

Funding the Future

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Someone with some political and economic experience sent me a note after they had read [my blog on answering the question](#) 'How are you going to pay for it?' They liked what I had said but asked:

I wonder what you would say if, hypothetically, government ran only a single program -UBI. If that was the sole govt expenditure, how could the "we will work for it" answer work?

The question is hypothetical, of course, but is none the worse for it. What it asks is how can the answer I provided work if we are not requiring people to work for the benefit they get? UBI does, of course, meet this criterion, but then so too do many other benefits. Can it fairly be said that such a policy can be justified by the claim it will be paid for by the "we will work for it" response?

Let me avoid the universal basic income v job guarantee argument when responding. Clearly this is an issue; maybe it was my correspondent's real concern. But benefits extend beyond those of working age now and will always do so. We will always have the young, pensioners and those unable to work from infirmity.

So, can we argue that providing for those people (and by extension those provided with benefits because they cannot find work) can pay for itself by 'working for it'? My answer is that it can. But the answer requires another question to be asked first. That is 'What is the state for?'

That, of course, is a pretty big question. But I would suggest, in the same breath as I asked the question, that it is to protect those who live within its domain including the young, the old, the infirm for whatever reason and those unable to work, again for whatever the reason might be. In other words, one of its primary functions is to protect and provide for the vulnerable. In so doing it fulfils the moral imperative stated in every wisdom tradition that our duty is to have regard to the needs of others just as we have such regard for our own needs.

But it so happens that in providing in this way that it does something else. It actually increases the well-being of everyone. That is because the process of caring does

provide work for those who want it. And, because those who have limited resources tend to spend all of their incomes, the process of caring does, in a financial sense, increase the overall level of demand in the economy. That is because redistribution is, by definition, from those with more resources, and so the capacity to save, which is an act that reduces effective demand in the economy. That means redistributing does itself create the demand for labour and the demand for goods and services which does, in turn, ensure that those who want to work have gainful employment to undertake. In other words, redistribution, whether via a UBI or not, does actually generate the means to work which will pay for it.

And remember that the shortage in the world of the wealthy is of demand and not supply. And as Keynes pointed out long ago, this is an inherent problem with all market-based economies: they have the natural inclination to produce too little demand to use available resources (and most especially labour) to best effect. Redistribution addresses this issue of a shortage of demand then and meets the obligation of the state and that which most of us accept to care for others.

To come back to the question then. How do we answer the question, briefly, if the proposed spend is to be in benefits? It is to say, firstly, that if the questioner thinks it is not the role of government to protect the vulnerable in society by all means possible then they have clearly asked the wrong question by asking how we pay for it: they should be addressing some much more existential issues instead. But if they do agree that is the role of government then the answer is that "Redistribution provides people with the income that creates the additional demand that creates the new jobs in society that delivers the wealth, and so the taxes, that pays for the redistribution that takes place."

In other words, redistribution does itself create the opportunity for people to work to pay for the redistribution to take place.

I expect I could find a snappier way of saying this, but I think you can discern my direction of travel and that it fits into the general model.

One final thing: it's obviously worth noting that there are limits, which must be related to marginal propensities to save and consume. I am not suggesting these need be equalised, not least because we can only estimate them anyway. So, proxies have to be used. But we already have those: they are inequality measures. And I am not suggesting the elimination of all inequalities either; there are strong arguments to suggest that is unfair, and widely thought to be so. So the aim is to redistribute until agreed ratios on inequality are reached. I suggest Danny Dorling's work be the guide on this.