Issues surrounding size, growth and composition of government expenditure: The case of Zimbabwe (2015 to 2018) [1]

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ABSTRACT

Orthodox public finance literature recognizes the impact that size, growth and composition of government expenditure have to the overall accomplishment of governments' developmental goals. In most developing nations, government expenditure remains a cause for concern as political administrators tend to disobey principles governing optimal government expenditure through their continued allocation of funds to cost centers of their interest. Employing a content analysis methodology, this study is a synoptic review of the size, growth and composition of Zimbabwean government expenditure from 2015 to 2018 as well as efforts done by the government to arrest related issues. Reform of State-Owned Enterprises, reducing the size of the executive as well as prioritizing health and education sectors are among recommendations that the paper proffers to the government of Zimbabwe as expenditure optimization endeavors.

Key Words: Budgeting, Capital Expenditure, Government Expenditure, Public Debt, Zimbabwe

1. INTRODUCTION

Aigheyisi (2013) defines government expenditure as expenses incurred by the government for the maintenance of itself and provision of public goods, services and works needed to foster or promote economic growth and improve the welfare of people in the society. Government expenditure, at its broad taxonomy, is composed of capital and recurrent expenditures. With a ballooning public debt currently at record breaking levels, the need for efforts to reform and improve fiscal discipline in Zimbabwe cannot be overemphasized. Zimbabwe's perennial budget deficits have been a cause for concern and it is also high time corrective measures be devised to at least reduce these deficits before the detriment becomes acute. Since independence in 1980, government expenditure for Zimbabwe has been gradually growing and its composition has been criticized by public economists to constitute exceedingly more than expected share of recurrent expenditure at the expense of capital expenditure for long term projects and programs. In 2016, public wages alone represented 87 percent of the central government revenue, and 40 percent of local government expenditures and over 20 percent of total expenditure for State Owned Enterprises (SOEs), leaving little for Operations and Maintenance (O&M) and capital investments (Zimbabwe Expenditure Review Vol. 1, World Bank 2017). Since 2015 and even before, the government of Zimbabwe has been committed to instituting austerity measures through developing and enacting various policy instruments aimed at reducing and optimizing government expenditure. However, most of these government expenditure corrective measures have not been effectively implemented as planed as fiscal indiscipline continues to suppress the economy.

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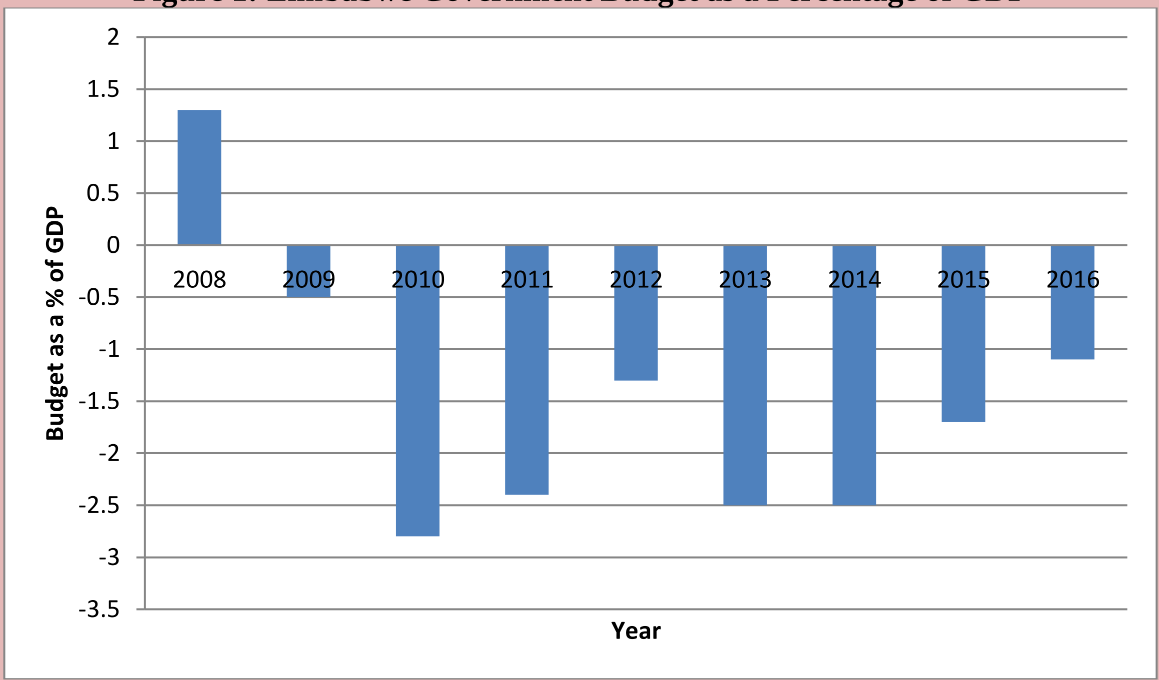
2. PROBLEM STATEMENT

