Calibrated Basic Income

Universal Basic Income reimagined as a macroeconomic policy lever

Derek Van Gorder, 2025

The aim of this paper is to summarize Calibrated Basic Income, a macroeconomic policy concept in which a Universal Basic Income with an adjustable payout becomes the primary means of facilitating aggregate consumer spending. The objective of this policy is to normalize market conditions by fully supporting consumer purchasing power.

This paper defines Universal Basic Income (also known as basic income or UBI) as a regular income paid to every person on an unconditional basis without means test or work requirement. Calibrated Basic Income is a UBI in which the payout is continuously maximized; this serves to support or increase the average consumer's income while ensuring aggregate nominal spending is neither too low nor too high. In this framework, UBI becomes a fiscal complement to conventional monetary policy and an alternative to reducing interest rates.

As a mechanism for supporting aggregate demand, Calibrated Basic Income is mechanically simpler than traditional expansionary monetary policy, is consistent with any inflation, price-level or nominal-income target, and can significantly improve financial sector stability by allowing tighter monetary policy than would otherwise be considered practical. Greater efficiency / less distortion of the labor market is another proposed benefit.

Notably, since this policy is proposed to be 'funded' by a monetary policy contraction, it in theory requires no tax or consolidation of existing government programs to implement; nor does it necessarily imply a net increase in the overall money supply.[1] Taken together, tighter monetary policy plus a higher UBI payout constitutes something more akin to a rebalancing of purchasing power: away from borrowers and lenders and towards consumers.

Calibrated Basic Income is in essence a simple and reliable source of consumer income. The direct relationship between this policy and consumer outcomes suggests an underrecognized role for labor-free income in a market economy: it can enable purchasing power above and beyond what the wages of an efficient labor market can provide. This economic function can be understood separately from social or political objectives typically associated with UBI policy proposals.

[1] Tighter monetary policy has the central bank and the private financial sector create less money than when policy is more accommodative; in principle this leaves a fiscal space in markets for UBI to fill.

CALIBRATED BASIC INCOME

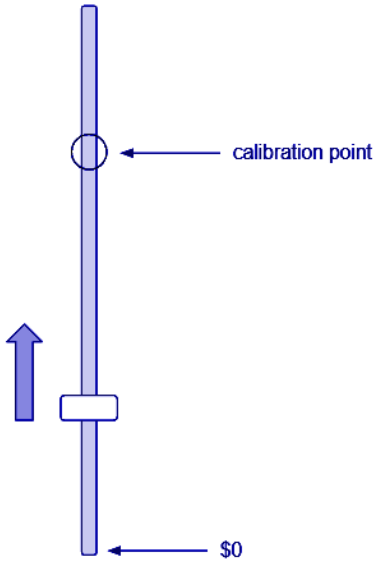

Fig.1 UBI is first introduced at any arbitrarily low amount higher than $0. The fiscal authority then gradually increases the payout until the maximum-sustainable level of UBI spending is discovered.

