

Comment on Olli Kangas, „Making a nationwide randomized field experiment“

Michael C. Burda

Humboldt-Universität zu Berlin

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Summary

- Review of the Finnish Basic Income Experiment and its importance
- Some remarks from the economics perspective
- Lessons for Germany?

The Finnish Basic Income Experiment

- Empiricist's dream – a randomized experiment with real people!
- Lots of press – and contributed to general discussion of proposal and its justification
- Carefully designed and well-executed, with a thorough consideration of possible confounding effects
- (almost) Perfectly balanced control and treatment groups
- Initial results indicate no effect on employment or search activity of the treated
- Survey results indicate significant increase in life satisfaction, health, etc.

Remarks

External validity

- Partial basic income
- Control group – is it the right one?

„a random sampling of 2000 persons among the persons who in November 2016 received unemployment allowance or labor market subsidy from Kela.“

Shouldn't it be the general population?

- The real worry: That those in work or in precarious labor market states who were not in the control group would pass more readily into unemployment and possibly stay there

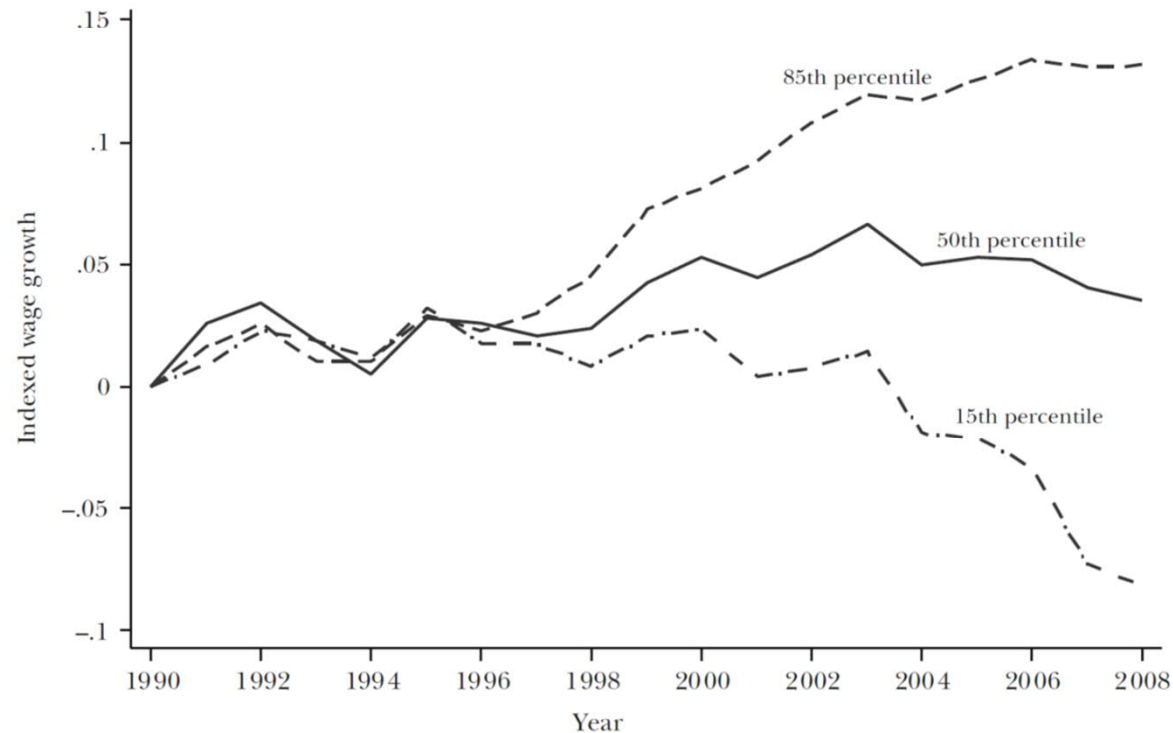
Lessons for Germany?

