

Basic Income New Zealand

AI perspectives – The impact of Basic Income on the Velocity of Money, the Multiplier Effect, and Wellbeing

Responses from Google AI

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Velocity of Money

Q. What impact is a Basic Income likely to have on the velocity of money at a local or national level?

R. A Basic Income is likely to **increase the velocity of money**—the rate at which currency circulates through the economy—at both local and national levels by redistributing capital to households with a higher "marginal propensity to consume" (MPC).

Local-Level Impacts

At the local level, a Basic Income typically acts as a powerful economic stimulus, particularly in lower-income or rural areas.

- **High-Velocity Spending:** Recipients on lower incomes tend to spend additional cash almost immediately on necessities like food, transport, and housing. This creates a "ripple effect" where money stays within the community longer.
- **Local Multiplier:** In trials in Kenya, every **\$1** of basic income generated approximately **\$2.50 to \$2.60** in total local economic activity. Roughly **80%** of this spending remained within local markets, boosting business revenues by as much as **65%**.
- **Business Resilience:** Increased velocity provides a "launch pad" for local entrepreneurs and small firms, as the constant flow of consumer cash allows them to invest in inventory or hire staff.  GiveDirectly +5

National-Level Impacts

Nationally, the impact on velocity depends on how the program is funded and the overall structure of the economy.  OECD +3

- **Redistribution Efficiency:** Shifting money from high-income earners (who often have a low MPC and tend to save or invest in static markets) to low-income earners (who have a high MPC) theoretically increases the overall national velocity of money.
- **Government Revenue:** A higher velocity of money typically boosts government tax revenue, as funds are taxed multiple times (via GST/VAT, income tax, and profit tax) as they change hands more frequently.

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- **Economic Stabilisation:** By ensuring a continuous floor of consumer demand, a Basic Income can mitigate the "boom-bust" cycles of an economy, maintaining velocity even during recessions or natural disasters. 🇳🇿 The Treasury New Zealand +2

Potential Constraints

- **Import Leakage:** The velocity effect is weakened if a significant portion of the basic income is spent on imported goods rather than local services, as that money "leaks" out of the national economy.
- **Inflation Risks:** While velocity increases growth, it can also pressure prices if the supply of goods cannot keep up with the increased demand. However, current evidence from high-saturation trials shows average inflation remains low (often <1%) if there is enough "slack" (unused capacity) in the local economy. 🌐 World Bank +4

AI can make mistakes, so double-check responses

Q. Have changes to the velocity of money been measured with Basic Income trials?

R. While "velocity of money" is often used as a theoretical explanation for the outcomes of Basic Income (BI), specific measurements in trials have primarily focused on the **Local Multiplier Effect**, which is the practical result of increased velocity. 🇳🇿 GiveDirectly +1

Measured Multiplier vs. Velocity

In economic research, the velocity of money is the *process* (how fast money changes hands), while the multiplier is the *measured result* (how much the economy grows from those transactions). 🌐 Investopedia +1

- **Kenya (GiveDirectly):** Researchers measured a **2.5x to 2.6x multiplier**. This means every \$1 distributed stimulated \$2.50+ of local economic activity because the cash "circulated" through the community—recipients bought from local shops, who then paid local suppliers, who in turn hired more local workers.
- **India (SEWA/UNICEF Pilot):** A similar "velocity-of-money effect" was observed where low-income households spent transfers immediately on local necessities, creating a high frequency of exchange that shifted labor patterns toward own-account economic activity.
- **Kenya (Sarafu Digital Currency):** A 2023 study specifically used digital transaction data to measure "transfer velocity". In Nairobi, the community currency changed hands an average of **three times every two weeks**, demonstrating high velocity among low-income users compared to traditional savings-heavy models. 🇳🇿 GiveDirectly +3

Key Findings on Circulation Speed

Research across various trials indicates that BI influences velocity through several mechanisms:

- **High Marginal Propensity to Consume (MPC):** Lower-income recipients do not accumulate cash; they spend it rapidly, increasing the "money cycles" per year.

