

HOW DO WE PAY FOR IT?

A beginner's guide to basic income costings

by David Frayne



Autonomy

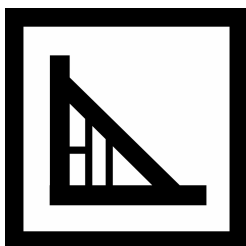
**Basic ———
————— Income
Conversation**

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Introduction

Basic income is a proposal to provide all citizens with a regular guaranteed payment, which may vary from modest to generous.

Another way of putting it is that basic income establishes a **guaranteed income floor**. With a basic income in place, no citizen will have to worry about dropping beneath this floor.

An important feature of basic income is that it is unconditional, meaning it has **no strings attached**. The payment is the same for everyone, regardless of their employment, family or financial situation, and citizens are not forced to do anything in return for payments.

The idea has gained support thanks to its huge potential benefits. Basic income represents a direct threat to poverty and a corrective to the huge deficiencies of the current welfare system, with its low benefit levels, flawed means-testing and coercive conditions.

Basic income can help people have more autonomy over their work choices, improve health by increasing income security, and insulate citizens in times of economic turmoil - be it the Covid pandemic, or future economic disruptions caused by forces like climate change and AI.

Another benefit of basic income is that it recognises that everyone deserves a right to security. It rewards a wide set of social contributions (not just those that happen through employment), including care work, creative work, and the efforts people bring to looking after themselves and their communities.

Even among people who are convinced by the benefits of basic income, however, there remains a sticking point:

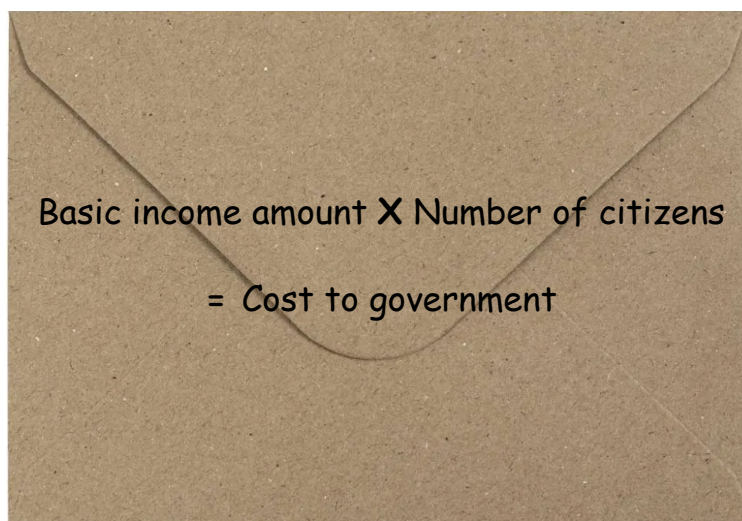
How do we pay for it?

A common assumption is that basic income payments would either be too low to matter, or too high for governments to afford. This briefing provides a beginner's guide to costing a basic income, showing that the idea is far more feasible than people often assume.

How NOT to cost a basic income!

Fears that basic income is unaffordable for governments often come from attempts to estimate the price of a scheme based on its **gross cost**. This method of gross costing can even sometimes be a deliberate strategy, used by opponents to misrepresent basic income and shut down the debate.

According to this ‘back of the envelope’ method of costing a basic income, the cost of a national scheme is calculated by **multiplying a suggested basic income amount with the number of citizens**.



A recent example of this method was on the breakfast TV show, Good Morning Britain. The opponents of basic income presenting the show took a suggested basic income level of £1,600 per month (a number drawn from a pilot study proposal,¹ rather than a proposal for a real national scheme) and multiplied this figure by the number of UK residents over 18.

They claimed that the result was close to the UK’s entire tax budget, leading one presenter to call basic income “the height of delusion”!

The problem, however, is that this fundamentally misunderstands how costing a basic income really works.

¹ [A Big Local Basic Income: Proposal for a locally-led basic income pilot](#). Autonomy, June 2022

From gross cost to net cost

What really matters when costing a basic income scheme is not the gross cost but the **net cost**. The net cost refers to how much a basic income scheme costs the government **after certain key deductions from the gross amount have been accounted for**. What and how much these deductions are depends on the particular basic income model being proposed.

