

The Place of Expansionary Fiscal Policy Measures In A Deflationary Marketing Environment: Who Is “Prophet Elijah” and the ‘Widow of Zarepath’?

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Abstract: *When the ZimDollar was depreciating in the years 1997 to 2007 and even later, some Zimbabwean economists were recommending the then popular ‘devaluation’ policy as a way of improving economic fundamentals. This was applied and worsened the situation till inflation reached levels beyond control, and none of those economists stood out and said ‘we fooled people and the government’. Another trend of economic downturn spearheaded by deflationary pressures is showing up and many economists are encouraging government to cut its fiscal expenditure and use many other contractionary fiscal policy measures. A contractionary policy is likely to throw Zimbabwe into economic decline in a fast way and lead the population into abject poverty. This conceptual paper reviewed theoretical and empirical literature of case study economies, textbooks and journal articles on macro-economic strategies for dealing with deflationary trends. This led to the development of a unique model that can work using expansionary policy prescriptions. The model was designed by linking the taxation, capital flows, savings, consumption function, multiplier effect, accelerator principle, circular flow of income, monetary policy, bank deposits, interest rates and foreign investor attitudes, among other elements. The review conclude that maintaining and even slightly increasing government expenditure, encouraging some minimum bank-based savings by the society and encouraging consumption of locally produced products will maintain the growth rate of the gross domestic product. The Prophet Elijah will be the civil servants’ salaries, and non-risk projects, and the Zarepath Widow will be the economy of Zimbabwe which will have an ever flow of oil and flour(GDP Growth).*

Key Terms: *Fiscal policy, monetary policy, IS-LM model, deflationary trends, multiplier effect, accelerator principle, gross domestic product, Armev curve.*

I. Introduction

A notable expansionary policy activity was done when the Zim –Rhodesian government of 1979 offered an artificial lump sum to the then civil servants in a bid to defend their short-lived and ill conceived loose coalition. Though this gesture is still in the minds of some people, it was overtaken by the 1996/7 Zim\$50 000 given each to the war veterans and detainees of the (1950-1980) Liberation Struggle. Teachers were also awarded some hefty salaries in early 1990s after a general strike. The sales tax was also reduced in 1998 after a national stay away was organised by the ZCTU leadership. The history of Zimbabwe’s fiscal policy is generally positive and full of generosity from 1980 to 2014. Some notable days of high expenditure include the civil servants bonuses, election budgets, drought relief and free agricultural inputs to rural people. It could be possible that economic improvements in the post election periods could be linked to the associated expansionary government and political parties’ expenditures that were equitably distributed to participants of the electoral processes.

Before the (1991-1995) Economic Structural Adjustment Programme(ESAP), the Zimbabwean economy was under controlled systems and enjoyed stable currency, positive foreign currency inflows and high gross domestic product growth. Those who proposed ESAP to Zimbabwe caused some shocks to the society and economy. The spirit of ESAP brought in greedy, specialisation, speculation, and sectoral disunity in the economy. It caused the ‘Them and Us’ perceptions among government, employers and labour. The advantage was that enough foreign currency reserves were available. The adoption of a capitalist system of running the Zim Economy required a change of approach to improve productivity and growth of Gross Domestic Product(GDP). The ESAP policy was affected by the controversy of 1992 drought. The ZIMPREST was affected by withdrawal of funding by multi lateral financial institutions when Zimbabwe participated in the DRC war, the crush of the Zim Dollar(The Black Friday) and 1998 stay away. The Millenium Economic Recovery Plan(MERP) was also affected by the Land Reform war(The Third Chimurenga), many controversial elections and the illegal sanctions by the West on Zimbabwe.

The 2003 to 2009 period was full of monetary policy surprises that included the ‘Zuva RaBuda’ change of currency, Bearer Cheques, reintroduction of old coins, slashing of zeros and the Basic Commodities Supply Side Intervention (BACCOSSI) programme. Some notable events that affected the economic performance were

the bank closures, the June 18 2007 price controls, the hyperinflation(runaway inflation) and the 2007/2009 political violence. Some relief was felt in February 2009 when the Government of National Unity(GNU) formed by ZANU PF, MDC-T and MDC-M saw its day. This came with some multi-currency and dollarization system. Hyper-inflation fell, political conflicts subsided, interests rates were generally high and foreign currency reserves increased since every body was now allowed to use foreign currency for local economic transactions. Large projects like road repairs and bridging, and house construction and damming of rivers like Tokwe-Mukhosi were completed.