MONETARY POLICY REACTION

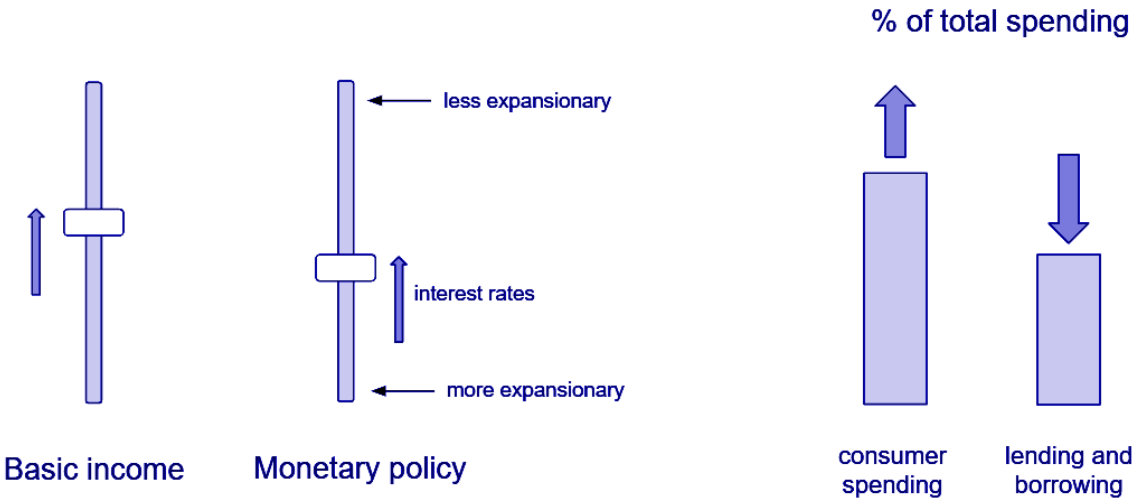

Fig.2 As consumers receive more spending power through UBI the monetary authority (central bank) is obliged to engage in tighter monetary policy to maintain price stability. This constitutes a rebalancing of aggregate spending; there is less lending and borrowing but more consumer spending.

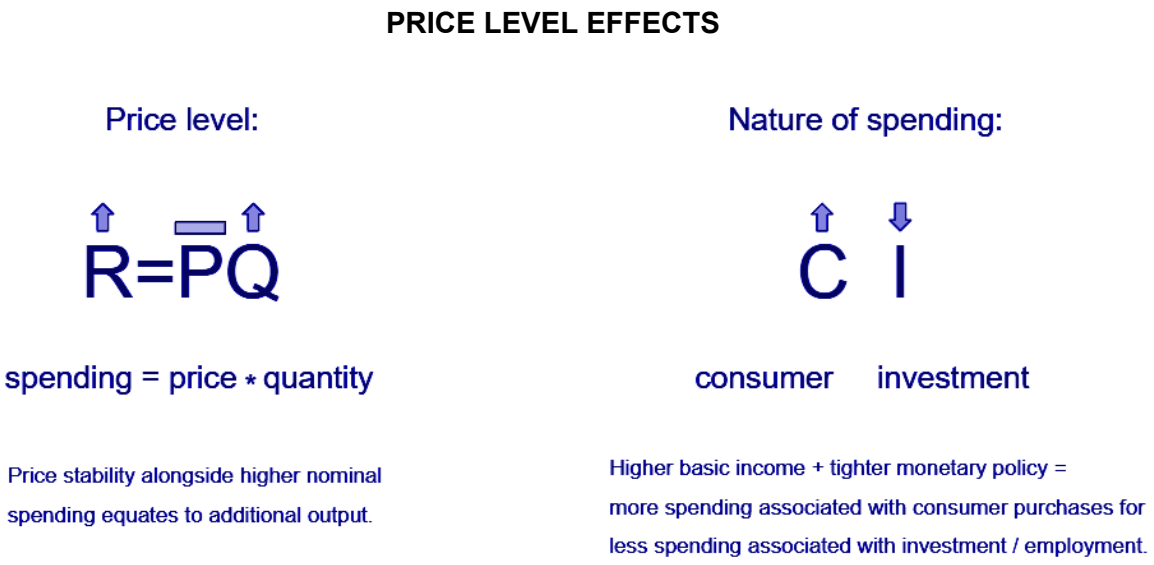

Fig.3 To whatever degree higher basic income plus less lending and borrowing is consistent with stable prices, this implies the average consumer receives the benefit of more goods actually produced and sold for less investment on the part of the average firm or financier. This result is logically consistent with an increase in overall efficiency.