Today, Zimbabwe has very little fiscal space to stimulate the economy amid slowing growth, despite the government's high effectiveness in raising taxes and revenues (Zimbabwe Expenditure Review Vol. 1, World Bank 2017). International best practice thresholds for employment costs are 7% of GDP and about 30% of the total wage bill. Also, international best practice requires that 30% of the total revenue be allocated to capital expenditure. However, the major chunk of government expenditure in the modern day Zimbabwe constitute recurrent expenditure, with the wage bill alone galloping more than 85% of budgeted revenues. At the heart of the Zimbabwean economy's fundamental economic challenges is an unsustainable budget deficit, whose financing through issuance of treasury bills and recourse to the overdraft with the Reserve Bank is untenable (2018 National Budget Statement for Zimbabwe).

It is against this background of detrimental fiscal imbalances that realignment measures have to be sought and implemented so that healthy is achieved in Zimbabwean government expenditure. If possible, the government expenditure level, growth and composition that maximize economic growth have to be determined and strategies devised to work towards achieving such standards. Despite adoption of a multi-currency system in 2009 aimed at bailing out the sinking economy, Zimbabwe has sustained budget deficits as shown in Figure 1 below.

Figure 1: Zimbabwe Government Budget as a Percentage of GDP



Source: tradingeconomics.com

3. METHODOLOGY

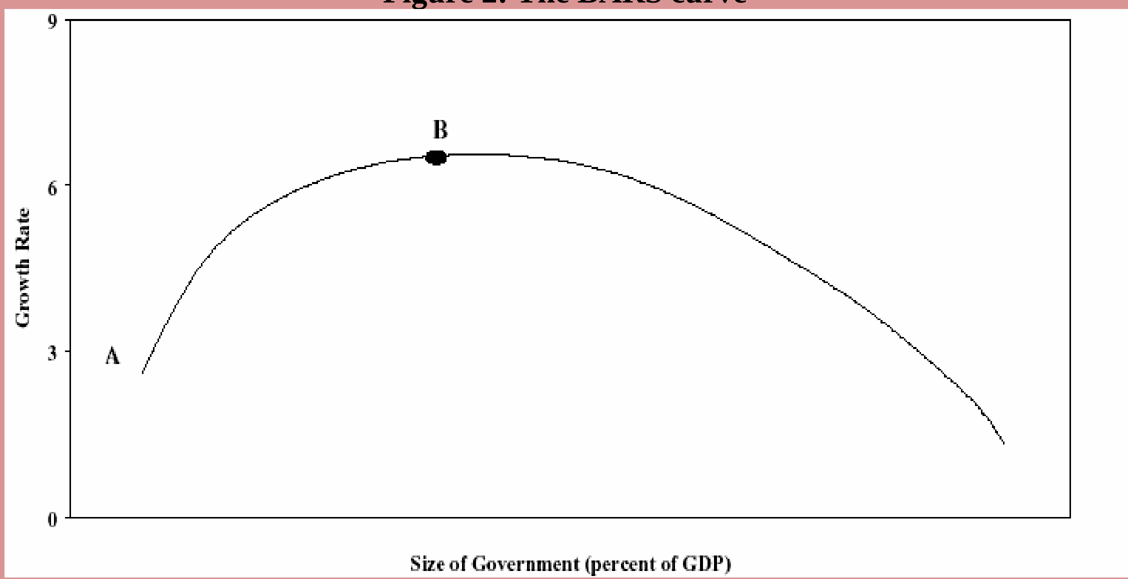
The paper employed a content analysis methodology. Issues surrounding the size, growth and expenditure of the government of Zimbabwe were analyzed through a number of published reports, articles, budget statements, press statements as well as some data from reliable sources.