With the continued threat of illegal sanctions by Multilateral institutions and Western countries, the 2014 to 2015 period saw some resurfacing of economic problems in Zimbabwe. The basic features of the economy was characterised by falling GDP, high fuel prices, confirmed electricity load shedding, high formal unemployment, falling prices of commodities, high interest rates, high income tax rates and tax burden to the few employed, fewer bank deposits and the estranged bank customers. A notable feature is, however, a deflationary environment that require economic participants to change their hyperinflation pricing approaches to that of valuing the \$US Dollar, its coins, our bond coins and even the Rand. Uncontrollable deflation and bank failures must be avoided under deflationary environments and economic recessions(Alcidi and Gros, 2011). The major problem facing the Zimbabwean economy include budget deficits, external debts, falling growth domestic product, company closures, high unemployment and falling prices of commodities. Any attempt to reduce wages of employees in Zimbabwe (especially civil servants) will not increase overall employment in the economy(Pastore, 2010), since a harsh incomes policy might lead to low productivity and low consumption expenditure. Since economic growth is the single most important factor for poverty reduction, a contractionary fiscal policy will not do good for Zimbabwe(Chowdhury and Islam, 2011). The problem of our current fiscal policy is its thrust on debt reduction and fiscal consolidation, and ignoring stimulus government spending that has a positive multiplier effect(Chowdhury, Islam and Lee, 2013). Gogas and Pragidis(2015) predict that the fiscal multiplier coefficient for a cut or increase in government expenditure is likely to be larger than that for maintaining government expenditure since the changes in policy are associated with a fall or increase in household, investor and business confidence. Yannelis(2004) also predict a smaller investment multiplier when the economy is operating at below optimal capacity. Deflation requires firms to operate at full capacity(efficient level) to enable charging lower prices that maintains the same total profit levels.

II. Lessons From Past Policy Success And Failures in Zimbabwe

The adoption of ESAP in 1991 was too fast and did not allow planning and implementation of targets in a more systematic manner. Scenario planning was needed to accommodate drought, political disturbances and freezing of support by IMF and World Bank. The ZIMPREST could not kick off smoothly due to successive droughts in the 1995-1999 period. The DRC war, the opening of the war veteran fund and related commitments made resources to be distributed so thinly – and hence being unproductive. Labour disputes like ‘Stay Aways’ also contributed to the fall of the economy. The New Millenium Economic Recovery Plan(MERP) suffered due to failure by the fiscal and monetary authorities to apply simple realistic textbook economies of linking balance of payments performance and ‘whether to revalue or devalue the currency’. Economists of the time advised the then Minister of Finance, Hon Dr S Makoni to devalue the Zimbabwe dollar against the Marshall- Learner condition principle. ‘They were supposed to devalue if our exports were performing and responding positively’. You cannot devalue a currency when facing embargoes and sanctions over your agricultural, mining and manufacturing sector output in the world market. Others said: ‘ The Minister was using Textbook Economics!! I read the Economics textbooks- There was nothing like that’. The then RBZ governor did not protect the depositors in the 2003 to 2004 bank closures. Only corporate creditors were favoured. This created a big area of distrust and source of financial system hatred by Zimbabwean citizens. Though Zimbabweans forgave the Banking crisis, the repeated cash shortages, bank queues and hyperinflation are still in the minds of majority Zimbabweans. The freezing of ZimDollar accounts by 2009, meant that banks could no longer be trusted by the customers for handling and protecting their deposits. Though everybody was affected, other customers did not forgive such an act. The June 18 2007 price controls led to the shortage of commodities in the economy. Why those shortages? Price controls did not start from the suppliers of inputs but only targeted OK Zimbabwe, TMs and the general retailing sector. We cannot say that price controls failed but we can say that it was not applied in a systematic way. This led to shortages, price increases and loss of value of the Zim Dollar.

One of the forgotten principle by both the monetary and fiscal authorities is the multiplier effect and process(Yannelis, 2004). When the banks want to increase the money supply, they need to apply the money multiplier for deposit creation(LM-Model for Monetary Policy). When the economy want to increase its investment and GDP, it has to apply the investment multiplier(IS-Model-Fiscal). The significance of inflation and deflation were generally not valued by many monetary and fiscal policies. At this time, any policy should be done in consideration to the deflationary characteristics of the economy. Failure to seek co-operation of

everyone in the economy is another cause for failure of policies in developing countries. The school children, parents in rural and urban areas, informal and formal workers and investors of all sectors need to be engaged. The strength of previous policies in Zimbabwe were that of putting labour and social dialogue at the centre of economic activity, hence making it difficult for companies to close shop and fire employees. This made the PAYE based tax revenue flow continually into the fiscus (Pastore, 2010). Lawler (1996) predicted that Zimbabwe's unique economic situation is conducive to a successful fiscal expansion that can boost employment and output due to the stable and frozen real wage increases. What the Zimbabwean government is likely to do now (year-2015) was once done by the Portugal government who aimed at controlling the public budget by cutting wages and intermediate consumption (Pereira and Roca-Sagles, 2011).