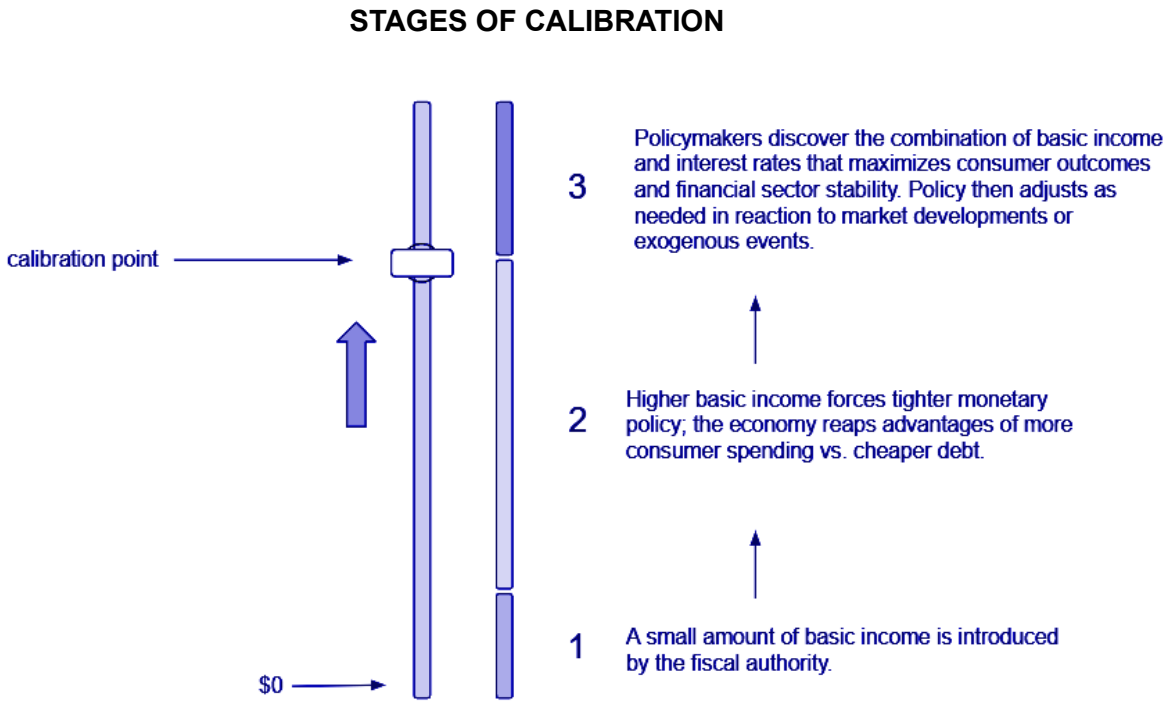

Fig.4 Implementing UBI as macroeconomic policy can be conceived of in 3 stages: a first stage where a small amount of UBI is introduced, a second stage where lower interest rates are traded for a higher UBI payout, and a third stage where calibration is maintained through ongoing adjustment.

BACKGROUND

Calibrated Basic Income was first described in a series of blog posts and working papers by theorist and UBI researcher Alex Howlett.[2] Starting from the question of whether a UBI would cause inflation, Howlett developed a framework for understanding the role of money in granting consumers access to the economy's output called Consumer Monetary Theory (CMT). A distinguishing feature of this theory is that it consistently emphasizes consumer benefit as the ultimate function or purpose of private sector production (as opposed to emphasizing the role of producers or workers). CMT can be seen as either a simple rephrasing of macroeconomic orthodoxy or as a heterodox correction depending on one's point of view.

While the theory is intended to be descriptive, it is associated with Calibrated Basic Income, a prescriptive policy proposal, because adherents of CMT see this policy as a key piece of monetary infrastructure—logically necessary for a state of maximum consumer welfare to be achieved in practice. From this perspective, though a government may be the one to administer UBI, the justification for the policy rests fundamentally on an expectation for the maximum-efficient allocation of market-based resources towards the full possible benefit of consumers.

CONTEXT WITH OTHER UBI PROPOSALS

It can be debated whether Calibrated Basic Income is meaningfully distinct from Universal Basic Income, or whether it should be framed as a recommendation for how to optimally determine the amount of a UBI payout with respect to macroeconomic objectives.