4. SIZE, GROWTH AND COMPOSITION OF ZIMBABWE GOVERNMENT EXPENDITURE

4.1 Size

In economic theory, an optimal size of a government exists. Professor Arthur Laffer illustrated that there is tax revenue maximizing tax rate, and in a similar way other authors try to identify the government share of GDP which maximizes the GDP growth (Chobanov and Mladenova, 2009). The BARS curve below (named after researchers Barro, Armey, Rahn and Scully) illustrates the relationship between size of government expenditure and economic growth. The curve shoes that if the government prioritizes execution of its projects in terms of productivity, expenditure would initially improve economic growth, although continued expenditure would as well be detrimental.

Figure 2: The BARS curve



Source: Chobanov and Mladenova (2009): adapted from Gwartney et al 1998).

According to Rosen and Gayer (2010), a more sensible and common approach to measuring the size of government is by the value of its annual expenditures, which basically comprise of purchases of goods and services, income transfers as well as interest payment.

In 1980, Zimbabwe inherited 20 public enterprises thinly spread across sectors, though SOEs have since increased (Zimbabwe Expenditure Review, Vol. 3). In spite of efforts to privatize in the

1990s, the number of SOEs has to date surpassed five scores, with only 38 operating on commercial basis although most of these still remain burdens of the government. The government is suffering the consequences of not privatizing as parastatals continue milking it. As depicted in Figure 3 in section 4.3, the size of government expenditure in Zimbabwe has been gradually growing.

4.2 Composition

Government (public) expenditure is generally categorized into expenditures on administration, defense, internal securities, health, education, foreign affairs, etc. and has both capital and recurrent components (Aigheyisi, 2013). Capital expenditure refers to the amount spent in the acquisition of fixed (productive) assets (whose useful life extends beyond the accounting or fiscal year), as well as expenditure incurred in the upgrade/improvement of existing fixed assets such as lands, building, roads, machines and equipment, etc., including intangible assets.

