Would the Implementation of Basic Income Lead to the Phenomenon of Welfare Magnet in Finland?

SOS10.1.3 Universal Basic Income: New Avenues in Social Welfare Policy

Group 3

Saki Kudo (423034)
Marjukka Monni (99394)
Linda Rajamäki (421223)
Laura Toropainen (416735)
Laura Virtanen (416730)
1. Introduction

All around the world people move from one place to another. The reasons for this are various. There may be drought in the homeland. There may be war. Also, the odds of being healthier in another country may be better. It may be necessary for the survival, or it may be a search for better life. Whatever the reasons are, considering the politics of a country the effects usually are not solely national. In globalized world, especially given the fact that information spreads rapidly, there are tremendous pressures on countries to exercise immigration politics in a way that respects both human rights and the state's economy. Giving every human being the amount of money with which one could survive probably should be written open in the Human Rights Legislation, knowing that in the current economy system people need money to fulfill their needs. But this cannot be a problem of one country only, and this is one reason why the borders are not open.

If a country, say Finland, introduces basic income as a welfare policy, what are the effects on migration? Are there some effects we must consider as threats to our state’s economy and peace, and are there any good impacts on the phenomenon? In the following pages we are going to explain some key concepts on the matter such as “welfare magnet”, “push-up factors” and the current Finnish immigration politics. We consider basic income’s possible effects in the Finnish context and introduce our view on the matter based on the articles we’ve read. As Finland is actually on the way to implementing basic income, we find our research topical and interesting.

Migration is currently very topical and burning theme in many societies and countries. It is a topic that raises many questions and thoughts: everyone has differing opinions on the matter and sometimes discussions concerning migration can become very heated in societies. Themes of migration can also be introduced to another political questions that could be considered as more domestic. Basic income is an example of this. Migration is such an enormous and current issue in many societies that its impacts need to be included to for instance discussions about domestic sociopolitical reforms.

A common problem is also that often the opinions that attract most attention can be quite aggravated and even considered as racist. This can be seen as linked to the right-wing-discourse that has gained influence and become an acceptable way of talking in many European countries. When a state considers its migration policies it is not only about who can enter a country and for how long time but also for instance about what kinds of integration methods to adopt. And all these issues and their solutions are related to the dominant attitudes towards migration in the states in question. So
the questions of immigrants are important to include in the discussions about basic income and of the possible effects to migration of implementing basic income in Finland.

2. Welfare Magnet Hypothesis

When you discuss the effect of welfare policy implementation on immigration, one hypothesis should be addressed, which is called ‘welfare magnet’. As the term ‘magnet’ represents, welfare magnet means, in short, that the countries/states with generous welfare provision will attract more immigrants than the other places. In this hypothesis, on one side, people are assumed to maximize their income under the restriction of the availability of welfare benefits. According to another point of view, maximizing welfare benefits is not the only reason for moving, immigrants might be interested in improving families’ prospects such as safety, economic opportunities, better housing and schools, which are more important than welfare (Shram et al. 1998, 212 & 227-228.) The arguments on the welfare magnet do not settle on one conclusion, as shown below.

Firstly, there are several studies on the relationship between immigration and welfare policy in the United States. On one side, Borjas (1999) argues that high-benefit welfare provision leads to the flow of immigration than the state where immigrants do not receive welfare, moreover, that cluster of immigrants to states is bigger than natives migration flow. Doson (2011) advocates this view, and states that the presence of similarly born immigrants is also main determinants of the location decision. On the other hand, Zavodny (1997) takes an opposite conclusion - there is no certain relationship between the generosity of welfare and the flow of immigrants, rather immigrants are attracted to the places which have more foreign populations.

Another point should be mentioned is that Borjas ignores in his research high-skilled immigrants, or he doesn’t categorize immigrants unlike Giulietti and Wahba. Borjas hypothesis states that immigrants prefer to locate in countries with generous welfare provisions to insure themselves against labor market risks. Giulietti and Wahba emphasizes also, that high costs of moving between the states are not obstacle for those who have large social networks: unlike Borjas stated that benefits are no longer incentives as the moving costs exists, Giulietti and Wahba states that some immigrants can be the source of immigration to others, in other words labor market opportunities reduces the costs of migration. (Giulietti 2012, 8-9.) In that case costs of moving doesn’t play big role if the immigrant’s motive is to move because of labor markets. This effect may not be limited to unskilled immigrants, since also high-skilled immigrants may prefer to live in countries with
larger social benefit systems. These motives inevitably regard high-skilled immigrants while low skilled follow high benefits and cluster geopolitically in particular state. Welfare is also one of the many pull factors of immigration. Hence policymakers should focus on the design of selective immigration policies and at the same time should intervene on welfare programs attributes by taking into account a country’s immigration pattern (Giulietti 2012, 15.) This would prevent repatriation and exploiting social security system.