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- **Business "Slack" Absorption:** High velocity in rural Kenya did not cause significant inflation (only 0.1%) because local businesses had the capacity to handle more transactions without raising prices.
- **Lump Sum vs. Monthly Velocity:** Trials found that **lump-sum transfers** often trigger a faster initial "burst" of velocity as people make large productive investments (e.g., starting 19% more enterprises), whereas monthly payments sustain a steadier, lower-intensity circulation.
- **Digital Efficiency:** Modern trials, such as the [ongoing 2025/2026 study in Malawi](#), use mobile money systems to reduce transaction friction, further increasing the measurable speed at which capital moves from the aid organisation to the local vendor.  NPR +4

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Multiplier Effect

Q. In the Keya Give Directly Basic Income trial, have there been local changes in the multiplier effect that have been measured?

R. Yes, researchers have measured a significant **local multiplier effect** in the [GiveDirectly](#) basic income and cash transfer trials in Kenya. (GiveDirectly +1)

The primary findings regarding these local economic changes include:

- **Multiplier Value:** For every **\$1** of cash delivered, the local economy grew by an estimated **\$2.50 to \$2.60**. This was measured by tracking the spending and income of both recipients and non-recipients, as well as local business revenues.
- **Business Revenue Growth:** Local enterprises saw a **65% increase** in revenue. Businesses were able to meet this higher demand without raising prices because of existing "**slack**" in the economy—meaning they had the capacity to produce more (e.g., staying open longer or hiring staff) but lacked customers.
- **Impact on Non-Recipients:** Approximately **80%** of the cash remained within local markets. This circulation meant that neighbours who did *not* receive cash still saw their incomes and spending rise, nearly matching the progress of recipients within a year.
- **Minimal Inflation:** Despite a cash influx equal to **15% of local GDP**, average price inflation was less than **0.1%**. Even during peak transfer periods, price increases remained under 1%.
- **Structure Matters:** Early results from the [12-year UBI study](#) suggest that **lump-sum transfers** generated more new businesses and higher total household income compared to short-term monthly payments, even when the total amount of capital delivered was the same. (GiveDirectly +6)

Would you like to see how these results compare to the newer, larger-scale trial currently being conducted in **Malawi**?

Q. Yes, please show how these results compare to the newer, larger-scale trial currently being conducted in Malawi.

R. The newer, larger-scale trial in [Malawi](#) is designed to test the limits of the results seen in Kenya by injecting a much higher volume of cash relative to the local economy. (GiveDirectly)

While the [Kenya study](#) delivered cash equal to **15%** of local GDP, the current Malawi study is delivering cash worth **85%** of the local GDP—more than **five times** the relative scale.

(GiveDirectly)

Comparison of Measured & Expected Effects

Feature	Kenya Results (Baseline)	Malawi Study (Current/Expected)
Multiplier Effect	2.5x (Every \$1 created \$2.50).	Preliminary 2023 pilot showed similar resilience; full results are pending for the 10x larger scale.
Inflation	Minimal: < 1% (average 0.1%).	Pilot results showed < 1% inflation even when equalled a full year of local GDP.
Recipients	Targeted (poorest households).	Universal (all families in a village receive cash).
Scale	10,500 households.	40,000+ households.
Total Cash	\$11 million.	\$45+ million.

Key Local Changes in Malawi

- **Capacity to Absorb Cash:** Similar to Kenya, researchers found substantial "**slack**" in Malawi. For example, local bicycle mechanics who previously sat idle for hours reported repairing **6 to 8 bikes a day** after the cash injection without raising their prices.
- **Exit from Poverty:** In the 2023 Malawi pilot, which delivered over **\$52M** to 85,000 adults, early data suggested that most families exited extreme poverty within a year.
- **Business Growth:** Just as in Kenya (where revenue rose 65%), Malawi's small businesses and farmers are the primary beneficiaries of the "flywheel effect" as recipients spend their [unconditional cash](#) on local goods and services. (GiveDirectly +1)

The ongoing trial in Malawi aims to determine if these local multiplier effects hold when an entire regional economy—rather than just a few villages—is saturated with capital.

