

Finland's Basic Income

Finland is pioneering a basic income, but unless the source is land rent, the program will fail.

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The government of Finland is planning to be the first European country to provide to each adult citizen a basic income, replacing its existing welfare, social security, and unemployment payments. A pilot program is planned for November 2016, to be implemented by the Finnish Social Insurance Institution.

The replacement of qualified welfare payments with funds not related to any income, employment, disability, or age status was proposed in 1962 by the free-market economist Milton Friedman, as a negative income tax. It was partly implemented by the US federal government as an “earned income tax credit”. A basic income does not depend on the tax code, and eliminates the negative incentive of getting money by qualifying as poor, disabled, or unemployed.

The Finnish proposal is to eventually give each person a monthly tax-free income of 800 euros, currently worth US\$870. With a population of 5 million adults, the cost of a basic income to all adults would be 47 billion euros per year. This is more than the government's current annual revenue of \$50 billion, so it is yet to be decided from where the money will come. With Finland's debt already at 58 percent of its GDP, an increase in its debt to pay for current consumption would cause economic trouble later.

Government revenues in Finland include income taxes , low property taxes, a value added tax (VAT) of 24%, and excise taxes on the sale of goods. Higher value-added and income taxes would impose a greater burden on labor and enterprise, when the unemployment rate of Finland is already ten percent, and the Finnish growth rate has stagnated.

The three-dimensional spatial land we live in was provided by nature, and in effect, nature says, “Here, humans, is a free source of public revenue for your public goods and basic incomes.” But people and their governments reply, “No thank you, O nature. We shall give this surplus to landowners as a special privilege. To pay for public goods, we will penalize labor and enterprise with high taxes.”

The way to implement basic income without stifling employment and growth is to tap a source that does not flee, shrink, or hide when paid. That source is land rent. The three-dimensional spatial land we live in was provided by nature, and in effect, nature says, “Here, humans, is a free source of public revenue for your public goods and basic incomes.” But people and their governments reply, “No thank you, O nature. We shall give this surplus to landowners as a special privilege. To pay for public goods, we will penalize labor and enterprise with high taxes.”

To completely replace its VAT with LVT, a land-value tax, Finland would need to quit the European Union, as, to avoid tax competition, the EU requires all its members to have a VAT. Finland could keep using the euro for currency while withdrawing from the EU and replacing all its current taxes with user fees, pollution levies, and a land-value tax. Landowners with net losses from the tax shift could be compensated with special land bonds.

Finland’s GDP is \$275 billion, about \$50,000 per person. If land rent is one-third of Finland’s national income, as it is in Australia, annual rent is about \$90 billion.

The rent is more than enough to pay for a basic income to all persons, including children, of \$10,000 per year.

By decreasing the current transfer payments and providing all persons with a guaranteed income, the basic income would at first increase land rent even more, as people could afford to bid higher for housing, and tax-free enterprise would bid more for commercial land. If the basic income is not paid from land rent, much of that income will be captured by landowners.

If Finland departed from the EU, it could negotiate a free-trade agreement, but even if Finland faces import tariffs with other countries, the boost to its prosperity from eliminating its anti-enterprise taxes would generate high growth and eliminate unemployment.

Finland would become attractive to immigrants, but its society could absorb the new residents with a policy of social Finnization, providing incentives for immigrants to learn Finland's history, language, and culture, and spreading immigrants throughout the country and in all neighborhoods of the capital Helsinki, avoiding ethnic enclaves. There are already several minorities in Finland, including the Sami indigenous people in Lapland, ethnic Russians and Swedes, Roma, and Tatars.

The adoption of basic income would be an economic revolution, but it will fail if the source of funds is even higher market-crushing taxes. A complete and successful revolution towards economic justice and prosperity requires the funding of basic income from a land value tax. The people of Finland have valued their national independence and social justice, and they would find the fulfilment of both values with a land-rent basic income.

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