

Public & Social Sector Practice

# An experiment to inform universal basic income

As income inequality and economic upheaval take center stage, is a guaranteed minimum income worth considering? Results from a two-year experiment in Finland offer clues.

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**Readers who are familiar** with the inequality debate or the fears that robots will take all of our jobs will almost certainly have heard about the idea of a universal basic income. As typically conceived, basic-income programs are meant to provide a financial safety net, with no obligations and without the bureaucracy and associated administrative costs of means-tested benefits. Trends in globalization and automation, as well as the rapid rise in the cost of necessities, such as housing, had already started to put pressure on social contracts in many countries before the pandemic. Now, with COVID-19 creating additional economic risks—especially for already-vulnerable groups—questions about how best to support people living on low incomes are bound to become even more important.

The body of quantitative evidence for or against a universal basic income (UBI) is still slim. The context and design of the first wave of policies, from 1960 to 1980 and primarily in North America, make the results hard to generalize. In the 2000s, a new wave of experiments—some funded by charities rather

than governments—has sprung up. Municipalities in the Netherlands, Barcelona in Spain, the US city of Stockton, in California, the Brazilian city of Maricá, and the province of Gyeonggi in South Korea are among the places experimenting with a basic income.<sup>1</sup>

However, to date Finland is the only country that has managed to complete a nationwide randomized control trial of a basic-income program. The research methods used were particularly diverse and included literature reviews, microsimulations, surveys, data linking, in-depth interviews, and media analysis. In this article, we highlight the insights that we found most interesting. More research is needed in this multifaceted and complex area, not least because of the many unanswered questions on how a universal basic income could be funded—and how it would interact with other sources of government assistance.<sup>2</sup> It is also worth noting that the methods and conclusions of the Finnish study were not undisputed (see sidebar, “Research-based policy making”).

## Research-based policy making

**Randomized control trials (RCTs)** are difficult to execute in public policy. To draw robust conclusions, researchers must follow best practices to ensure that study groups are large enough and representative of each demographic group of interest. The control environment should be free of external disturbances that could influence the study’s outcomes. To avoid putting a study’s power and credibility at risk, researchers must resist pressures to rush the results.

Finland’s pilot program suffered from all of these issues. It was imperfect in many respects. The number of people receiving the basic income instead of normal unemployment benefits was only 2,000. New unemployment policies were implemented halfway through the experiment. Despite the initial aspirations of the research team, it could test only a single version of the policy rather than many variants. There was even initial ambiguity about which effects the study should track, before ultimately

settling on correlations with employment, financial well-being, health, mental well-being, and trust.

Some of the results—for instance, those on employment—were not conclusive, and many aspects of the study and findings were criticized and disputed. However, in the end, even with these flaws, the completed experiment and the associated research have shed important light on the complex considerations and implications of a basic income.

<sup>1</sup> *Evaluation of Finland’s basic income experiment*, Reports and Memorandums of the Ministry of Social Affairs and Health, 2020.

<sup>2</sup> The full evaluation report of Finland’s basic-income experiment is available online in Finnish, along with a short English-language summary. A two-year experiment cannot provide information about what would happen, and how the costs and benefits would stack up, if all citizens or residents received a permanent basic income. Crucially, the effects would depend on design choices such as which other benefits the basic income replaced.

In Finland's two-year study, a treatment group of 2,000 randomly picked, initially unemployed people received a guaranteed, unconditional,<sup>3</sup> and automatic cash payment of a modest €560 per month instead of a basic unemployment allowance in similar amounts. Even with a housing allowance, which basic-income recipients were eligible for, this level of support was significantly below the incomes of most Finnish households (Exhibit 1).<sup>4</sup> All other unemployed people, who continued to receive standard benefits, formed the control group.

The final results from Finland's experiment are now in, and the findings are intriguing: the basic income in Finland led to a small increase in employment,

significantly boosted multiple measures of the recipients' well-being, and reinforced positive individual and societal feedback loops.