(GiveDirectly)

Would you like to know more about the **specific technology** or **mobile money systems** being used to distribute these large sums in rural Malawi?

Q. Yes, please tell me more about the specific technology or mobile money systems being used to distribute these large sums in rural Malawi.

R. In 2026, GiveDirectly's large-scale trials in [Malawi](#) utilise a sophisticated blend of mobile money infrastructure and machine-learning-driven targeting to distribute funds efficiently across entire districts.

Primary Distribution Infrastructure

The primary vehicle for these transfers is **mobile money**, which delivers funds directly to a digital wallet linked to a recipient's SIM card. (Canva +1)

- **Network Partner:** Transfers are primarily routed through **Airtel Money**, the largest mobile money provider in Malawi.
- **Device Access:** For recipients who do not own a phone, GiveDirectly provides a basic mobile device and a SIM card during the enrolment process.
- **Cashing Out:** While funds are digital, most recipients "cash out" at local mobile money agents (small stalls common in rural areas) to make physical purchases. (Canva +4)

Targeting & Verification Technology: "MobileAid"

To scale to 185,000 people by early 2027, [GiveDirectly](#) uses an innovative system called **MobileAid**. (GiveDirectly +1)

- **Machine Learning (ML):** The system analyses anonymised phone usage patterns and satellite imagery to identify households likely to be in extreme poverty.
- **Predictive Poverty Mapping:** In 2026, research continues with the Government of Malawi and U.C. Berkeley to determine if phone metadata can flag households whose poverty deepens, specifically after economic or climate shocks.
- **Cost Efficiency:** Remote registration via mobile phone has been found to be **7 times more cost-effective** than traditional door-to-door surveys. (GiveDirectly +4)

Enrollment and Security Measures

- **Government Integration:** GiveDirectly coordinates with the Government of Malawi to use **national ID enrolment** data to verify recipient eligibility and prevent duplication with other social programs.
- **Verification Audits:** To prevent fraud, the program uses multiple independent checks, including fire-walled field teams, remote data audits, and identity-matching between GiveDirectly records and the mobile provider's database.
- **Digital Literacy:** Field staff conduct multiple visits to rural villages to provide training on using mobile money wallets and navigating digital text alerts. (Canva +3)

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Q. Have Multiplier Effects been measured for other Basic Income trials?

R. Yes, multiplier effects have been measured in several other basic income and cash transfer trials, though the specific results vary based on the local economy's structure and the study's scale.

Notable Multiplier Findings in Other Trials

- **Alaska, USA (Permanent Fund Dividend):** Research into the [Alaska Permanent Fund Dividend](#) (a long-running form of UBI) found that cash transfers [stimulated the local economy](#) via a "general equilibrium effect." Specifically, sectors providing non-tradable goods (services used locally, like healthcare and utilities) saw a [more positive employment response](#) than tradable sectors, as Alaskans increased spending on [essential services](#) immediately after receiving payments.
- **India (Madhya Pradesh Pilot):** In a 2012 pilot involving over 15,000 people, villages receiving basic income saw a significant [ripple effect of economic growth](#). Recipients used the funds to [invest in livestock and agricultural systems](#), which increased local production and demand for labour, effectively acting as a multiplier for village-level income.
- **Stockton, California (SEED Trial):** While smaller in scale (125 people), the [Stockton Economic Empowerment Demonstration](#) observed that recipients spent nearly **37%** of their funds on food and **11%** on utilities. This concentrated local spending supported [local retail and service sectors](#), though a district-wide "multiplier" figure like Kenya's \$2.60 is harder to isolate in such a highly integrated urban economy.
- **Brazil (Maricá Mumbuca Currency):** Though not an unconditional cash transfer in the purest sense, the city of Maricá uses a local digital currency (the Mumbuca) for its basic income program. This [forces the multiplier effect to remain local](#), as the currency can only be spent at [locally owned businesses](#), preventing the "leakage" of funds to national or global chains.

