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The multiplier effect of Basic Income Grants

The debate surrounding the introduction of a Basic Income Grant (BIG), a universal and unconditional cash transfer to Namibians below the age of 60, has sparked up again after President Geingob took office.

Much research has been done surrounding the effects of cash transfers, both conditional and unconditional. The International Monetary Fund, the World Bank and various research institutes find general reductions in poverty and positive impacts on health, crime, employment and school enrolment rates in the recipient communities.

In order to assess BIGs in a holistic manner, positive externalities need to be taken into consideration as well. Rural communities are often characterized by credit constraints which trap the poor in subsistence farming or informal labour. A Basic Income Grant yields the opportunity to relax this constraint.

According to economic theory, specifically the Keynesian fiscal multiplier effect, increases in income lead to surges in consumption and investment spending. This in turn leads to higher incomes in the communities, which reinforces or 'multiplies' the initial effect and induces further consumption and investment. The impact is anticipated to be strongest in communities where liquidity is highly constrained.

Applying this to poor rural communities in Namibia means that the BIG has the potential to increase levels of liquidity through induced local consumption and investment. The initiative therefore essentially delivers the basis for higher levels of economic activity and the empowerment of the poor.

To assess the suitability of an income grant in Namibia, these effects therefore need to be carefully scrutinized as well.