However, these arguments are not based on basic income and immigration, but the welfare benefit and migration among immigrants and native residents. Implementation of other welfare policies and basic income might have different effects on migration - for instance, if the basic income is provided by unconditionally without means test, the place might attract more people, not only poor, but also middle class, even wealthy class in the sense that basic income might provide the start-up business opportunity as safety net. Nevertheless, most likely, basic income would attract poor population rather than the wealthy one, because of highly progressive taxation and partial provision - benefit is more granted for low income cluster than for high income one in this case. In addition, the immigrant flow occurring in Europe is slightly different from one in the United States - for example, researches didn’t introduce the factors for massive migration flow. Ongoing migration flow is caused by the continuous wars in the Middle East. Multiple terrorist attacks made by ISIS have accelerated flow. The immigration flood includes asylum seekers, refugees and human-trafficking victims. Therefore, it is worth addressing the issue of ‘welfare magnet’ with provision of basic income for immigrants in Finland, one of European countries, in order to figure out the similarity or distinction from the cases of other welfare policies in the United States.

3. Social security for immigrants in Finland

According to national report of social security, all permanent residents are justified to the social security in Finland. In other words immigrants have a right to get social benefits from the government. However, requirements of receiving benefits are complex due to the terms, which are multidimensional. Immigrants living temporarily in Finland are in the weakest position even if they were employed. They are required to pay social security costs from the salary but they don’t necessary consume services nor get benefits at the time they live in Finland. Also country of moving from has an effect on social security. Kela resolves case-by-case whether the person is justified to social security or not despite the residence permit that the person might have or not.
Asylum seekers, refugees, victims of human trafficking, tourists and illicitly dwelling people are left outside the examination (Kiuru, Berit 2014, 7, 69 & 28.)

Residential-basis benefits are compensations of health-care, sickness benefit, rehabilitation allowance, maternity-, paternity -and parental allowance, maternity -and child benefit, basic allowance and labor market subsidy, pensions, care allowances and housing benefits. In addition, municipalities are responsible of income support and particular services (Berit 2014, 12-13.) According to Kela’s website, a person who has got asylum or residence permit on the basis of humanitarian protection is justified to social security if person’s intention is to stay in Finland permanently. Living temporary doesn’t ensure social security: for example foreign students or employees are not justified to comprehensive social security. In general, temporary and permanent residence, and person’s title affect social security. Finnish people and immigrants don’t have differences in social security: the only exception is whether the person is working. If yes, either an immigrant or a Finnish gets working-basis social security which includes employee pension, accident insurance and unemployment benefit that justifies to get daily allowance based on income (Kela.fi & Kiuru 2014. 5-6.) Unemployed immigrant with residence permit has the same rights as unemployed Finnish.

4. Basic income and Finland as a welfare magnet?

The Finnish government has agreed the plan about the national basic income experiment to take place in 2017. There have been several options considered in the working group about how to implement basic income in the experiment: full basic income, partial basic income, negative income tax and some other options like participation income. For now the partial basic income seems to be the most realistic option. (Pulkka 2016.) If basic income is actually implemented in future, the model of it could affect how strong a welfare magnet Finland would possibly become. However, we do not take a stand on this matter but consider basic income and its effects on immigration in general. At the same time we can question if Finland became a welfare magnet at all even if basic income implemented and regardless of the model. In the following two chapters we are considering some arguments regarding our study question: would Finland become a welfare magnet caused by universal basic income and what kind of problems would it lead to.
4.1. Immigration based on employment and life opportunities

We can’t deny the fact that there is an immigration problem in Europe. As stated before, people are flooding alone or with their children and families from the conflict areas of Africa and Middle East. Even in Europe the economical situation is unstable and people are suffering from poverty for example in Greece and Italy, which are the exact countries where refugees migrate first. In 2015 people migrating to Finland were granted a residence permit mostly for family reasons and secondly for studying and working. About 2660 persons were granted a residence permit because of international protection or under the refugee quota, when the total of residence permits granted was 20 709. The amount of reception centres rose between 2014-2015 with 124 centres and the minors’ reception centres alone with 60 centres. (Finnish Immigration Service 2015.) There is problem in Finland as well, when it comes down to scarce welfare funding resources at the moment. However, Finland is not the country with worst refugee problems in Europe and the world. Additionally, as we can see, according to statistics, immigrants are granted a residence permit mostly because of totally other than refugee crisis based reasons. This said, amongst refugees coming to Europe and Finland are not the poorest and low skilled of all but often highly educated people - people that could really contribute to the society if we only let them.