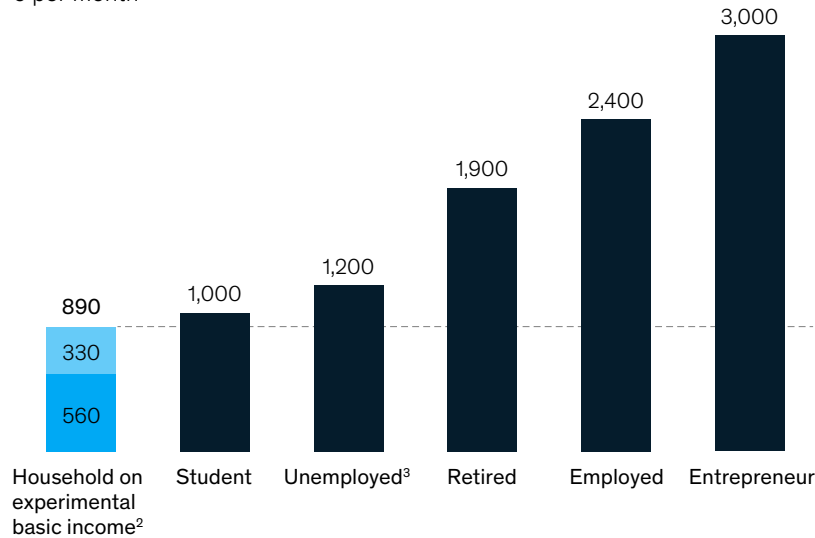
### A small increase in employment

In the design of the Finnish experiment, the main research question, agreed to by parliament in the enabling legislation, was the impact of a basic income on employment. Many policy makers assume that an entirely unconditional guaranteed income would reduce incentives to work. After all, the argument goes, why bother with a job if you can have a decent life without one? This assumption has

Exhibit 1

## Finland set its experimental basic income at a modest level.

Average disposable income<sup>1</sup> by household type in Finland, 2017, € per month



<sup>1</sup>Equivalentized; excludes imputed rent and nonmonetary income (eg, value of goods produced for own consumption, social transfers in kind, and noncash employee income except company cars). Estimates for 2017 based on 2016 data.

<sup>2</sup>Basic income of €560 and average housing allowance of €330 per month, after taxes.

<sup>3</sup>Incomes of unemployed households vary significantly, given possible other sources of income and social benefits, such as child allowances. The basic unemployment allowance of €560 per month after taxes is also much lower than, for example, the earnings-related unemployment allowance, for which some members of unemployment funds are eligible.

Source: Statistics Finland; Statistical Yearbook on Unemployment Protection in Finland 2017; "Ideasta kokeiluun? Esiselvitys perustulokokeilun toteuttamisvaihtoehtoista," Finnish Government and Prime Minister's Office Publication Series 13/2016; McKinsey analysis

<sup>3</sup> Recipients were not required to show that they were looking for work, for example, nor were their basic-income payments reduced if they found paid work.

<sup>4</sup> A one-person household relying solely on the basic income of €560 per month would also be eligible for a housing allowance, which in 2017 averaged €330 per month. At the resulting total income of €890 per month, such a household would be considered at risk of poverty. (Finland's poverty threshold, defined as 60 percent of the median equivalentized disposable income after social transfers, was €1,230 per month in 2017.) Thus, the basic-income experiment was designed to be broadly cost neutral rather than to increase income levels significantly.

led many countries to deploy active labor-market policies that require people on unemployment benefits to prove their eligibility continually and, often, to participate in some kind of training or to accept jobs offered to them.

Interestingly, the final results of Finland's program, released this spring, found that a basic income actually had a positive impact on employment. People on the basic income were more likely to be employed than those in the control group, and the differences were statistically significant, albeit small. Concurrent changes in other unemployment policies make it difficult to ascertain, from this study, whether the basic income, the other changes, or both were responsible for the higher employment levels. However, something about the modest level of the basic income and the lack of conditions attached to receiving it seems to have motivated recipients to seek and accept work they otherwise might not have.<sup>5</sup>

A critical lesson of the Finnish experiment is the complexity of implementing a basic income. Policy makers need to decide how it should interact with a large number of other policies, such as child benefits, housing benefits, pensions, health insurance, and taxation; for example, in the Finnish experiment, basic-income recipients were eligible for housing allowances but not for basic social-assistance payments. Unless such linkages are streamlined, they could detract from a basic-income system's potentially considerable savings in administrative costs.

