



THE WEEKLY ECONOMIC BULLETIN

13 SEPTEMBER 2007

1.0 Introduction

On Thursday, 30 August 2007, the Minister of Finance, Samuel Mumbengegwi presented the Z\$37.1 trillion supplementary budget in the August House. The budget was four times the initial budget. This entails that the government proposes to stray from the funds which it had allocated for its activities quadruple. Hence 75% of the state consumption was not budgeted for leaving two main options; it will either borrow from finance its undisciplined behaviour or print more money as a remedy. This week, we are analyzing the effects of the poor fiscal policy regime on the national fiscus and propose the way forward.

2.0 The supplementary budget and fiscal policy crisis

The government's role in any given society has generally been that of resource allocation and provision of an environment which caters for equal participation of the households and firms respectively. The role of resource allocation is usually accounted for through the fiscal policy or the budget, which stream lines the activities that the state will undertake on behalf of the citizenry.

In line of the above, the recently presented fiscal policy spells out the failures by the government of Zimbabwe to perform, conventional roles of a government. The roles of a government are outlined below:

- Allocation role¹
- regulation²

1 It refers to the role of government in achieving an efficient allocation of resources or public goods and externalities (as opposed to the government officials primitively accumulating the resources such as farms.)

- distribution³
- stabilisation⁴

In this edition, we are taking a closer look at that role of stabilization. The other three shall form the centre of the next edition. In failing economies which are going through economic recession such as Zimbabwe, the best the government can do is to coin policies which aim for economic stability.

This is achieved through enforcing contractionary fiscal and monetary policies, rather than expansionary tools. Contractionary tools are found on the principles that reduction in government expenditure will lead to reduced inflation levels. Zimbabwe's hyper inflation levels have been, by and large, attributed to the unplanned expenditure and excess liquidity levels in the market being stimulated by the state printing money to meet its international obligations.

In this regard, the supplementary budget did not take cognizance of the dangers of employing expansionary models. Expansionary models are employed when economies are in recession, on condition that the economy has the capacity to produce and export. However, in the aftermath of the price blitz, the supply side of our economy is dormant. It no longer is elastic, implying that there is no reciprocal relationship between price proposals in the market and the manufacturing side of the economy. The government will therefore, increase its expenditure, but the effects are that the state has literally turned itself as the sole service and goods provider in the country hence it will fail to meet the aggregate demand in the economy. In the process, it will stimulate the demand push inflation as 'few goods will be chased by huge sums of money'.

More so, the expansionary policies are failing because of the deficit between government expenditure and the tax revenue. Economies which apply this model to drift away from the abyss of recession should have the capacity to finance government expenditure through taxation. This will entail that all things being equal; the state could manage to operate with minimum borrowing. However, the proposed budget leaves a lot to be desired as 40% of the proposed funds will be canvassed through borrowing. Zimbabwe is considered to be one of the countries with the most expensive borrowing rates, which

2 The legislation and other measures aimed at ensuring that efficiency and certain minimum standards (rather than criminalizing the business community)

3 Steps taken by the government to achieve a more equitable distribution of income (farm workers are earning ZWD \$96 000 per month which has been referred to as legalized slavery by the Zimbabwe Lawyers for Human Rights [ZLHR]! 85% of the populace is leaving below the poverty datum line.)

4 It refers to monetary, fiscal and other measures to promote macroeconomic stability (the price slashes by the state are a violation of maintaining and performing the role as it has led to economic destabilization in the broader economic scheme of things, as noted in the introductory phrase, things fall apart as the center fails to hold.)

entail that the interests on the borrowed capital will spill into the next budget. To this the government will be trapped in vicious circle of supplementary budgets which in their very own nature are inflationary.

Pundits who advocate for this model's main argument is that the state's high consumption will be accounted for by the reduction in unemployment, as the state is believed to be spending on job creation initiatives. This argument does not hold water in Zimbabwe. The country has gone through eight years of economic recession and has been employing the same model during this period. Inflation has spiraled to an all time high level of 7625%, unemployment is above 85%; more than 85% of the populace lives below the poverty datum line which was pegged at 8.7 million as of July 2007, expansionary policies do not work in Zimbabwe, unfortunately the government has not seen light in our argument.

The proposed supplementary budget is a failure before implementation. It fails to address the grievances of salary increments by workers to cushion themselves from the vicious inflation levels which are eroding their salaries. It follows to argue that when the supplementary budget was crafted, under the false impression that salaries would be fixed until presentation.

It is absurd for the government to follow such a line of thinking, given the inflation levels which are guiding the operations of the economic activities. Even the ministries and government institutions failed to operate under the guidelines of the 2007 budget with the chief justification being proffered by the government being that respective chunks allocated to them were eroded by inflation. Does it therefore imply that workers are not affected by the very same inflation which the government has failed to manage for the past eight years of economic recession? That is why we at Crisis in Zimbabwe Coalition strongly hold the opinion that the Zimbabwe Congress of Trade Unions (ZCTU) proposed stay away is justified. Workers must down their tools until government gives in to their demands. The proposed supplementary budget is therefore a piece of imagination as it is far less than the actual supplement in real terms.

The budget is also found on the going prices, which are artificial since the government took the going prices which are stage managed by the price blitz mirage. In so doing, the government is budgeting using distorted prices which also entail that the supplementary budget will not hold for long, literally implying that there will be a need to create yet another supplementary budget for the 'supplementary budget'.

3.0 Way forward

In light of the above, the Coalition humbly holds that the government must halt its indisciplined consumption and expenditure model. It is inflationary. Even workers below the Poverty Datum Line (PDL) are being taxed in line with the newly set non-taxable government trash hold of 4 million, whilst the PDL is currently pegged at 8.7 million.

The process of formulating policies must become an inclusive one rather than confining it to politicians in the ruling party alone. The business sector should have been consulted before drafting the supplementary budget since it has far reaching effects on the business community. Workers were left out in the process as well, which is a very sad phenomenon given the fact that their demands are burning at the moment.

By and large, the government must start implementing prudent concepts and policies which meet international standards of running an economy. These policies are supposed to be rooted in principles of accountability, transparency, respect of property rights and the return to good governance. More so, the state must start implementing political reforms to stimulate the much awaited economic reforms.