One difference from typical UBI policy proposals is that while UBI is often framed as an anti-poverty measure or an alternative to the social safety net, Calibrated Basic Income is presented as an economic policy first and foremost, explicitly geared to support the purchasing power of the average consumer. In other words, the purpose of this policy in the eyes of its advocates is to confer economic benefits of labor-free income to everyone and the average person—an objective which is not predicated on anyone being perceived as disadvantaged or poor.

In this framework, UBI becomes a *normal* source of income for the entire population, and therefore not something which needs to be 'deserved' or justified with reference to market externalities. Policymakers entrusted with calibrating UBI are in effect tasked with using UBI to bring the private sector's aggregate-level performance more in line with economists' traditional expectations of efficient markets: to ensure consumers are able to purchase the most possible goods and services for the least use of natural and industrial resources by firms, employers and financiers.

---

[2] Introduction to Consumer Monetary Theory (Howlett, 2021), Poverty is Optional (Howlett, 2021), A Functional Approach to Money (Howlett, 2021), Basic Income and Financial Instability (Howlett, 2021), The Natural Rate of Basic Income (Howlett, 2022).

CALIBRATION

The term “calibrated” refers to the fact that the UBI payout is continuously adjusted with reference to macroeconomic objectives: namely, price stability and financial sector stability. The UBI is first introduced by a fiscal authority at any arbitrarily low amount and then gradually increased until the maximum-sustainable level of aggregate consumer spending is discovered.

In this framework, Calibrated Basic Income is not intended to fully replace traditional monetary policy but to supplement it; whenever the monetary authority is considering lowering interest rates to spur more spending the fiscal authority can elect to increase the UBI payout instead.

Alternatively, one could say a higher UBI payout allows central banks to tighten monetary policy, reaping the benefits of tighter monetary policy (namely, less risk of financial instability) without the dampening of overall economic activity that is normally associated with higher interest rates and a more constrained financial sector.

To put it another way: providing consumers a labor-free (and non-borrowed) source of income in theory allows policymakers to financially activate greater production without also stimulating the private financial sector or labor market. Under the revised financial conditions which result from this shift in policy, the average firm may not be able to borrow more money or hire more workers, but they will be able to collect more money by producing more goods for the average consumer to buy.

In other words, advocates of this policy propose that it will reform or naturalize aggregate financial incentives, allowing for a leaner, more efficient Wall Street plus a more productive Main Street; the average lender will have less incentive to seek returns through financial speculation, but more incentive to fund the production of final outputs / finished goods and services. This can be framed as generating a more efficient financial system overall.

Other proposed advantages of introducing Calibrated Basic Income include:

- Improved financial sector stability (preventing the growth of credit bubbles and reducing the risk of endogenous financial crises).[3]
- Improved overall efficiency of the labor market (more goods produced for less labor used).
- Greater leisure time available to the average person.

The latter advantage (greater leisure time for the population) is framed by advocates not as an objective of the policy per say but as a beneficial side-effect of enabling a more efficient labor market; one that has an incentive to produce more despite hiring less.

Notably, in this framework, *lower* employment alongside higher output is seen as a positive byproduct of achieving a more consumer-oriented monetary system. By implication, the existing monetary system (where there is no UBI and the average person is expected to earn their income through wages) is abnormal; it leads to inferior outcomes for consumers.

---

[3] This claim is explored in detail in Basic Income and Financial Instability (Howlett, 2021).

COMPARISON TO MONETARY POLICY

There are multiple similarities between Calibrated Basic Income and traditional monetary policy as implemented by central banks. Both constitute interventions in markets undertaken by a currency-managing institution with the goal of normalizing internal market conditions (as distinct from policy intended to address externalities or pursue social / political objectives).