Such interactions emphasize the importance of running further experiments and tracking outcomes across a wide range of well-being factors, including not only employment and financial security but also health and happiness. Of course, the effects will vary from one group to another.

## **A huge boost to well-being**

However you read the findings on employment, other effects were clear: people on the basic income

reported significantly better well-being on multiple dimensions. Average life satisfaction among the treatment group was 7.3 out of 10, compared with 6.8 in the control group—a very large increase.<sup>6</sup> To experience a similar lift in life satisfaction, we estimate that a person's income would need to go up by as much as €800 to €2,500 per month—60 to 170 percent of the average per-capita household income in the European Union. Indeed, the difference was big enough to erase the gap in life satisfaction between unemployed and employed people.

These significant positive findings on well-being are no mystery: the basic income seems to have improved all the major components of life satisfaction (Exhibit 2). People receiving the basic income reported better health and lower levels of stress, depression, sadness, and loneliness—all major determinants of happiness—than people in the control group. Recipients of the basic income also demonstrated more confidence in their cognitive skills, assessing their ability to remember, learn, and concentrate at higher levels than the control group did. And the basic income enabled people to perceive their financial situation as more secure and manageable, even though their incomes were no higher than those of people in the control group. Finally, basic-income recipients expressed higher levels of trust in their own future, their fellow citizens, and public institutions.

## **Positive feedback loops**

The basic income also appears to have had an effect on the dynamic cause-and-effect loops that trap some people in deprivation while others thrive on multiple dimensions. In other words, a relatively small positive intervention seems to have generated multiple mutually reinforcing positive effects. These dynamics could completely change the typical calculus of cost-benefit analyses. The Finnish study finds that the basic income unlocked at least two virtuous cycles: one that operates at the level of individuals (and their families) and another at the level of society.

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<sup>5</sup> One of the main arguments in favor of an unconditional basic income that replaces means-tested benefits is that it helps people avoid the so-called welfare trap: a person might be financially worse off by accepting work than by remaining on benefits.

<sup>6</sup> Tera Allas, David Chinn, Pal Erik Sjatil, and Whitney Zimmerman, "Well-being in Europe: Addressing the high cost of COVID-19 on life satisfaction," June 9, 2020, McKinsey.com.

Exhibit 2

**In the Finnish experiment, people on the basic income reported large and statistically significant improvements in key drivers of well-being.**

Importance and impact of four well-being factors

	Mental health	Physical health	Employment	Trust
Importance to individuals' well-being, <sup>1</sup> %	36	12	4	N/A <sup>2</sup>
Impact of basic income on well-being factor <sup>3</sup>	Large	Medium/large	Medium to medium/large	Large
Statistical significance of effect (confidence level), %	99.9	95	57–99 <sup>4</sup>	99.7
Additional information	83% of people on basic income, and 76% of people not on it, were free of mental-health problems <sup>5</sup>	58% of people on basic income, and 51% of those not on it, reported "excellent" or "very good" health	People on basic income registered 3 to 9% more working days per year than people not on basic income	On a scale from 0 to 10, average trust expressed by people on basic income was 6.7 and by people not on it, 6.3

<sup>1</sup>Percentage of variation in individuals' well-being explained by each factor. The following factors have been excluded because of a lack of comparable data on basic income's impact on them: long-term relationships and noncriminality. Income levels did not differ materially between treatment and control groups.

<sup>2</sup>Trust in others has been found to explain around 7% of well-being outcomes at the country level and, as such, is among the top 5 explanatory variables, alongside factors such as income, health, and relationships. However, comparable estimates at the individual level are not currently available.