Key Factors Affecting the Multiplier

The strength of these effects generally depends on:

1. **Marginal Propensity to Consume (MPC):** Low-income recipients tend to spend a higher percentage of each dollar, [strengthening the multiplier](#).
2. **Economic "Slack":** Multipliers are highest when local businesses have the [surplus capacity](#) to meet new demand without needing to raise prices.
3. **Local Retention:** The effect is weakened if money "leaks" out of the community via imports or online shopping.

Would you like to explore the **long-term social outcomes** (like health or education) that often follow these economic multipliers?

Q. Yes, what are the long-term social outcomes (like health or education) that often follow increased economic multipliers due to a Basic Income programme?

R. Basic income trials demonstrate that the economic multiplier effect is frequently followed by significant improvements in **health, education, and psychological well-being**. When local economies are stimulated, families often use their increased financial stability to invest in long-term social outcomes.

Long-Term Health Impacts

Increased local circulation of money directly correlates with improved physical health outcomes and lower mortality rates.

- **Reduced Infant Mortality:** A randomised study in Kenya found that providing families with a \$1,000 cash transfer cut infant deaths by **48%**. These impacts were most significant for mothers living near health facilities who received cash shortly before giving birth.
- **Childhood Nutrition:** In India's SEWA basic income pilot, the proportion of children with a normal weight-for-age increased from **39% to 59%**, an improvement double that of control villages. The effect was particularly strong for girls, who saw a 25% increase in healthy weight.
- **Preventive Health:** Alaska's Permanent Fund Dividend (PFD) has been linked to a **4.5% decrease** in the probability of a child being obese for every \$1,000 in payments. In the United States, an unconditional cash study found that recipients were **10% more likely** to receive dental care.
- **Reduction in Fatalities:** An 11-year analysis of the Alaska PFD (as of early 2026) found no evidence that direct cash payments increased traumatic injuries or deaths, challenging concerns about irresponsible spending.

Education and Development Outcomes

The economic multiplier often allows families to shift from survival-oriented spending to long-term educational investments.

- **Increased Attendance and Performance:** In the India SEWA trial, school attendance in cash-transfer villages was **three times higher** than in control villages, and academic performance improved significantly.
- **Higher Education and Training:** In the [U.S. OpenResearch](#) study, recipients were **14% more likely** to pursue education or job training, with the lowest-income participants being **34% more likely** to do so. In Malawi, villages receiving cash saw a **14% increase** in children passing exams.
- **Child Welfare:** Alaska PFD payments have been found to reduce child maltreatment. An additional \$1,000 in early childhood payments reduced substantiated maltreatment referrals by roughly **15%**, driven by increased family stability and a higher likelihood of children remaining with their mothers.

Psychological and Social Well-being

Beyond physical metrics, basic income programs consistently report improvements in mental health and community relations.

- **Mental Health Improvements:** Trials in Kenya reported significant improvements in psychological well-being and a reduction in stress. Specifically, female recipients showed **0.14 standard deviations higher** psychological well-being compared to male recipients, potentially due to increased empowerment and decision-making power.
- **Reduction in Violence:** In Malawi, basic income was associated with a **51% decrease** in intimate partner violence.
- **Substance Abuse:** Contrary to common concerns, multiple studies show no increase in "temptation goods" spending. In the U.S., recipients reported a **20% decrease** in drinking that interfered with their responsibilities.

Structural Social Changes

- **Housing and Infrastructure:** Recipient villages often see increased investment in high-value assets, such as a **20% increase in home value** and the installation of indoor plumbing.
 - **Empowerment of Women:** Cash transfers have a positive impact on the social standing and empowerment of women, particularly those on low incomes.
 - **Investment Horizon:** Long-term basic income (such as the 12-year Kenya study) encourages significantly higher participation in **rotating savings and credit associations (ROSCAs)**, as the guaranteed future income allows recipients to take greater financial risks and plan for larger projects.
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