Why a universal income grant needs to be universal: The quest for Economic Empowerment vs. Charity in Namibia.

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written by

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Abstract: This paper argues that even a modest universal Income Grant is an important tool to free people out of economic dependency created by poverty into economic activity. The paper looks at the current policy proposal of N$100 per month (~US$13) to every Namibian citizen until they become eligible for the universal State Old Age Pension. Through a thorough analysis of the current regional and national data sets available for Namibia, it is shown that the universality of a cash-transfer system is key to the developmental impact of this policy intervention.

The analysis of current survival strategies in Namibia reveals an informal social security system, which disproportionately burdens the working poor and the social pension beneficiaries with providing resources for the survival of other poor people. This in turn can be seen as a key constraint on economic activity, low saving and investment rates among the poor. The analysis concludes that a universal benefit would be best equipped to empower the poor and the former disadvantaged groups and to enable them to find ways out of the dependency trap.

Methodologically, the paper uses a microsimulation model to illustrate the distributional effects in the currently highly unequal Namibian society. The model is able to show the distributional effects (nationally as well as disaggregated into rural/ urban etc.) of the possible policy intervention of introducing a Basic Income Grant in Namibia.

The research findings are contextualized into the current Namibian Basic Income Grant debate, as well as the wider international one, namely the opposition to the BIG in Namibia by the International Monetary Fund and its proposal for a conditional cash-transfer system.

"When I give bread to the poor, they call me a saint; but when I ask why people are poor, they call me a communist". Dom Helder Camara (Brazil)

Outline of the paper

The paper starts off by outlining the key aspects, affordability, and the political pressures of the proposed BIG policy in Namibia. The section continues to introduce the debate between charity and a universal right in poverty alleviation. The second section uses a microsimulation model to graphically illustrate the highly unequal distribution of income in Namibia. This provides the background for the third section, which analyses, where and how poverty is a trap and hence where a quest for economic empowerment needs to be located. The fourth section simulates with the help of the microsimulation model the distributional effect, if a Basic Income Grant of N$100 was introduced today. Based on this and with reference to the poverty traps identified in section three the final section compares the potential of charity vs. universal income in economic empowerment.

1) Introduction

The proposal for a Basic Income Grant in Namibia was made in 2002 by the Namibian Tax Consortium (NAMTAX), a government appointed commission. The consortium made the proposal for a Basic Income Grant in light of the high poverty levels and the unequal distribution of income (income inequality) in Namibia. The current debate about a Basic Income Grant in Namibia is based on the following proposal: A monthly cash grant of not less than N$100 (~13 US$) should be paid to every Namibian citizen as a citizen's right. Every Namibian would receive such a grant until pension age from where onwards he/she is eligible to the existing universal State Old Age Pension of N$370. The money of people not in need or not in poverty would be recuperated through adjustments in the tax system.

The costing of the proposal has been done by the NAMTAX Consortium, the tax commission, which initially proposed the BIG in Namibia, and by the Economic Policy and Research Institute (EPRI). EPRI concluded:

> *"Assuming a grant size of N$100 per month, with an age-eligible proportion of 93.1%, the net cost ranges from N$0.8 to N$1.4 billion per year. These net cost estimates range from 2.2% to 3.8% of national income, [...] while Namibia's excess taxable capacity exceeds 5% of national income. This means even at current economic*

> *levels the BIG is affordable, without jeopardising fiscal policies" (Samson & van Niekerk, 2005:45-46)*

After thorough consultation a 'Basic Income Grant' (BIG) Coalition which consists of all key role-players in the Namibian civil society: the federation of NGOs, the federation of AIDS organisations, the federation of Unions and the Council of Churches, has been established. The coalition has grown into the biggest coalition against poverty since Namibia's Independence in 1990. The Coalition seeks the dialogue with Government and other relevant role-players in order to implement the proposal.

The Namibian Government has so far acted with caution towards the idea. Initially the Government claimed authorship of the idea as it stems from the Namibia Government Tax Consortium. However, in more recent announcements, they have questioned the affordability and the effect on the economy. On a superficial basis, the impression is created that a BIG should be an offset for job creation.