<sup>3</sup>A difference of over 0.05 standard deviations has been considered medium; over 0.10, medium/large; over 0.15, large; and over 0.20, very large. An increase in life satisfaction of 0.20 standard deviations is equivalent to the effect of roughly doubling individual household income.

<sup>4</sup>Because of changes to other aspects of unemployment policy at the beginning of the second year of the experiment, it is not possible to tell whether results were attributable to basic income, the other changes, or both.

<sup>5</sup>Anxiety, depression, apathy, lack of feelings of serenity, and/or lack of feelings of happiness.

Source: "Well-being in Europe: Addressing the high cost of COVID-19 on life satisfaction," June 2020, McKinsey.com; Suomen perustulokokeilun arviointi, Sosiaali- ja terveysministeriö, Helsinki 2020; McKinsey analysis

At the individual level, a monthly, guaranteed, and entirely unconditional cash sum had a liberating effect on many recipients.<sup>7</sup> Better feelings of health, happiness, cognitive abilities, and financial security seem to have instilled a sense of confidence that encouraged the recipients to branch out and to seek more expansive opportunities: unpaid work, training, or employment. These activities, in turn,

fueled more positive feelings. The recipients' trust in their own abilities and their positive outlook seem to have acted as self-fulfilling prophecies. In contrast, research has found that people experiencing scarcity and uncertainty tend to suffer from reduced bandwidth, shortened time horizons, and feelings of inadequacy or helplessness.<sup>8</sup>

<sup>7</sup> "Results of Finland's basic income experiment: Small employment effects, better perceived economic security and mental well-being," Kela, June 5, 2020, kela.fi.

<sup>8</sup> Sendhil Mullainathan, Frank Schilbach, and Heather Schofield, "The psychological lives of the poor," *American Economic Review: Papers & Proceedings* 2016, pp. 435–40.

At a societal level, Finland's basic-income experiment promoted another interesting virtuous cycle, around trust. Trust in others and institutions is a fundamental building block of well-functioning societies. When researchers look for determinants of both well-being

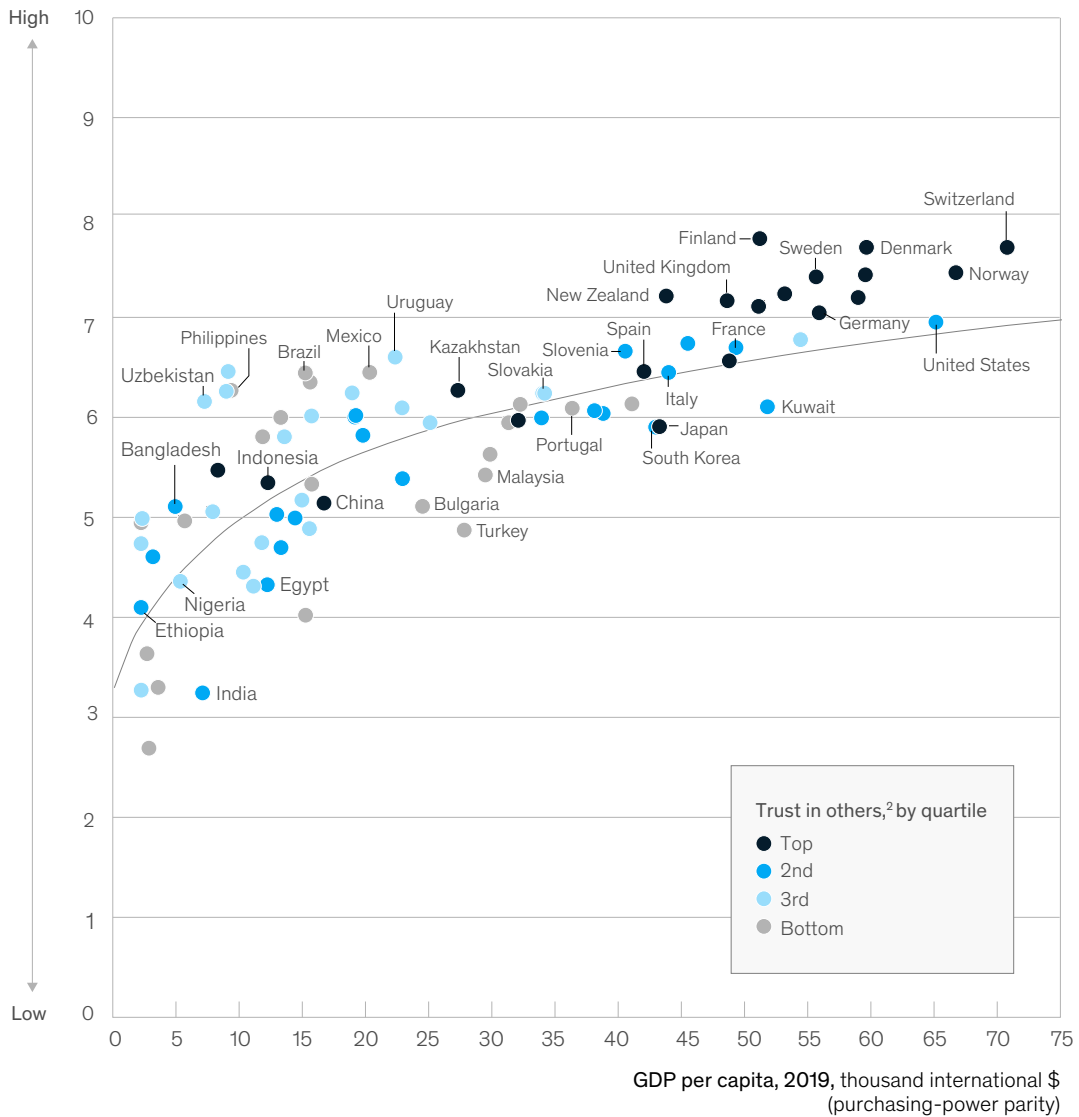
and economic prosperity, trust regularly crops up as a key variable. Indeed, Finland is a case in point: it ranks at the top of global measures of happiness<sup>9</sup> and also boasts the second-highest rating on trust in other people, after Norway (Exhibit 3).