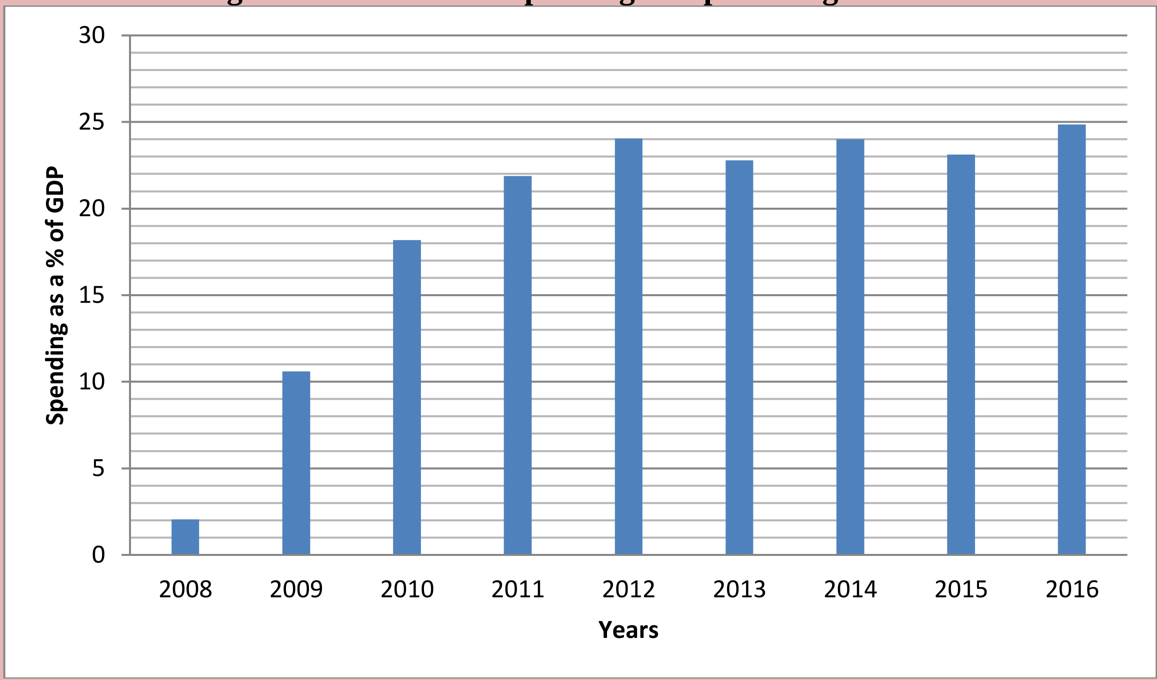
Health, education, infrastructure and defense are examples of vital components of public expenditure. Optimal composition should therefore be centered on issues to do with each component's contribution to economic growth. Expressed differently, the way in which the government allocates tax revenue among various cost centers matter and has different economic implications. For instance, using a single-period framework, education expenditure raises the productivity of individuals via a human capital production function (Creedy and Moslehi, 2008). Creedy and Moslehi (2008) show that education creates a substantial fiscal spillover whereby the increase in human capital gives rise to higher labour earnings and thus higher income tax revenue, thereby allowing greater government expenditure on all items than would otherwise be possible.

Neither economic theory nor empirical evidence provides clear-cut answers to the question of how the composition of public expenditure affects economic growth (Devarajan, et.al 1996). However, significant allocations of expenditure to sectors that have strong and strategic linkages to economic growth would naively win priority. In Zimbabwe, non-productive sectors such as defense seem to be relatively getting priority over other sectors such as education and health. The defense budget is one of the largest contributors to total central government expenditure and has played a large part in the economy's fiscal problems (Tambudzai, Z. 2005).

4.3 Growth

Government expenditure in Zimbabwe has seen a rising trend since taking over from colonialists in 1980. This has been as a result of various factors which include but not limited to the growth of the executive, increase in inefficiently managed parastatals and so on. Figure 3 below shows government expenditure as a percentage of GDP since 2008. From 2008, government spending as a percentage of GDP persistently and significantly increased before slightly plummeting in 2013.

Figure 3: Government spending as a percentage of GDP



Source: tradingeconomics.com

5. GOVERNMENT EFFORTS TO ADDRESS EXPENDITURE ISSUES SINCE 2015

The past pair of decades has seen the government of Zimbabwe fuelling much effort on attempts to arrest expenditure issues. Most blueprints, if not all, that were developed since 2015 had explicit or implicit emphasis on optimizing government expenditure. Most of these attempts to optimize government expenditure were however good on paper but poorly implemented.

One of 2017 proposals by treasury relates to setting a minimum spending on infrastructure, by re-directing substantial resources towards capital development priorities, through increasing the capital budget thresholds from 11% to 15% in 2018 and 25% by 2020 (2018 National Budget for Zimbabwe). Given the dilapidated infrastructure and industry in Zimbabwe, re-directing resources towards capital expenditure is a welcome move and a must do policy if the nation is to achieve at least some level of expected minimal growth.

Proposed in the 2018 national budget statement is a progressive reduction of the share of employment costs in the budget to initially 70% in 2018, 65% in 2019, and below 60% of total revenue by 2020, to create fiscal space to accommodate financing of the development Budget and operations of Government. However, much needs to be done if these targets are to be achieved. Various and stringent measures to reduce employment costs need to be devised and fully implemented. The implementation of various austerity measures would also have some destabilizing effects and policy makers ought to have foresight of these so that counter and contingent measures are also set aside to neutralize such possible effects.