The following table gives examples of some of the deductions that basic income experts take into account when modelling what a national scheme would really cost.

Basic income payments are lower for children	The cost of a basic income is reduced because children are designated a lower amount than adults.
The elimination of redundant forms of financial support	<p>The cost of a basic income is reduced because the scheme makes certain existing forms of financial support (and their administration) redundant. They can be replaced by basic income at no loss to citizens.</p> <p>When deciding how to reform social security to accommodate basic income, experts must consider that citizens with certain protected characteristics have additional needs, which will require the support of benefits alongside a basic income.</p>
Returns through income taxation	<p>In some basic income models, the basic income payment is taxed in accordance with each citizen's income tax bracket. This means that although the basic income goes to all residents, those on a lower income keep more of each payment, because they are taxed at a lower rate.</p> <p>Some basic income models propose to raise funds using reforms to the existing tax brackets.</p>
Other forms of taxation	<p>Some basic income models factor in funds that could be raised by other means of taxation, like land tax, wealth tax, carbon tax, or a rise in corporation tax, to give some examples.</p> <p>A basic income costing may also factor in the likely</p>

	increase in VAT returns to the government, as a result of the new spending power generated by citizens receiving a basic income.
Savings as a result of basic income's social impacts	<p>Significant savings to the government budget will also be made as a result of basic income's social impacts.</p> <p>This may include a significant reduction in demands on the healthcare and criminal justice systems, for example, as a result of greater income equality and social security among the population. Researchers suggest these reductions may be modest at first, but would accrue significantly in the medium to long term.</p>

While many different models of basic income have been proposed, the key point is that the feasibility of any given scheme has to be judged according to its **true cost** - i.e. after accounting for significant reductions to the gross figure, as a result of factors like those listed above.

One further distinction worth knowing is the difference between **static** and **dynamic** aspects of a basic income costing.

The static aspects are things like the savings made by reforming the tax and benefits system. By using data modelling techniques, basic income experts can put a precise figure on the savings generated by these types of change.

The dynamic aspects refer to government savings made due to the longer-term transformative impacts of basic income on things like health and crime. There are decades of research showing strong relationships between income and the health of a society, leaving researchers confident about these impacts. However, where the dynamic aspects are concerned, we may only know the full extent of the savings that could be generated once the basic income is already in place.

The payment amount

Another important factor influencing the cost of a basic income is of course the **payment amount**. A more generous or ‘full’ basic income would be sufficient to cover a person’s basic costs of living, but there are many views on how much money a person needs for a decent life.

One useful point of reference is a measure known as the ‘Minimum Income Standard’.² The MIS estimates the amount of money needed for a minimally acceptable standard of living, based on deliberations by members of the public.

In 2022, the MIS reported that a single person living in the UK needs to earn £25,500 a year to reach a minimum acceptable standard of living, while a couple with two children needs to earn £43,400 between them.

In reality, however, the basic income schemes that experts propose in the UK today often propose payment levels that are **significantly lower**. This is because advocates are trying to balance the promise of a robust basic income with the need to make it politically feasible and affordable in the here and now.

² The Minimum Income Standard is produced and updated by the Joseph Rowntree Foundation: <https://www.jrf.org.uk/report/minimum-income-standard-uk-2022>

Breaking down a basic income model

Now that we have shown some of the elements that go into costing a basic income - including the features of a net costing and decisions about the payment amount - let us walk through an example of a real basic income proposal.

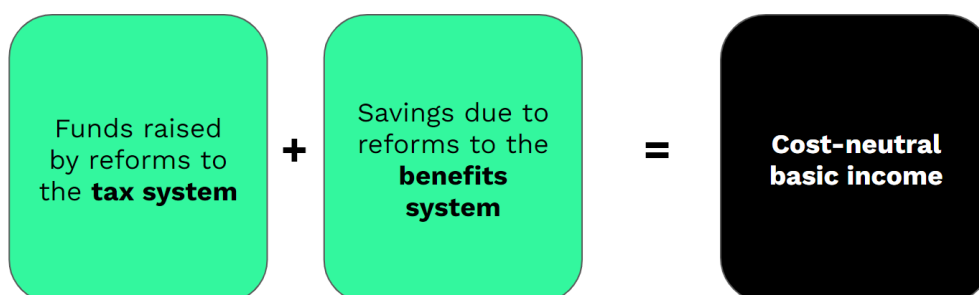
This model has been proposed by the UK basic income experts, Stewart Lansley and Howard Reed, in partnership with researchers who specialise in studying the relationships between society and health.³

The proposal is actually for **three basic income schemes**, to be introduced over time. These are called the starter, intermediate and full basic income schemes. Each successive scheme is designed to outdo the previous one in terms of its positive impacts, with the full scheme introducing payment levels that resemble the Minimum Income Standard.