General equilibrium or macroeconomic effects

- On labor supply
- Fiscal effects on social security contribution
- Immigration – how to treat the newcomers?
- Reduced general search intensity, reduced labor supply: a supply shock, leading to higher wages, prices and inflation
- Political economy of social welfare systems would make it difficult to abolish other modes of welfare service delivery

Increasing market wage inequality for full-time workers (Dustmann, Fitzenberger, Schönberg, and Spitz-Oener 2014)

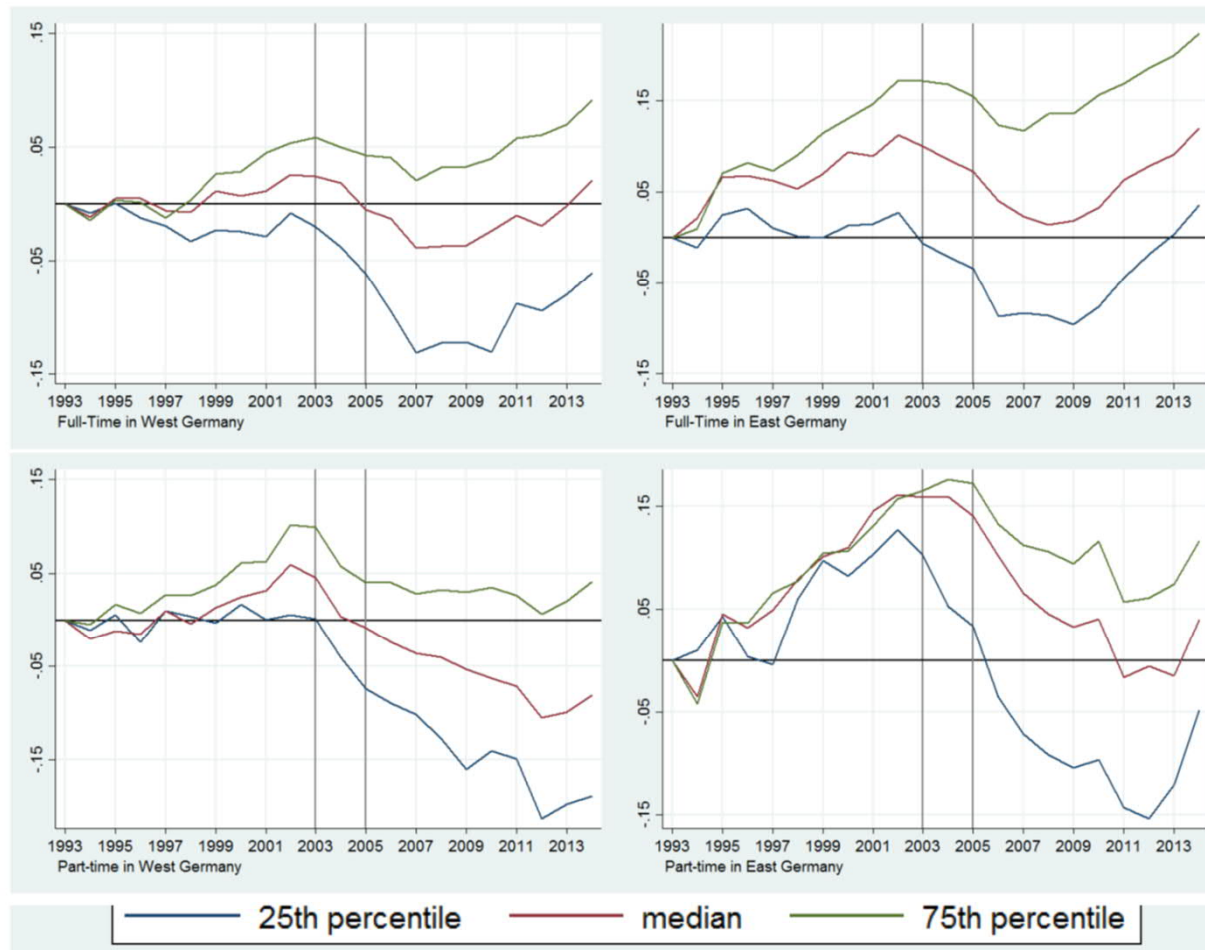
Figure 2: Indexed (log) real wage growth of the 15th, 50th, 85th percentiles of the wage distribution, 1990 – 2008



Note: Full-time workers employed in West Germany.
Source: Dustmann et al. (2014).

Increasing market wage inequality for full- and part-time workers (Burda and Seele 2016)

Figure 2: Indexed cumulative real wage growth of socially insured employees



Source: SIAB, and SOEP.

Concluding remarks

- Excellent foray into the jungle of wide-scale social experiments
- In any case, less bureaucracy, lower administrative costs make the PBI model for the unemployed an attractive option
- Less degrading treatment of recipients means less social stigma, better health and higher self-esteem
- External validity is a big question mark for me
- Potential macroeconomic effects are scary: we need to be very careful before doing this on a grand scale