordic socio-economic and political context, this argument may have a special message because of
 - ▶ The institutional spectrum and diversity - raising the question of institutional change and constrains
 - ▶ The Nordic employment model - high participation rate over the life course and covering working age population - with emphasis on dual earner model
 - ▶ New divisions in the labour markets - income and pay, diversity of contractual relations, quality of jobs and rights at work
 - ▶ Political support and the legitimacy of universal solutions in social policies?

Promises of the BI

- ▶ Why it deserves our attention?
- ▶ BI has clear intuitive attractiveness - it could contribute in solving the problems of workers who depend on precarious employment; temporal, insecure, and discontinuous forms of work.
- ▶ BI is expected to effect the employment
 - ▶ on macro- and micro-levels
 - ▶ both on the supply (participation) and demand side of the employment (recruitments)
 - ▶ functioning of the labour markets: behavioural effect, stability of employment, sustainability of employment

Employment effects of the BI

- ▶ Ex-ante verification → the minimum income → minimum wage
- ▶ Effects on the labour supply or demand?
- ▶ Creation of "good and bad jobs"
- ▶ Tentative hypothesis

Ex-ante verification – the minimum wage

- ▶ **Basic income is not a wage or wage relation** but in reality it will guarantee a minimum income and in this way it affects the behaviour of employees and employers as well as actors of the labour market and social security institutions.
- ▶ Basic income could be compared also with the some of the social security systems
→ looking how the changes in the eligibility rules of social securities like unemployment benefit or income transfers for households have affected the labour market behaviour of targeted groups.
- ▶ The example of minimum wage (MW):
 - ▶ Extensive discussion since the last decades, first experiments since 1980s
 - ▶ In European context MW has been implemented in 22 of 28 countries - in Finland and Sweden we don't have a statutory MW but sectoral agreements on minimum hourly wages
 - ▶ Research evidence in various socio-economic systems and implementation in various context of economic development (cyclical development, structural preconditions etc.)

Effects on the labour supply or demand?

- ▶ In the main stream economy there is strong believe and empirical evidence for the following statement:
 - ▶ (i) Minimum wages that are “low” (close to the wage without government intervention) may have neutral or even positive employment effect.
 - ▶ (ii) Minimum wages that are “high” have negative employment effect.
- ▶ But when figuring out the value of this statement it is important to remember two critical aspects at least.
 - ▶ Most of the studies based on demand side factors (recruitment patterns and practices) → the demand and supply side factors have bee studied separately
 - ▶ Brown, Merkl & Snower (2014) proposed a alternative approach: how minimum wages affect employment, based on a **two-sided labor market flow model** which makes both firms’ job offer and workers’ job acceptance decisions explicit.
- ▶ They found that that larger wages depress firms’ job offer rates, but raise workers’ acceptance rates. Under moderate minimum wages, the latter effect may dominate the former.

MW and creation of "good and bad jobs"

- ▶ In most of the societies labour markets are segmented and the question arise if the minimum wage contributes good or bad jobs employment.
 - ▶ The bad sector is composed of those newcomers who did not complete their formal education. These newcomers must go through a learning-by-doing period before becoming on-the-jobseekers.
 - ▶ The good sector is composed of the remaining newcomers as well as former on-the-job seekers from the bad sector.
- ▶ The findings of empirical studies such as that of Card and Krueger (1995) regarding the impact of a minimum wage rise on unqualified employment are contradictory. □
Unqualified employment may remain unchanged but it may also increase.
- ▶ Gavrel, Lebon & Robiere (2012) studied this issue with US data and found that:
 - ▶ A rise in the minimum wage reduces "bad jobs" creation and prompts workers to keep their "bad jobs" by reducing on-the-job search intensity.
 - ▶ However, a minimum wage rise reduces overall employment and output. bad jobs, usually reserved for newcomers, are often precarious.
- ▶ Therefore the stability of the employment level in the bad sector can be relaxed.

Tentative hypothesis

- ▶ The BI is not the MW but some similarities may appear
- ▶ On the basis of MW -examples we can argue that
 - ▶ the effect of BI should be seen as an outcome of supply and demand side effects and
 - ▶ there may be a given substitution effect from the supply side and this substitution may be more important in terms of the quality of jobs, contracts and social security
- ▶ The fluctuations ('hiring' and 'firing') of the employment can be made socially acceptable by guaranteeing minimum levels of income to all members of the workforce.
 - ▶ The effects of the BI on employment should be studied against a larger institutional and economic context - times of recession?
 - ▶ There is given evidence that that minimum (and maximum) real wages provide increased stability to the economy by reducing the amount of overshooting in income distribution as well as the employment rate.
- ▶ We can easily identify the groups who may benefit from the BI and who may contribute a better employment □ micro entrepreneurs, self-employed, workers in low-pay jobs, workers in informal and semi-informal sectors.

BI experiment in Finland

- ▶ according to current plan the BI experiment will be carried out in 2017-2018 and assessment of the results in 2019
- ▶ Objectives of the experiment
- ▶ The models of the BI
- ▶ Timing and method of evaluation

Objectives of the experiment

- ▶ Produce a description of the basic income models suitable for the experiment and determine the level of basic income for these models (in euros)
- ▶ Propose how to integrate earnings-related benefits and different types of basic social security benefits into basic income
- ▶ Determine the taxation characteristics of the different models
- ▶ Determine the strengths and weaknesses of the different basic income models, considering constitutional aspects and the EU law
- ▶ Produce a well-thought-out proposal for a basic income model the feasibility of which should be examined in more detail in the follow-up study to be launched in 2016, in view of a possible experiment

Four optional models sett by the Prime Minister's Office

- ▶ The assignment outlined four different options to explore and develop:
 - ▶ **full basic income** – the level of BI high enough to replace almost all other benefits, perhaps excluding earnings-related benefits
 - ▶ **partial basic income** – could replace the most of the basic security benefits (e.g. basic social assistance, basic unemployment benefit, labor market subsidy, sickness allowance, rehabilitation allowance, minimum parental allowances, startup grants), but earnings-related benefits left intact
 - ▶ **negative income tax**– income transfers via taxation system
 - ▶ **Participation income**, other possible models
- ▶ But, after careful simulations the partial BI of 600 €/ remain the model for an experiment

Proposal for an experiment

- ▶ Partial basic income (min. €600/mth) the most realistic and feasible option, tax free
- ▶ It corresponds to the monthly net level of many of the basic security benefits provided by Kela (National social security institution)
- ▶ the BI would not replace earnings-related benefits, housing allowances and additional social assistance
- ▶ in an ideal test situation: different levels of basic income and tax rates would be good but impossible because of the constitutional constraints and deficits of the data (taxation, incomes etc.)

The experiment

- ▶ two-pronged and compulsory randomization
 - ▶ nationwide (representative sample, generalizable results)
 - ▶ more intensive regional (for examining externalities)
 - ▶ a weighted sample possible
 - ▶ test and control groups
- ▶ power calculations: a sample of 10 000 people needed in order to observe statistically significant results (if employment changes 2%.)
 - ▶ €20 million budget for two years suffices for 4800 people = bigger budget would be necessary
 - ▶ studying the entire adult population (excl. pensioners) would be reasonable, but due to the limited budget, we recommend to focus on low-income earners and exclude people under 25 years old