We're going to look first at the **starter scheme** - a modest basic income, with a high level of feasibility in the here and now. It proposes the following weekly payment levels:

- £41 for children (£2,132 annually)
- £63 for adults (£3,276 annually)
- £190 for adults over 65 (£9,880 annually)

What may be surprising to many about the starter scheme is that it is **cost neutral**, meaning that it requires no additional injection of public finances. Two components contribute to making the starter scheme cost-neutral:



³ We only provide a very simplified breakdown here. Full details can be found in two reports published by Compass: [Tackling Poverty: The power of a universal basic income](#) and [Treating Causes, Not Symptoms: Basic income as a public health measure](#). The figures quoted here are drawn from the first of these reports and are based on modelling work carried out in the first half of 2022.

These boxes set out the nature of some of the reforms proposed, in order to make the basic income starter scheme cost-neutral:

Funds raised by reforms to the tax system

Income tax personal allowance (the amount of money people can earn before paying any tax) is lowered, to £750 per year.

Income tax rates are raised by 3 pence.

The rules around National Insurance Contributions are altered, so that NICs are payable on all earnings, at a rate of 13.25%

Savings due to reforms to the benefits system

Much of the existing benefits system, including Universal Credit and disability-related benefits is retained, and part of the basic income is '**disregarded**' as part of the calculation for means-tested support, to make sure the basic income does not cause undue disruption to the benefits that people rely on.

Child benefit and existing state pension are abolished, replaced by the basic income.

This box outlines some of the positive impacts of Lansley and Reed's cost-neutral starter scheme.

Cost-neutral basic income

A reduction in child poverty, from 27.3% to 12.5%

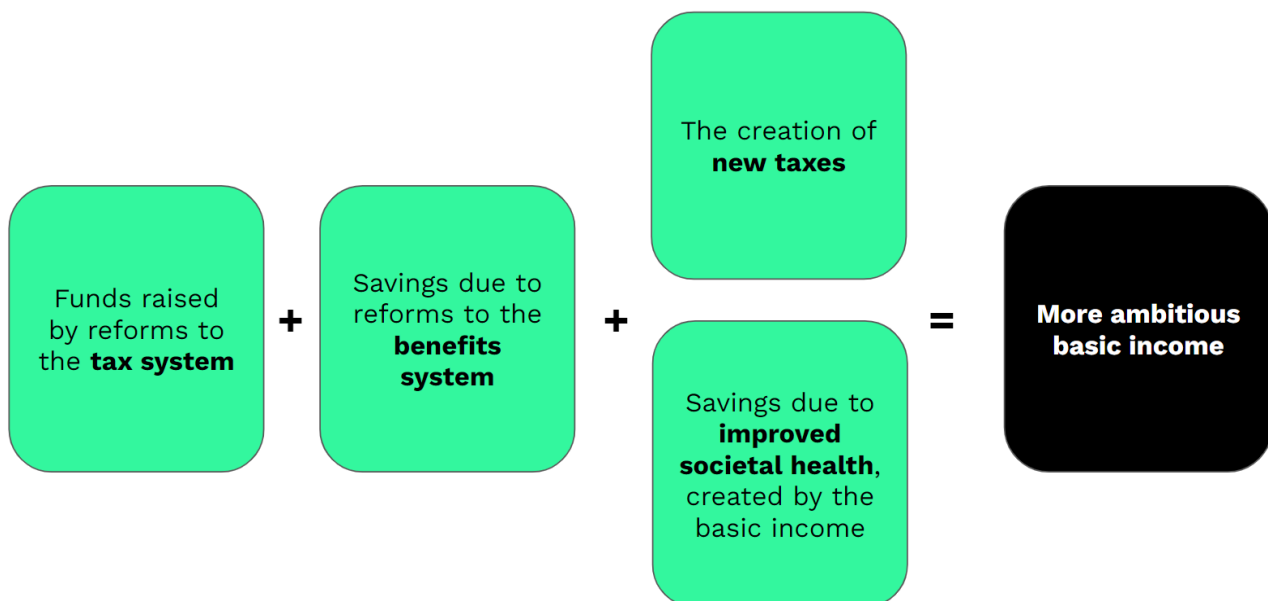
A reduction in poverty among adults, from 19.4% to 14.9%