According to Michael W. Howard (2006, 6), in the US higher welfare benefits are not usually a reason for migration but they may operate as one attraction factor when it comes down to the choice of destination, when a person has already decided to migrate somewhere. There may also be a magnet that holds in the destination country, even if a person failed in labour market. However, immigrants use more welfare services than natives. (Ibid. 6; 8). This can be partially explained by the level of integration – before one integrates to the society they need more help from it being a net cost. The Finnish government has outlined that immigrants are to be integrated to the society as fast as possible in the most cost-effective way. The integration measures are to be monitored by officials and not to entrust them to an immigrant alone. This means that immigrants should be employed and not become marginalized – hence, emphasis being on activation and remunerativeness. (Hallituksen maahanmuuttoliittoset toimenpideet 2015, 7.) However, in Finland it’s difficult to be employed before one speaks at least tolerable Finnish and the rivalry for even low-wage jobs is hard. The first and the most important step of integration would be to teach the language to immigrants. This will create a cost at first but will pay itself back many times in coming years.
Educational and health benefits are more important to most immigrants than fiscal benefits (Howard 2006, 8). Finland has a good reputation all over the world when it comes down to these benefits: both of them are practically free. Howard (2006, 8) thus concludes that the immigration problems are as likely to occur for the conditional and means-tested benefits as for a basic income. This means that Finland should already be a welfare magnet - not starting from the moment it implements basic income. Noteworthy is, though, the ease of benefit uptake, which in case of basic income would be very true (ibid., 8). However, basic income being universal doesn’t mean that everyone coming to a country would automatically have it. For example in Finnish parties’, Greens and Left Alliance, basic income models it is paid to those living permanently in a country and the citizens. Greens are saying that in their model implementing basic income wouldn’t change anything when it comes to immigrants and their eligibility for social security, which already now is paid on residential basis (Vihreät 2016). At the moment an immigrant has to have a residence permit and/or a contract of employment including demands on working hours etc. and/or a close family member or a spouse living in Finland. The actual decision of whether a person is living permanently in Finland or not is made according to the general view. (City of Helsinki 2016.) Even getting a residence permit based on family reunification is not that easy anymore as it was before - it is linked to the income of a person staying in Finland (Ministry of the Interior 2016). Anything in today’s political atmosphere won’t suggest that this policy should be changed at least for a lighter one in future.

All in all, if basic income implemented in future, it still wouldn’t seem any more lucrative to migrate to Finland solely because of the benefits than now, regardless of the ease of uptake. The bureaucratic process of immigration is still going to be there and it seems that at least in the near future it’s not going to be made easier. It is a fact that we need more people of working age and neither our current population nor their descendants are enough to solve the problem we will have in future. We need immigrants to work for Finnish society and even if basic income implemented, it would not be a reason to make migration more difficult or close the borders. After all, free movement is important to even the inequalities of the world, even though it’s an imperfect solution, because the poorest cannot migrate. (Howard 2006, 10; 19.)
4.2. Basic income and immigrant flood

Despite there being empirical evidence that welfare benefits do not affect migration flows, as already discussed, there is also evidence to the contrary, most notably from Borjas. It could also be argued that the simplicity of the basic income system would make it more appealing to the people considering migration. Basic income system would likely lead to a considerably more simple and easily understandable benefit system where at least some amount of money could be received without even applying for it. On the contrary applying for current benefits requires much more work and time to deal with the different bureaucracies. With basic income it would thus be easier to receive roughly the same amount of money than with current benefit systems.

However when considering the possible problem of welfare magnets one must take into account the restrictions in immigration policies in different states. According to Razin and Wahba inside free-migration regimes generous welfare states attract more unskilled immigrants than states with less generous welfare (2015, 386). In their study paper they analyze immigration inside the European Union (the EU), where there exists a freedom of movement policy. This means that citizens of the EU states have the right to work and reside anywhere inside the EU. Within these states, the ones attracting most unskilled immigrants are the ones with more generous benefit systems, such as Sweden. And on the contrary, states with more modest benefits, such as Spain, attract more skilled immigrants. (Ibid, 378.) This would thus suggest, that if Finland would implement basic income, it could act as a welfare magnet to the EU citizens that currently are in bottom sections of mean income and education. For instance the people coming from Romania to Finland and other northern states have already been considered as a problem even without the basic income. Howard (2006, 4-5) has also pointed out that low-skilled people could migrate to a country not because of the basic income itself but the low-skill jobs that would be feasible because of the basic income. This phenomenon again could cause ghettoization among people with inadequate education, linguistic skills and social networking. Basic income could enable low-skilled people to remain in exclusion by dropping the work requirement.