The concern about the affordability is fuelled by the IMF's calculations, which claim that the BIG would be too expensive for Namibia. In its latest country report the IMF states that

> *(…) the BIG proposal could put macroeconomic stability at risk and compromise prudent fiscal policy (IMF, 2006:25)*

These findings are based on so called "*staff calculations*", which had put the cost of a BIG at 5.5% of GDP. In fact, behind the "IMF staff calculation" rather over-simplified calculations are concealed: The IMF simply calculated: 1.9 mill (Number of people living in Namibia) * 12 (months) * N$100 = N$ 2.3 bill → 5.4% of GDP[2]. These are the arithmetics of the gross-costs of a BIG. The gross-costs, however, are not very important from an economic and fiscal point of view. Instead the net-costs reflect the real costs government has to bear. To give an example: If the BIG is paid out with an income tax adjustment, the calculation will look as follows: 1.9 mill people → minus the people in richest 40% of HH ~ 1/3 of people, who receive the grant but do not need it and pay it back through the tax adjustment → minus 10%, who receive a state pension → 1.14 million * N$100 * 12 months = N$1.37 billion → 3.2% of GDP. Depending on the 'cut-off' point for the income tax and other measures like an increase in VAT or a combination of the two self-targeting mechanisms, the real costs for a BIG in Namibia would be between N$ 0.8 billion and N$ 1.4 billion. The Coalition already pointed to this very mistake of the IMF 'staff calculations' during a meeting with the IMF in November 2005. The IMF delegation agreed (sic!) to redo their calculations. Nevertheless, the IMF continues to

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2 Calculating on a GDP of 42.7 bill as given in the IMF report for 2006.

publish its judgment widely based on these calculations which have already been proved wrong. Instead the IMF recommends that only a targeted and means-tested cash transfer system should be considered.

The book by Charles Murray "Losing ground" started a debate against rights-based state welfare programmes. In 1984, this book attacked state welfare in America as not working and thereby apparently undermining the economy and social good. Murray therefore suggested to abolish all state welfare programmes. The underlying thinking can still be traced in America's right. The Bush administration's "compassionate conservatism" policies, for example, reduce state provisions towards the poor in favour of especially faith- and community-based charity programmes.

A similar trend can be seen in the development debate, where direct support and aid had to give way to food for work programmes, so called income-generating programmes, and public works programmes etc. While even institutions like the IMF nowadays realise that such programmes are not able to tackle abject poverty, the notion is well established that only the "poorest of the poor" or the "deserving" poor should be supported by cash programmes. It is in this light that the neo-liberal IMF economists suggest an interventions policy like targeted cash transfers. This paper argues that this is not much different from a charity approach, as outsiders will determine the criteria for who is deserving and who is not. Anybody not or no longer (e.g. they are able to find work) seen as "deserving" will be no longer eligible for support.

This paper argues further that it is not so much the effectiveness of addressing the real poverty question but rather the appeal to public opinion, which promotes such a charity approach. However, although charity might enjoy high public support, it often has to be questioned as cementing the current status quo of poverty and inequality.

2) Namibia – the unequal society

In order to illustrate the current income distribution in Namibia a microsimulation model using a weighted national household data set and representing the total Namibian population, has been developed.

Current income distribution and inequality

Figure 1: Namibia's income distribution in a nutshell - Source: DfSD Microsimulation Model

Figure 1 represents the total current income distribution in Namibia updated to 2004 standards. On the x-axis the income standardized to an adult equivalent (weighting children below the age of 16 years as half an adult, and taking account of economies of scale (powered by 0.9)) is represented. The y-axis depicts the total number of people for the respective sum of income.

As the graph is extremely broad, it becomes clear that Namibia has a highly unequal distribution of income. The Gini-coefficient of 0.68 in fact documents the highest inequality in the world. While Figure 1 shows many people with nearly no cash income available in their households (up to 180,000), this goes along with wealth pockets where there are people in households with an adult equivalent income of N$ 10,000 and above.

The red line in the middle visualises the crude international poverty line of US$1 per day. Even according to this crude standard, 62% have to struggle for survival on less than US$1. It becomes clear that destitution is ripe in many communities in Namibia.

3) Poverty traps – locating the quest for economic empowerment

3.1) The informal social security system or the tax on the poor

The following two graphs from Namibia explain why people living in formerly disadvantaged communities, still continue to carry a disproportionally high burden of caring for other poor people. It can be argued that this informal social security system effectively imposes an informal tax on the poor, which prevents people from escaping poverty and developing their own businesses and entering into successful self-employment.