A reduction in pensioner poverty, from 16.7% to 7.7%

As we can see, through proposed changes to the tax and benefits system, Lansley and Reed's starter scheme achieves a significant impact on poverty. However, there are two things we should note about the costing for the starter scheme, presented above.

- 1) It does not factor in funds raised by any potential introduction of new taxes.
- 2) It only includes static elements, meaning that further government savings can be made in the medium to long term as a result of more dynamic factors such as the improvements to citizens' security and well-being, resulting from a basic income.

Introducing these elements might allow progression to the more generous **intermediate** and **full schemes** that Lansley and Reed propose. With these in mind, we arrive at a funding model which looks like this:



The creation of
new taxes

On the subject of **new taxes**, a basic income could be introduced along with new fund-raising taxes, such as wealth taxes, ecological taxes or increased corporation tax on large businesses, like those in big tech.

Savings due to
improved societal health,
created by the
basic income

On the subject of **savings due to improved health**, driven by a basic income, health experts can say with a very high degree of confidence that things will change for the better when a basic income is introduced.

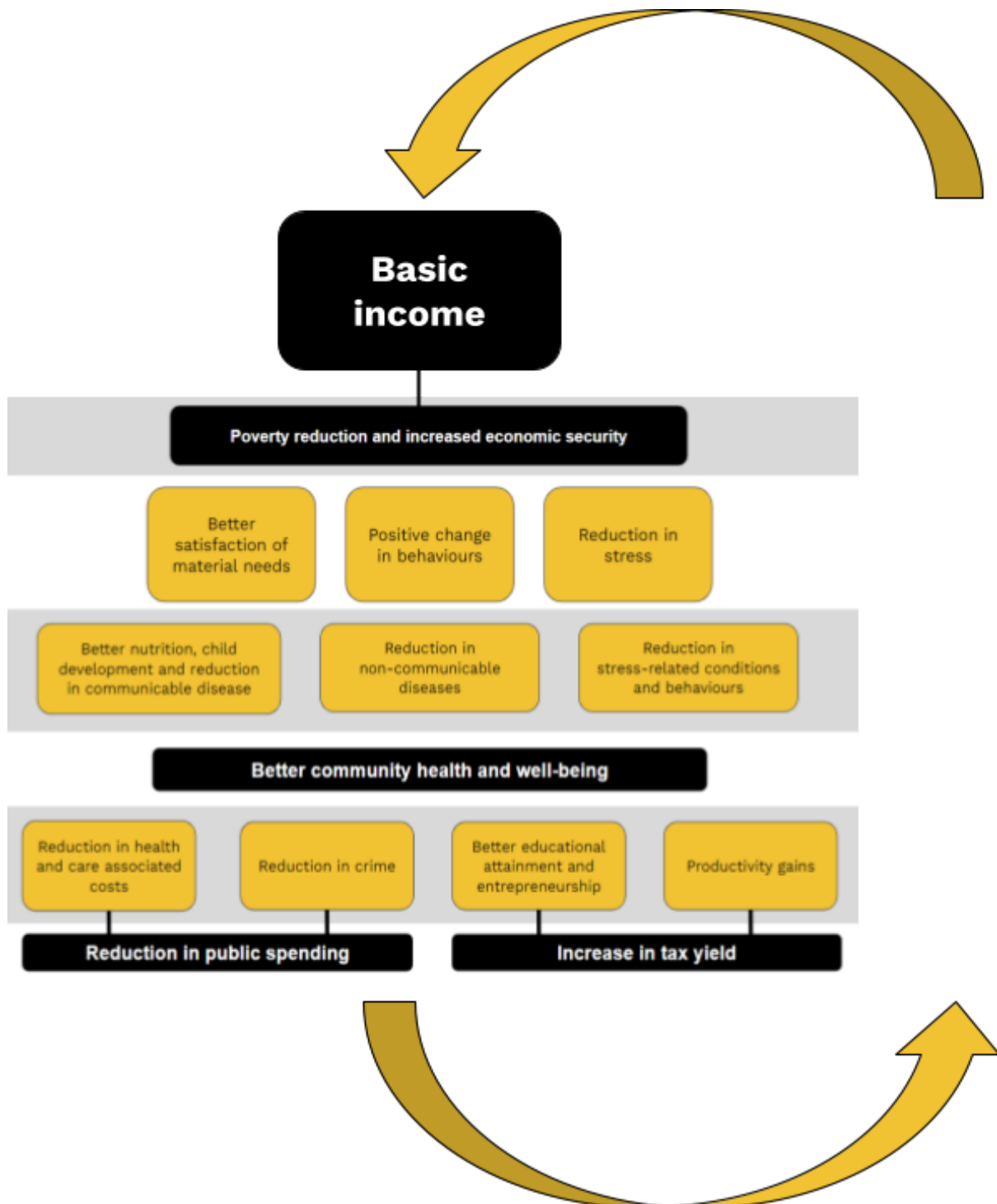
There are decades of research indicating the importance of income for physical and mental health. By analysing the relationships within large-scale survey data, researchers are showing the profound importance of not only income levels, but also the predictability of income and the overall level of economic equality for health and well-being. These kinds of impacts can also be tested in pilots - small scale trials of basic income, done for the purposes of learning more about the effect on society.