Both policies involve new money creation; neither policy depends on the collection of tax revenue. Both affect the aggregate level of spending in the economy and are performed with reference to macroeconomic objectives such as price stability and financial sector stability.

The major differences between Calibrated Basic Income and traditional monetary policy are:

- UBI is a fiscal intervention rather than a monetary one (it occurs through government spending as opposed to central bank lending and borrowing).
- UBI is simpler in its implementation compared with the plethora of tools and financial facilities currently associated with central bank balance sheet expansions and other interventions.
- The purchasing power provided by UBI originates directly with consumers (as opposed to originating in the private financial sector and trickling down to consumers through wages).

In this model, the function of monetary policy is to support private sector lending and borrowing (supporting productive investment). The function of UBI, meanwhile, is to fund consumers and support the aggregate level of consumer spending. The question for policymakers is then straight-forward: what balance of aggregate lending and consumer spending maximizes the economy's aggregate output / productivity? The answer to this question determines the optimal stance of monetary policy and the optimal UBI payout.

By definition a calibrated UBI does not cause inflation. While it is in theory possible to cause inflation by setting a UBI payout too high, doing so would defeat the purpose of Calibrated Basic Income as this paper has defined it, because the average consumer would have received more income to spend yet did not receive more actual purchasing power. Conversely, to whatever degree policy can yield a higher UBI *without* inflation, this implies higher UBI spending has indeed translated to greater actual produciton—despite the fact that total lending, borrowing or employment may have reduced.[4]

Therefore, we can say the combined result of successfully swapping expansionary monetary policy for UBI appears close to synonymous with an increase in aggregate-level economic efficiency: more goods are produced for the average consumer to enjoy while fewer resources are claimed and used by the average firm. There is less intake of finite resources (labor included) into the economy, yet more output of the goods and services the private sector exists to produce in the first place.

---

[4] See figure 3 for a mathematical expression of the relationship between aggregate nominal consumer spending, prices and output which can serve to demonstrate this inference about UBI. This equation derives from The Income Theory of Money (see Origins of the Income Theory of Money (Menšík, 2015).

FUNDING UNIVERSAL BASIC INCOME

One of the most common questions regarding Universal Basic Income is how the policy can be funded. “Where will we get the money to pay for UBI?” An astute reader will notice that in this paper an answer has already been given: UBI can take the place of existing monetary expansion as performed by central banks.

Central bank expansionary monetary policy leads to a greater supply of money by reducing interest rates to stimulate borrowing. That is why it is called ‘monetary expansion.’ When monetary policy is *tighter* this implies less money is created; therefore, at any given balancing point of the money supply or total spending, trading monetary expansion for UBI expansion can result in the same amount of money or spending as before—simply rebalanced in consumers’ favor.

In this way, UBI policy can help us conceptually normalize the process of money creation in a market economy. Today, most of our money is created in the private financial sector; it is lent into existence by banks and other lending firms. This produces broad money (e.g. bank deposits). To manage how much broad money is continuously created, central banks adjust interest rates / perform monetary policy. Meanwhile, the government creates a different kind of money—base money (e.g. cash, UBI payments)—by spending it into existence / performing fiscal policy.

Price stability logically requires that the active money supply / total level of spending is kept in balance with the economy’s actual output of goods and services. Calibrated Basic Income maintains this balance by trading one source of the money supply for another. During calibration, private debt is essentially swapped for public debt; as a result, businesses may have less borrowing power but consumers enjoy more spending power. Accordingly, we can view UBI as simply a fiscal alternative to traditional monetary policy: a way to support aggregate demand directly through consumers—as opposed to indirectly through private finance.

Similarly to how some UBI advocates propose funding a UBI by consolidating government programs—rather than by increasing taxes—advocates of Calibrated Basic Income point out that central bank monetary expansion uses up spending room in markets that a tax-free UBI could fill instead. The question for economists is then simple: what amount of a UBI payout is optimal given traditional macroeconomic objectives of price stability and financial sector stability? To what degree can more consumer income take the place of cheaper debt?