The solution to these kinds of problems would be to tighten the borders, which however has its own problems. Controlling who can travel to Finland from outside of EU could break for instance the laws of Schengen and prohibiting citizens of certain EU states from travelling to Finland would break the laws of the EU. In addition it could also decrease Finland’s respect internationally and take away from the advantages of basic income (Howard 2006, 10).
If migrants would start flooding to Finland because of the basic income, it could also cause other problems beside the growing benefit expenses. For instance the number of immigrants who have been granted a residence permit in Finland has in recent years been significantly lower than in many other European countries (Eurostat, 2013). So if the number of granted residence permits remains fairly stable despite growing applicants this could lead also growing number of illegal immigrants who would stay in Finland even though they have been denied the permit. Also as Finland would become an appealing destination to many people, the illegal forms of migration and human trafficking would most likely raise.

4.3 The problem of solidarity

Growing amount of migration usually leads to increasing heterogeneity of a country’s population for instance in racial, religious and linguistic terms. In order to have enough political support, basic income requires solidarity among citizens: The net contributors of basic income need to feel solidarity towards the net recipients of the basic income or the system will not remain sustainable. (Van Parijs & Vanderborght 2010, 4.) This would mean that, for example, the means of integrating immigrants to the Finnish society would need to improve. According to Howard (2006, 7) as well, irrational fear, prejudice and self-interest does affect politics. Current citizens may have prejudice to the cultural and ethnical characteristics of immigrants and they may fear them as competitors in scarce labour market and perceive them as burden on the welfare system and thus to economics. This may weaken the sense of solidarity that makes redistributive programs politically possible. (Ibid, 11-12.) Could the growing immigration prevent implementing basic income by diminishing solidarity amongst people living in a nation state because of the growing heterogeneity? Van Parijs & Vanderborght (2010, 5) argue that institutionalized redistribution is usually more generous in homogeneous societies than in more heterogeneous ones. The lacking solidarity could, in the worst-case scenario, lead to withdrawing from the basic income system back to the current forms of benefits.

If basic income was, for example, for citizens only it would be an unethical and unworkable solution. Immigrants with residence permit working part time would be in a much worse financial situation than Finnish citizens with e.g. a part-time job. This would cause uneven income distribution and would be unfair – they are both in a same situation and contributing for the society but the other one has a citizenship. (Howard 2006, 8.) It wouldn’t really encourage immigrants to contribute but this would perhaps satisfy the ones that are in favor of making migration more
difficult - this kind of solution might diminish immigration. However, it would diminish the high-skilled immigrants as well but mainly because of the taxation issues.

5. Conclusions

People don’t migrate solely because of welfare benefits but more based on the work and life opportunities or to stay alive. They won’t make people leave their country to move to another country but may, nevertheless, affect to the choice of destination if one has already decided to migrate (Van Parijs & Vanderborght 2010, 3-4). Basic income, however, being a universal and unconditional without any means testing, could operate as a welfare magnet for low earners and low skilled people. They would be better off doing what they can here in Finland than, for example, in Poland. This, on the one hand, would cause brain drain for third world and poorer western countries and on the other hand could possibly cause divide or even ghettoization in Finland.

Worst case scenario with basic income and immigration could be that high earners emigrated to low taxation countries and then again a country with more generous welfare benefits would operate as welfare magnet for low earners and low skilled people (Van Parijs & Vanderborght 2010, 3). In Finland this could happen too with basic income if taxes were raised a lot. This would lead to the decline of the universal basic income, because it would become too expensive for working and middle class to maintain, and we would have to go back to the old, maybe even more strict social security system. The other fear considering this is that the whole implementation of basic income would fall through in the fear of high earners moving elsewhere and more immigrants migrating to Finland. However, Finland has progressive taxation and high earners are already being taxed a lot so perhaps in the end it comes down more to the question of solidarity.

Even though we didn’t consider the effects of different suggested basic income models on immigration, it is also a very crucial point. It makes a big difference whether a full or a partial basic income is going to be implemented. This should be an essay or a research of its own. Also we should point out that is not a platitude that immigrants get basic income when they arrive to country because the bureaucratic process is long and hard - so the basic income on the other hand won’t be a magnet itself, and, of course, people have to have residence permit first, or live permanently in Finland.

After all these points we find that welfare magnet in the case of basic income is not a major concern. Ideologically the whole question needs to be re-evaluated. The idea of “welfare magnet”
might be too old for globalized and human-rights-regarding world. Also the possible change from
the current benefit system to basic income one would not necessarily affect Finnish people’s
attitudes towards migration. So if a person feels that Finland is a secure and good place to be, and
wants to live by its laws, what are the reasons of keeping him away?

Bibliography