Models are now being developed to estimate how the probable health benefits of basic income could translate into savings in government spending. One initial estimate based on Lansley and Reed's starter scheme suggests that the impact on depression-related conditions alone could amount to a government saving of £560 million per year (or the equivalent of spending on 7,481 hospital nurses per year).⁴

Researchers have also tried to visualise the processes that can allow these savings to occur. The diagram below is a simplification of these processes,⁵ but it demonstrates the possible **feedback loop** of basic income, whereby the policy provides fiscal relief that could in turn be leveraged to increase the size of basic income payments further.

⁴ [Treating Causes, Not Symptoms: Basic income as a public health measure](#), p.31

⁵ A more detailed visualisation is available in an original report: [Treating Causes, Not Symptoms: Basic income as a public health measure](#)



The feedback loop of basic income. Better income security leads to improved societal health and well-being, leads to reduced public spending and higher tax yield, leads to the possibility to increase basic income payment levels, leads to...

To summarise: where some have argued that a basic income would either be too big to afford, or too small to make a difference, Lansley and Reed's model shows that **even a cost-neutral basic income could have a huge impact.**

Implementable in the here and now, their starter scheme has the capacity to cut child poverty in the UK to an historic low, improving the living standards and life chances of millions of people.

Responding to those who may say that the starter scheme is too low to be thought of as a 'proper' basic income, sufficient to cover basic needs, Lansley and Reed also offer blueprints for intermediate and full basic income schemes.

Additional tax and benefit reforms, along with new forms of taxation and the government savings provided by basic income's positive social impacts can make higher basic income amounts plausible, further down the line. The ideas outlined in the final section, below, can also contribute to growing the size of a national basic income over time.

Creating collective wealth

It will not come as a shock to anyone to learn that in wealthy nations like the UK, wealth is very unevenly distributed. The Equality Trust reported in 2023 that the richest fifth of the UK have an average income that is twelve times higher than the poorest fifth. If we zoom in closer, the inequality is even more striking. As of 2023, the richest 50 families in the UK hold more wealth than half of the entire population.⁶

The fundamental reason for this extreme level of inequality is that in recent decades, the gains from economic activity have been disproportionately captured by the already wealthy, leaving less for everyone else. This has been the principal cause of the doubling of poverty levels since the 1970s.⁷

One method of remedying this inequality is by establishing a **Citizens' Wealth Fund**. This represents a pool of wealth that all citizens collectively own, so that everyone can benefit from national economic activity.

Unlike the basic income schemes described above, which focus on funding a basic income by rebalancing the government budget, a Citizens' Wealth Fund focuses on the creation of wealth outside the general tax pool. This wealth can be paid out via a combination of investment in public facilities, as well as a **direct annual dividend to citizens in the form of a basic income**.