In the 2015 Budget, the government of Zimbabwe provided resources to conduct audits for state enterprises and launched forensic audits of some of these. Further, the government of Zimbabwe committed to developing turn-around strategies for the ten priority enterprises to be restructured. In the 2016 Budget, the government of Zimbabwe also highlighted the need to expedite the Public Entities Reform Agenda, in view of recent slow progress (Zimbabwe Expenditure Review, Vol. 3).

6. CONCLUSION

Government expenditure dynamics and related issues are directly correlated to economic growth and development. This is because various decisions on expenditure, growth and its composition have correspondingly different implications on overall economic growth. Zimbabwe's government size is relatively large, expenditure growth continues unabated and expenditure composition is neither optimal nor somewhere nearer. The government of Zimbabwe has been trying its best, at least on paper, to make appropriate reforms aimed at correcting some fiscal imbalances and move towards optimal government expenditure and its composition. It is now high time the government should walk the talk in revising and implementing all relevant and proved government expenditure optimization measures in a bid to achieve economic growth.

7. RECOMMENDATIONS

To reap the fruits of the highly potential Zimbabwe, a paradigm shift and well-structured reforms that are strengthened with stern political will are inevitable. Transformative recommendations relating to the size, growth and composition of the Zimbabwean government include, but not limited to the following:

7.1 State Owned Enterprises reform

Treasury has been inundated with requests for direct budget support for recapitalization by SOEs and, in most cases, such requests lack adequate justification and hence, only pose further fiscal risks (2018 National Budget Statement for Zimbabwe). A recommendation to reform SOEs in this instance is justifiable. In extreme situations, it may even be necessary to privatize some SOEs and wind-up those that cannot be resuscitated. Rather than continuing milking the constrained government, privatization or closure of some SOEs would relieve the heavily burdened government.

7.2 Control of wage bill

A government with the wage bill engulfing more than 80% of the budget cannot be expected to do much in moving the economy northwards. The government of Zimbabwe should therefore put practical and enforceable measures to control and shrink the wage bill to manageable and optimal levels. Ghost workers (if any) need to be plucked out and unnecessary allowances (in the cabinet, parliament as well as any other government departments) ought to be avoided and abolished, if possible. Wage controls may also include freezing on personnel and wage increments although this is difficult to maintain in the current economic environment where incomes are being eroded by the informal multi-tier exchange rate regime for United States dollars, bond notes, electronic transfers and mobile money transfers.

7.3 Reducing size of the executive

The size of Zimbabwe's executive is a cause for concern. Reducing the size of the executive may, all things being equal, contribute to budgetary savings and improve the heavily constrained fiscal space. Trimming the cabinet and combining some ministries with nearly similar mandates, for instance, would go a long way in reducing the rising recurrent expenditures.

7.4 Effective planning and budgeting

This includes all budget and externally-funded activities in the Results Based Budgeting (RBB) framework and in the budget bill with a view to enhancing parliamentary oversight (2017 Zimbabwe Public Expenditure Review, Vol. 1). Application of RBB, and cascading it to all government departments including local governments, would improve efficiency through enhanced planning and budgeting.

7.5 Increasing capital expenditure

Zimbabwe's deviation from the international best practice benchmark for the capital expenditure allocation is just too much. It is high time the government should make sure that measures are put in place to gradually improve budget allocation to capital formation thereby fostering economic growth through sustainable capital projects.

7.6 Prioritizing education and health

Education and health have been seen to have strong linkages with economic growth and development. In other words, education and health expenditures would, all things being equal, positively affect economic development through human capital development. This stems from a theoretical suggestion that an educated and healthy labour-force constitute a more productive factor of production as compared to otherwise. The government of Zimbabwe must desist from prioritizing less-productive expenditures such as military expenditure.

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Tasiyana Siavhundu is a member of the Project Management Zimbabwe (PMZ) with vast qualifications and experience in Project Management, Economics, Taxation as well as Investments and Portfolio Management. He is a holder of a B.Sc. Honours Degree in Economics, Master of Commerce Degree in Economics, Post-Graduate Diploma in Project Management, Executive Certificate in Investments and Portfolio Management, Advanced Certificate in Taxation and many other qualifications.

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