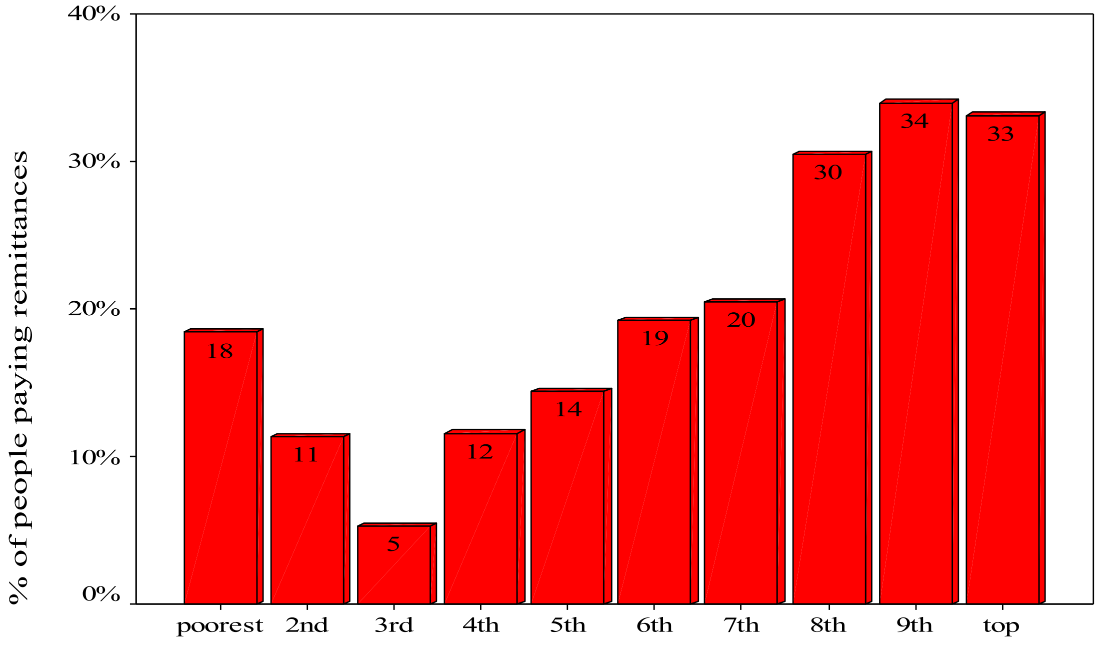

Figure 2: Percentage of people paying remittances to other households from their income. (Haarmann & Haarmann:2005, 39)

Figure 2 shows the percentage of households paying part of their income to other households in the form of regular remittances. One would expect that the richer the households are, the more likely they are to support other households, especially the extended family. What is especially striking in Figure 2 is the increase and not the expected decrease from the third poorest ranking to the poorest.

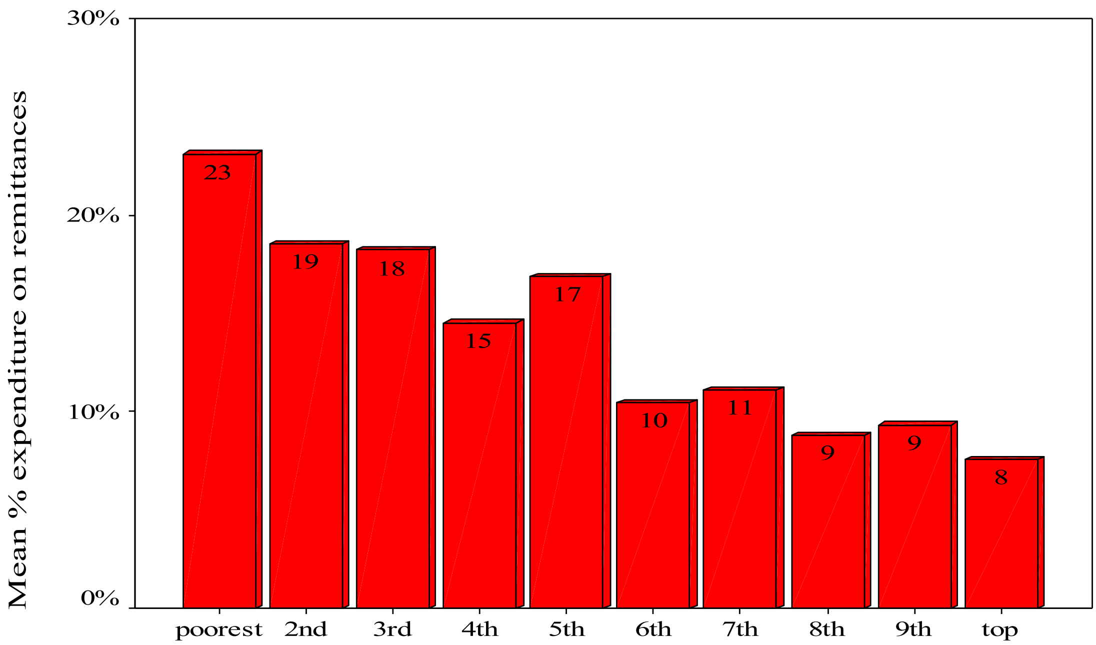

Figure 3: Percentage of income paid as remittances to other households (Haarmann & Haarmann:2005, 40)