Supporters suggest that such a fund in the UK could be managed by an independent board of guardians, there to represent all citizens, with a number of **ways to build up the fund**.

Funds could be generated with royalties and taxes on the use of the nation's natural resources, by raising the rates on ecological taxes, or by increasing the tax yield from big tech companies, who profit from trading our personal data.

Wealth taxes could be increased, clamping down on those who make vast profits from collecting rents. The Citizens' Wealth Fund could receive a share of the profits from major corporations, and some have proposed

⁶ The Equality Trust: [The scale of economic inequality in the UK](#)

⁷ S Lansley, 'The Richer The Poorer, How Britain Enriched the Few and Failed the Poor: A 200-year History', Bristol University press, 2021

transferring the Crown Estate - a portfolio of land and property, whose revenue is shared between the monarchy and the Treasury - into the fund.

One study has shown that a Citizens' Fund could rise over a 10 year period to be worth £712bn, and then continue to grow. This would be enough to pay a modest - and rising - annual dividend to all. This dividend would be an annual basic income. It would be funded via progressive taxation on wealth and a one-off long-term government bond.⁸

Some basic income advocates even suggest that a fund could be built by having governments responsibly create new currency - much in the same way they did in response to the Covid crisis, which saw a £394 billion government spend on medical services, the furlough scheme and business support.⁹

No matter the means, the goal of a Citizens' Wealth Fund is to transform part of national private and corporate wealth into shared public wealth, making sure that everyone benefits. One direct way of doing this would be to channel a portion of the fund directly to citizens, in the form of a basic income.

This could be one important means for moving beyond a modest form of basic income toward more ambitious forms, closer to the Minimum Income Standard.

⁸ See Stewart Lansley and Duncan McCann, 'Citizen's wealth funds, a citizen's dividend and basic income'. Renewal, February 2019.

https://renewal.org.uk/wp-content/uploads/2020/09/ren27.1_08lansley_mccann-1.pdf

⁹ The idea of funding basic income through currency creation is the focus of Geoff Crocker in his 2020 book, 'Basic Income and Sovereign Money'. An introduction to Crocker's ideas may be found in Basic Income Conversation's 2022 interview with the author: [How do we pay for it? Basic income and sovereign money](#)

Alaska's 'Permanent Fund' and the Shetland Charitable Trust

If the idea of a basic income funded using a Citizens' Wealth Fund seems too radical, it is worth considering that comparable schemes *already exist*.



In 1976, the Alaskan government passed a bill requiring that 25% of royalties from the use of the state's mineral, oil and gas resources must be paid into a pot known as the Alaska Permanent Fund. Part of the rationale was the idea that windfalls available to those in the 1970s should be 'stored', so that future generations can benefit from them as well.

Since 1982, every resident in Alaska (provided they have been living there for over one year) has been eligible for an annual payment out of the Alaska Permanent Fund. The exact payment level alters with the level of funds available, but has amounted to approximately \$1,150 per year.

That means that residents living in Alaska since 1982 would have by now gained in the region of \$46,000 in income as a result of the fund. It is a fascinating example of how a Citizens' Wealth Fund can be used to ensure a larger portion of national wealth makes it into citizens' pockets.

The UK also has its own example of this approach. The Shetland Charitable Trust was funded in the 1970s by a charge on oil companies - an annual disturbance payment in return for operational access to the North Sea. This fund is now worth almost £200 million (a sizeable sum for a population of 22,000) and the returns have been used to fund social projects, from new leisure centres to support for the elderly.

Summary

- It is not the gross cost of a basic income that matters, but the net cost. If you want to know how much a basic income will cost, it is not enough to simply multiply the number of citizens by a basic income payment level.
- The payment levels in basic income proposals vary. Some propose starting with smaller payments that get closer to the Minimum Income Standard over time.
- Lansley and Reed's starter scheme is an example of a basic income policy that is cost-neutral, achieved at no additional cost to the state, by means of tax and benefit reforms.
- Modelling shows that even more modest basic income schemes can have very significant impacts on poverty, dismantling the idea that basic income is either too big to fund, or too small to matter.
- Moving to a larger basic income may depend on other funding sources, such as new taxes or building a Citizens' Wealth Fund. A larger basic income might also 'pay for itself' to some degree, due to the savings made by improving societal health and well-being.