

## Briefing to Ministers 3 May 2018

From: [REDACTED]  
Social Justice Strategy Unit  
03/05/2018

Cabinet Secretary for Communities, Social Security and Equalities

### FINLAND BASIC INCOME PILOT

#### Purpose

1. To provide an update to the Cabinet Secretary on recent developments and media reports relating to Basic Income pilots in Finland.

#### Priority

2. Routine.

#### Background

3. It was widely reported on 24 April 2018 that the Finnish Government refused Kela's (the Finnish social security agency) request for an additional £61 million to expand the basic income pilot to include employed citizens in 2019.
4. The current project for unemployed citizens will continue to pay those already included in the basic income pilot until January 2019. However it will not continue beyond this date. Evaluation findings will not be reported until 2019/20 so the decision by the Finnish Government, as far as we are aware, does not relate to any failure in the current pilot. Researchers have noted from the start that this pilot period is not long enough to draw firm conclusions on the success of the pilot.
5. Indications are that Finnish Ministers favour a Universal Credit type welfare system. This appears to be on the back of [legislation](#) passed by the Finnish Parliament in December 2017. This requires people receiving benefits from the government to actively seek employment and report their efforts to officials every three months. The legislation, which went into effect in January, aligns with a future shift toward a universal credit model – this is referred to as the 'Activation Model'.

#### Scope of the pilot:

6. The pilot, which launched in January 2017, was for a period of 2 years involving 2,000 randomly chosen long-term unemployed citizens. Kela reports<sup>1</sup> that, of those selected, 87% had been receiving the Labour Market Subsidy, while 13% had been receiving the Basic Unemployment Allowance. These programs at the time provided taxable payments of €32.80 per day. Indicating most participants were unemployed in excess of 400 days.

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<sup>1</sup><http://basicincome.org/news/2017/01/finland-first-basic-income-payments-sent-experiment-participants/>

## Briefing to Ministers 3 May 2018

7. There is a control group of about 173,000 citizens which is made up of persons included in the target population who were not selected for the study.
8. Pilot participants receive a tax-free monthly payment of €560 (approx. £490 at current exchange rate) each month with no conditionality imposed for the length of the trial. This is relative to the Finnish at risk of poverty threshold for a one-person household of €1,210 (£1,059) per month<sup>2</sup> (i.e. 46% of poverty threshold for an individual, or 28% of median income).
9. Whilst the basic income amount appears lower than that of the Basic Unemployment Allowance and the Labour Market Subsidy, participants were guaranteed to receive entitlement at a rate equal to that which they previously received.
10. The Basic Income exists alongside a package of [other welfare entitlements](#), such as housing allowance, and child benefit, which can be claimed alongside – the Basic Income is taken into consideration in calculations for these benefits where appropriate.

### OECD Economic Study – Finland

11. [A study](#) by the Organisation for Economic Co-operation and Development (OECD) found a universal credit could cut the poverty rate in Finland from 11.4 percent to 9.7 percent. They highlighted that a Basic Income could increase poverty from 11.4% to 14.1%.
12. The OECD noted that if, as in the trial, income taxation and other benefits remained unchanged it would be too costly a scheme to roll out on a national scale. They concluded that other lump-sum benefit structures, more targeted towards individuals in need, would likely perform better in reducing income inequality.
13. However the premise of the paper is to look at a UBI and a UC type system as replacements for the existing welfare system and explore options costing the same money in terms of welfare payments. This results in a UBI system that leaves the poor worse off and those on middle and higher incomes better off. These simulations, while useful, should be treated with caution because they don't model the potentially transformative impact of UBI.
14. In 2016 Finland spent 30.8% of GDP on Social Security, by comparison the UK spent 21.5%.<sup>3</sup>

### Comparison of current offer - [Finland / UK](#)

15. The [unemployment benefit](#) paid by Kela in 2018/19 amounts to €32.40 per day. The benefit is paid for five days per week (including mid-week holidays). Without

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<sup>2</sup> [https://www.stat.fi/til/tjt/2016/01/tjt\\_2016\\_01\\_2017-12-21\\_tie\\_001\\_en.html](https://www.stat.fi/til/tjt/2016/01/tjt_2016_01_2017-12-21_tie_001_en.html)

<sup>3</sup> OECD Social Expenditure – Aggregated data - [https://stats.oecd.org/Index.aspx?DataSetCode=SOCX\\_AGG](https://stats.oecd.org/Index.aspx?DataSetCode=SOCX_AGG)

## Briefing to Ministers 3 May 2018

increases, the amount of the unemployment benefit is on average €697 (£610) per month (21.5 x €32.40). Which is taxable.

16. Subject to there being no additions or reductions, and the individual being eligible under the conditionality criteria summarised below, payments are set at 57% of the poverty threshold, or 34.5% of median income.
17. By comparison, a single claimant over 25 with no other income would receive £318 of Universal Credit payments per month in the UK. Jobseeker's Allowance is paid at a similar rate of £317 per month. In the UK, the 2016/17 relative poverty line after housing costs for a single person without children is £742 per month. (i.e. payments set at 43% of poverty threshold, or 25.5% of median income)

### Conditionality in Finnish system and top-up payments

#### Reductions

18. If criteria for activity is not met, the benefit amount of €32.40 is reduced by 4.65% for the next 65 days of payment.

#### Increases

19. Given certain criteria increases can be offered, i.e. €5.23 per day is paid for one child, €7.68 for two, €9.90 for three or more.
20. During participation in employment promoting services, the unemployment benefit can be paid at an increased rate for up to 200 days. The increase is €4.74 per day.

#### Maximum entitlement period

21. The Basic Unemployment Allowance is payable for a maximum period of 400 days. However, if the employment history is shorter than three years, the maximum payment period of the unemployment allowance is 300 days.
22. A Labour Market Subsidy is available for individuals who are still unemployed when the allowance runs out. This is a means tested payment, similar to current income based UK Government allowances –also paid at the rate of €32.40<sup>4</sup>.

### RECOMMENDATION

23. No further action is required, however it is recommended to note that analysis from the Finnish pilots will become available in late 2019, or early 2020.

[REDACTED]  
SOCIAL JUSTICE STRATEGY UNIT  
[REDACTED]

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<sup>4</sup> KELA Benefits in Euros 2018 - [http://www.kela.fi/documents/12099/6889543/Kela\\_benefits\\_in\\_euros\\_2018.pdf/23cc6882-1755-442c-bf5e-5f4595d64fbc](http://www.kela.fi/documents/12099/6889543/Kela_benefits_in_euros_2018.pdf/23cc6882-1755-442c-bf5e-5f4595d64fbc)

## Briefing to Ministers 3 May 2018

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
First Minister					X

DG Education, Communities and Justice  
Director for Housing & Social Justice  
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Communications First Minister  
Communications CSSE