In this way, UBI can be modeled as having a straightforward role to play in the market economy: it funds consumers and supports aggregate demand.[5] Discovering *how much* UBI is optimal for this purpose can accordingly be seen as a primary responsibility for a fiscal authority—apart from any reallocative, social or political objective a government might also be expected to pursue.

---

[5] Notably, compared to other forms of fiscal policy, UBI *only* provides money for consumers to spend; it does not also reallocate resources away from markets for government use. Consequently, for the specific purpose of supporting aggregate demand UBI is a theoretically ideal fiscal mechanism.

SEPARATION OF RESPONSIBILITIES

In the prevailing macroeconomic policy framework, monetary policy is seen as responsible for creating normal market conditions while fiscal policy (government spending) is limited to addressing externalities or pursuing social / political objectives. Calibrated Basic Income represents a departure from this status quo in that it requires a fiscal facility—not only the monetary authority—to take an active role in managing the internal state of markets.

Introducing Calibrated Basic Income as macroeconomic policy therefore raises questions as to which objectives should be left to the monetary authority and which should be assigned to the *basic income authority* (whatever fiscal office is tasked with managing the UBI payout on markets' behalf). There are multiple possible ways of delegating objectives between the institutions involved:

- One could grant the basic income authority an objective for price stability and leave the monetary authority with the mandate for financial sector stability.
- Alternatively, the basic income authority could receive the financial sector stability objective, and the monetary authority could be left with a price stability mandate.
- One could even imagine more exotic scenarios where a central bank is granted UBI as a sole fiscal lever to implement alongside its monetary operations; this would absolve the government from a responsibility to calibrate UBI but would clash with the traditional division of powers between central banks and governments.

In theory, identical monetary / economic outcomes are possible under any of these arrangements, ultimately rendering this question one of institutional, legal, or political expediency.

The road to implementation most consistent with the prevailing paradigm (requiring the fewest institutional changes) is to have the government / fiscal authority create an 'office of basic income' and charge this office with maximizing consumer purchasing power. The office targets a real level of UBI and a real level of consumer spending using adjustments in the nominal UBI payout as its policy lever. This would preserve the traditional separation of monetary and fiscal powers while leaving the central bank's objectives largely intact.

As in the existing monetary system, facilitating aggregate-level private sector performance stands apart from other public policy concerns. Calibrated Basic Income is compatible with many other possible fiscal policies, goals or priorities. However, any government intervention which affects private sector productivity (positively or negatively) does have implications for the actions a basic income authority must take in order to maintain calibration.

For this reason, following the implementation of a calibrated UBI, effects on the UBI payout become important for policymakers and the voting public to consider. Efficient intervention may allow for a stable or rising UBI payout; inefficient intervention may have the opposite effect.

LABOR EFFICIENCY

The argument for introducing Calibrated Basic Income rests fundamentally on two expected outcomes: greater support for consumer purchasing power and greater efficiency of the private financial sector and the labor market.

Notably, very little has been said in this paper about the aggregate level of employment. This is because Calibrated Basic Income is a consumer-oriented macroeconomic policy (not a worker or employment-oriented policy) and advocates see this aspect of the policy as reflecting the ultimate function or purpose of private sector production.

Consumption is the act of receiving benefit from the economy in terms of goods and services purchased from privately owned firms. For goods to be consumed they must of course first be actually produced. This production requires firms to employ natural and industrial resources—labor included. Maximum efficiency (of any system) implies achieving the most possible expected outputs for the least use of input resources. Maximally efficient private sector production therefore implies a market economy which produces the most possible consumer goods for the least resources used by firms.

For these reasons, though 'maximum employment' or 'full employment' are terms that have been used by some economists to describe the maximum-efficient level of employment, and have under other definitions comprised popular social or political objectives in their own right, clearly the expectation that additional *jobs* should be created is not always consistent with efficient resource allocation nor with the maximum possible benefit produced for consumers. Indeed, to assume that higher employment is preferable to lower employment precludes the possibility that an economy—due to innovations (technological, monetary or otherwise)—may become able to produce more finished goods while employing fewer workers and fewer resources overall.

