

Budget cuts bad for long term economic growth

By Ausrar Wambiya

President Ruto has recently directed the Treasury to work with other ministries to reduce the nearly Sh1.18 trillion recurrent budget for this fiscal year ending June 2023 by at least one quarter or Sh300 million. The cuts will accompany a freeze in hiring and salary increases for public servants, which may go against the new administration's campaign pledge to improve the pay for security workers such as police officers.

Following these budget cuts, the Ruto government will likely also suspend the initiation of new development projects and review the budget for the existing ones. The current budget, prepared by the outgoing Jubilee regime and approved by the previous parliament, is projected at Sh3.54 trillion. All this is touted as fiscal prudence and disguised as the need to balance the budget.

Emphasis on fiscal prudence has been a central theme in the neo-liberal macroeconomics being promoted by the Kenya Kwanza Government. Worldwide, such economic thinkers argue that government should not live beyond its means and must always balance its budget. Deficit spending, they argue, only leads to inflation and undermines economic stability, which, in turn, reduces growth and diminishes the living standards of people on fixed income.

Who can argue against fiscal prudence? But, as in the case of inflation, the real question is what exactly it means to be prudent. For one thing, being prudent does not mean that the government has to balance books every year, as is preached to developing countries by neo-liberal economists. The government budget may have to be balanced, but this needs to be achieved over a business cycle, rather than every year. The year is an extremely artificial unit of time in economic terms, and there is nothing sacred about it. Indeed, if we followed this logic, why not tell governments to balance its books every month or even every week?

As liberal economists will aver, what is important is that, over a business cycle, the government acts as a counterweight to the behavior of the private sector, engages in deficit spending during economic downturns and generates a budget surplus during economic upturns.

For a developing country like Kenya, it may even make sense to run a budget deficit on a permanent basis in the medium term, as long as the resulting debt is sustainable. Even at the level of individuals, it is perfectly prudent to borrow money when you are studying or raising a young family and to re-pay the debt when your earning power is higher. Similarly, it makes sense for a developing country like Kenya to 'borrow from future generations' by running deficits in order to invest beyond its current means and thereby accelerate economic growth. If the country succeeds in accelerating its growth, future generations will be rewarded with higher standards of living than would have been possible without such government spending.

It is therefore wrong for government to impose budget balancing conditions including arbitrary budget cuts, or even the requirement to run a surplus while we are in a macroeconomic crisis that could actually benefit from deficit spending by the government.

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