Exhibit 3

## Countries with high levels of trust tend to have higher levels of income and life satisfaction.

### Life satisfaction compared with GDP

Average life satisfaction,<sup>1</sup> 2019, rated from 0 to 10



Note: Excludes Ireland, Luxembourg, and Singapore, which all had GDP per capita higher than \$85,000 at purchasing-power parity in 2019.  
<sup>1</sup>Based on the Cantril ladder: respondents are asked to think of a ladder, with the best possible life for them being a 10 and the worst possible life being a 0. They are then asked to rate their own current lives on that 0 to 10 scale.  
<sup>2</sup>Responses to the question "Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?," where 10 = most people can be trusted and 0 = you need to be very careful.  
Source: Eurostat; World Bank; *World happiness report*; McKinsey analysis

<sup>9</sup> *World happiness report 2020*, March 20, 2020, worldhappiness.report.

When people trust institutions, such as the police, the judiciary, and public services, their trust in others also tends to increase,<sup>10</sup> so it isn't trivial that Finland's basic-income program improved that level of trust. At the end of the two years, basic-income recipients registered elevated levels of trust in other people and institutions, such as Finland's politicians, political parties, parliament, judiciary, and social-security system. One explanation could be that the basic-income experiment did not involve bureaucracy, another that the recipients felt society—or “the system”—was not neglecting people who had fallen on hard times.

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As with any policy analysis, the results of this experiment remain subject to debate and can't necessarily be generalized. As a result, the experiment does offer an object lesson in the complexity of designing and implementing a randomized control trial of basic income. Nevertheless, more research on basic income is required. We can hope that Finland's example will inform and inspire others as they set up their own experiments.

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<sup>10</sup> Peter Thisted Dinesen and Kim Mannemar Sønderskov, “Trusting the State, Trusting Each Other? The Effect of Institutional Trust on Social Trust,” *Political Behavior*, October 27, 2015.

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The authors wish to thank Marc Canal for his contributions to this article.

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