The average person in fact stands to benefit a great deal from lower levels of employment; reduced employment (all else being equal) implies not only fewer financial costs paid by firms but also fewer costs to people in the form of time and effort lost to labor. Accordingly, an advantage of Calibrated Basic Income in the eyes of its proponents is that it can allow for consumption to be maintained even while private sector employment may have good reasons to reduce.

The absence of UBI from standard economic models may perhaps contribute to our society's reflexively positive appraisals of employment. In an economy where the average consumer is expected to rely on wages as their normal source of income, higher employment can certainly seem synonymous with improved consumer outcomes or financial security. But with a UBI in place the *difference* between consumer income and wage income becomes more clear.

Wage income solves the problem of motivating useful work. It is a financial incentive which compels people to give up their time to firms. UBI—which can be modeled simply as consumer income *without* an attendant labor incentive—solves a very different problem: it allows people to enjoy more purchasing power irrespective of whether or not they are employed. If it is possible for

the economy to produce more goods and services while using *less* labor overall, an economist—if no one else—could surely ask: why shouldn't this be pursued?

In this sense, Calibrated Basic Income can be viewed as a proposal to financially decouple output from employment to whatever degree labor efficiency developments make that possible. The task of policymakers entrusted with UBI is to adjust the payment accordingly, in pace with labor efficiency developments; always ensuring the economy has the financial incentive to produce as much possible benefit for consumers while employing only as much labor as required.

From this perspective, the argument against holding fast to the existing policy paradigm (in which there is no UBI and monetary expansion must prop up consumer demand *through* employment) is simple: it wastes labor / leads to an artificially high level of employment by comparison.

CONCLUSION

While UBI has attracted attention from scholars and activists as a possible reform to the welfare state or as a safety net for displaced workers, Calibrated Basic Income allows us to reconceptualize UBI in a different context: a monetary context. As a reliable source of income received by every person, UBI has a uniquely direct and aggregate-level effect on consumer spending; an effect which is far more analogous to that of monetary expansion by central banks than to any targeted social program or welfare policy.

Accordingly, UBI can be viewed not as social policy but as macroeconomic policy: a mechanism for shaping total spending, for supporting aggregate demand, and to better achieve the objectives of currency-managing institutions such as central banks and governments. On its face, Calibrated Basic Income is consistent with traditional objectives for price stability. Advocates have also argued that a calibrated UBI can improve financial sector stability and prevent endogenous recessions (ameliorating or even eliminating the business cycle).[6]

However, adopting Calibrated Basic Income as macroeconomic policy does come with a notable conceptual casualty: the historically popular notion that maximum production is synonymous with or somehow depends on 'maximum employment.'

If we assume that the average consumer is or must also be a worker and that income must normally arrive through wages or jobs, then using macroeconomic policy to boost aggregate employment can appear equivalent with fostering greater production. But if we lift these assumptions, the need for a policy like Calibrated Basic Income can begin to take shape in our imagination. Through the lens of Consumer Monetary Theory: a simple, reliable and efficient source of consumer income is a prerequisite of maximum-efficient production and the full possible benefit to consumers. The absence of such a mechanism from our economy today may be responsible for more problems than we realize.

---

[6] Basic Income and Financial Instability (Howlett, 2021).

Derek Van Gorder is a UBI researcher and co-founder of The Greshm Institute, a non-profit think tank whose mission is to investigate the macroeconomics of Universal Basic Income. Derek's work applies Consumer Monetary Theory to understand the economic and social implications of UBI.

For more information visit www.greshm.org/resources

Published by The Greshm Institute, 2025

Thanks to Alex Howlett, Philip Jackson and Virginia Conn for their assistance.