Figure 3 looks at the percentage of income, which is paid to other households. It becomes obvious that there is a linear correlation of the richest households only supporting other households with about 8% of their income to the poorest households spending up to 23% of their little income for other poor people! This can be explained by the demand brought forward against income earners in poor communities. Social solidarity and the absence of any other form of formal social security necessitate that income earners in poorer communities assist their extended families and neighbours. In addition to regular remittances, it can be assumed that costs like medical expenses for children, funeral costs, school fees put a further burden on people living in poor communities. In economic terms, however, this in effect imposes a regressive tax on the poor, reducing their ability to save and invest, and thereby diminishing the chance to build up their own employment opportunities.

3.2) Malnutrition, HIV and Economic Insecurity

Malnutrition stunts children for life time and prevents development of full human capacity

Childhood deprivation leads to long-term strains on the nation's health and education systems, draining resources that could efficiently target other social priorities. Childhood malnutrition often leads to "severe and costly physical and psychological complications in adulthood."[3] The transmission mechanisms of early deprivation are manifold. For instance, the associated childhood stress leads to reduced life expectancy.[4] Early malnutrition reduces the capacity of the immune system to protect

3 Henry and Ulijaszek, page 21

4 Barker, in Henry and Ulijaszek, page 177

health.[5] Studies in South Africa find a strong link between poverty and low birth weight.[6] The long-term consequences include higher risks of heart disease, strokes, hypertension and diabetes.[7] The inertial effects are long lasting--the negative consequences of pre-natal malnutrition can be passed on to the next generation. Women who themselves suffered from pre-natal malnutrition are more likely to give birth to low birth weight babies--even if they have proper nutrition during their own pregnancies.[8]

HIV increases the already acute poverty problem and vice versa

The HIV/AIDS epidemic and its consequences create a major crisis for the Namibian society. The following findings from participatory research by the DfSD give an exemplary overview of how HIV and poverty are related (DfSD Strategic Plan):

- In Tanidare/Windhoek, the congregation felt that besides poverty and alcoholism, the stigma, which comes with HIV/AIDS, is the biggest problem in the community. They called upon the church to become

5 Chandra 1975

6 Cameron

7 Barker, page 155

8 Lumey 1992

active to educate people to see HIV/AIDS as a normal sickness, so that the stigma is removed.

- In Keetmanshoop, the two congregations explained that the problems in their two townships differ. In Krönlein, the people do not come out if they are sick to get help but rather keep quiet and try to hide. In Tseibslaggte, people start to come out, if they get sick, because this is a way to get help. The HIV prevalence rate seems to be high. This was attributed to the mines in the surrounding areas as people work there for a period of time and then come to Keetmanshoop during their leave. The trucks from South Africa are said to be another contributing factor as the truck drivers use local prostitutes.
- The youths in Mariental reported about severe peer-pressure: They told us that in order to belong to a certain group they have to have unprotected sex or even have HIV. They also said that people just want to try to contract HIV as everybody is talking about it, but actually nobody believes that it is so horrible.
- In rural areas (Hoachanas) the lack of medicine is seen as a big problem. People said that AIDS patients are treated with TB medicine.

- Basically all the communities reported an increase in the number of Orphans and Vulnerable Children (OVC).
- In many places families are to be found where the 'middle-generation' has died because of AIDS related sicknesses and old people have to take care of their grandchildren, relying entirely on their social pensions, welfare organisations and begging.
- In addition, there are many child-headed households because of the AIDS related deaths of their parents. They often do not have anything to eat but their meals at school.
- Different communities reported about the practice of sugar daddies and that it is very difficult to talk to the young girls about it. The young girls say that they are coming out of very poor households and do not know how to pay for their clothes and their schooling.

ARVs do not work for those without food security

ARVs do not work - like TB treatment -, if people have no food at all or food with low nutritional value. The ARVs are prescribed to be taken after a meal. While the ARVs are now available in all major towns in Namibia due to the mass-roll-out campaign by the Namibian government, the intended poorer beneficiaries are often faced with hunger and malnutrition and thereby the effectiveness of this roll-out is seriously impeded.

3.3) The opportunity costs of life in the survival economy

The poor have to spend hours securing their survival for the next day with collecting water and fire wood and trying to obtain some food. And so the daily survival strategies absorb time, labour and other resources, which otherwise could be used for productive economic purposes.

The survival economy prevents proper education, and hence the proper qualification of the future workforce. Malnutrition results in stunting of children under the age of four. This is further aggravated by poor school performances, if children are not properly fed. High absenteeism and high drop-out rates in order to assist the family in the struggle for survival also have to be attributed to poverty.

It has to be argued that in a survival economy, a "prisoner dilemma" in the form of a market failure firstly exists between individual and community interest. The informal social security system outlined above is one example. Secondly, however, the individual also faces a prisoner dilemma over time, where the quest for sheer survival today dictates acting in a way, which will endanger the person's future existence. Research findings by the DfSD for example pointed out that, while many women are aware of the risk of contracting HIV through commercial sex work, they are nevertheless forced into prostitution as their and their children's or siblings' daily survival is dependent on this income. Crime, and the eating of unhealthy food from the dumpsite are just some others of the manifold economic examples, where poverty leads to behaviour, which has devastating and destructive consequences in the medium to long term.

4) Namibia with a BIG

The next graph models the effect of a BIG , which pays every Namibian citizen from birth up to the age of 60, the qualifying age for a social pension, a N$100 per month. The model is based on the assumption that the money from people living in the richest 40% of households (4^{th} and 5^{th} top quintile), is recuperated tax neutral. Meaning the richest 40% do receive N$100 per month but at the same time N$100 is recuperated through adjustments in the tax system, so that their net benefit / cost is kept at N$0.

The total net cost for a BIG in this scenario would be N$1,251 million per year. Out of this, NS$978 million would go into rural areas.

Figure 4: The impact of a BIG on Namibia's income distribution compared to the current income distribution (dotted line) - Source: DfSD Microsimulation Model

Figure 4 shows the dramatic effect the BIG can have on income security. Destitution is effectively eradicated. As the BIG is a right, each and everybody has at least some income. This would go a long way to eradicate hunger and malnutrition.

With the BIG, many people escape poverty and are brought over the crude poverty line. The head count index of people having to live below an acceptable minimum income would drastically be reduced.

As the graph in Figure 4 is much narrower than in Figure 1, it becomes obvious that the BIG reduces inequality. The gap between the rich and the poor would be no longer as extreme as it currently is.

5) Charity vs. Income Security

5.1) Investment and Consumption – economic empowerment

Charity and conditional cash transfers do not provide income security, which people can use as investment potential. Not only is such support not broad-based and thereby flawed with distortions and holes, but the moment people start to move out of their poverty trap, by investing and finding work, the support needed for successfully escaping poverty is taken away.

A BIG even on a modest basis reduces the unjustly high informal tax on the poor and thereby increases investment potential. This reduction of "taxation" on the poor, through a redistributive programme, can be expected to generate high local economic returns, as the poor have a propensity to spend locally, especially in the rural communities. In contrast, the rich, especially in Namibia's society, spend most of their expenditure on imported goods, which is not directly enhancing and supporting local economic growth.

5.2) Nutrition and HIV

While current efforts of soup kitchens and direct food benefits to AIDS sufferers are well intended, charity and targeting based on the health and nutritional status necessarily results in stigmatisation and negative unintended consequences like the keeping down of the CD4 count as a qualifying condition for a grant. Programmes tend to be administratively expensive and hence are only able to reach low coverage.

A BIG would avoid these negative effects. A BIG would take account of the fact that not only the infected but also the affected need support. E.g. If a breadwinner falls ill or has died from AIDS.

Most importantly a BIG, providing food security, is a prerequisite for an effective ARV roll-out to achieve its intended goal: Namely to curb the pandemic and enable people to live healthy and productive lives.

5.3) Towards a decent economy

Charity and conditional cash transfer do not break but reinforce dependency. Benefits, which you lose the moment you start to become economically active, create a perverse incentive not to work in order to keep the benefit. Furthermore, the poor are usually the least able to overcome administrative barriers associated with targeting. It is this situation where charity as well as so called targeted benefits often reinforce local power imbalances and encourage corruption.

A BIG, while being administratively simple and following a rights-based approach, can be expected to reach the poorest effectively. By providing a secure minimum to the poor, it pushes people into the realm of a profitable economy, where healthy economic decisions can be taken, without the threat of immediate starvation hanging over the head. The BIG thereby addresses a serious current market failure of the survival economy.

The BIG, by securing a minimum standard, would increase the bargaining power in economically abusive relationships. This is true for abusive gender relationships, but also for jobs below the breadline and thereby it would break unhealthy current dependency.

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