III. Features Of A Deflationary Environment

Deflation is seen by fall in prices and led to a negative change of price indices over a sustained time period (Brooks and Quising, 2002). The major drivers of deflation could be a previously under-valued currency (The US-dollar in this case), improvement in productivity, advances in technology, the fall in price of fuel and other inputs, a fall in aggregate demand, and an increase in aggregate supply. US deflation of 1870 to 1900 was caused by low cost production processes. Japan's deflation was caused by reduction in spending power of elderly workforce. The Zimbabwe deflation is characterised declining prices of both imported and locally produced products. This had led to the shrinking profit margins, some business failures, high unemployment and reduction in aggregate demand. There is likely to be a fall in revenue collections from 'Pay As You Earn' since both salaries and employment were falling. The increasing domestic purchasing power parity (PPP) of the US\$ dollar in Zimbabwe is increasing creditors' benefits by making them receive the original value of the currency as rated before deflation.

As Zimbabwe is supposed to pay both external and local debts, deflation will make debt servicing difficult. Non-performing loans can also increase in this deflationary environment. The most threatening situation of deflation are high unemployment, reduced savings, low incomes, low investments, negative multiplier effect and possible bank failures. How Zimbabwe can move out of this situation remain the key question.

The June 18, 2007 price ceilings also provide some evidence and features of a deflationary period. The government of Zimbabwe through the Price Monitoring Commission, gazetted prices of electrical goods, basic commodities and some services below their cost recovery levels. The downward price spiral led to empty shelves, unemployment and distortions in the supply chains. The challenge of the current deflation trend is critical when machinery and other productive resources in Zimbabwe cannot produce at lower costs to protect the local jobs from cheaper foreign produced imports (Yannelis, 2004). The fear by Daly and Kearney (1998) that an expansionary fiscal financing might weaken the US\$ dollar performance in Zimbabwe is less probable due to the dollarization confidence by the economic participants (Stanek, 2002). The current question is: should Zimbabwe use an expansionary fiscal policy to move out of its deflationary related problems?

IV. How To Move Out Of Deflation: Lessons From Other Economies

4.1 The Great Depression of 1929

The deflation of 1929 Great Depression had 'economy-wide' fall in prices, fall in output, fall in aggregate demand and bank failures. Many people were defaulting debts since the household incomes were falling, while their loan commitments were increasing. Fiscal expansion was deemed dangerous in those days. This caused the world economy to worsen due to limited exchange and trade. This challenge led to the development of the Keynesian economics that encourage demand management in influencing economic activity and gross domestic product. Alcidi and Gros (2011) said that the fiscal expansion of the 1930s was too limited to yield a sensible impact on economic growth and hence pointing to the need for Zimbabwe to use expansionary interventions. Sweden was the first economy to move out of the Great Depression using the interventionist and welfare state policies that were based on expansionary fiscal and monetary policy principles.

4.2. Case Study of Japan

Japan's deflation was caused by an initial over lending to property developers and raising funds on the stock market. There were more bank loans as a proportion to GDP. The increase in interest rates by BOJ (Bank of Japan) led to the collapse of the stock market and reduced investments, and fall in GDP. Banks reduced credit to firms and individuals (contractionary policy of some sort). Borrowers began to default and banks were overwhelmed by bad debts. Fall in stock prices reduced the bank capital. Companies reduced their investment and production, and households reduced their consumption levels and also increased their savings. This led to further decline in prices. The 2014 deflation of Japan was fought through buying back government bonds to increase money supply.

4.3 The Great Recession of 2008 to 2009

When the global financial crisis was felt and discovered to be caused by a liquidity crunch, global redistribution of purchasing power, rising oil prices and high household indebtedness, there was consensus among governments on policy responses. Conventional monetary policy procedures proved to be ineffective(O'Connell, 2010). The Federal Reserve (USA), The Bank of England and the European Central Bank reduced their interest rates. Monetary policy initiatives were accompanied by expansionary fiscal policies in order to stimulate output and employment. The then US President, Obama, gave out the fiscal stimulus of US\$787 billion to the other economies and China also pledged a US\$586 billion package to world economy(O'Connell,2010). Chowdhury, Islam and Lee(2013), however, noted that the Great Recession of 2008 to 2009 made people to suffer in areas of unemployment, healthy, hunger and malnutrition as some ill advised governments were obsessed with fiscal cuts and consolidation in the midst of uncertain economic recovery. It should be noted that, though USA and UK had budget deficits of 12.5% and 11.65% of GDP respectively, they went ahead to pronounce some expansionary fiscal and monetary policies(O'Connell, 2010). This means that Zimbabwe need to improve on social protection and stimulate its fiscal commitment to ensure a robust economic recovery. The economy should give to Prophet Elijah and achieve an everlasting flow of oil and flour.

4.4 Thailand and The East Asian Financial Crisis

Thailand was affected much by the 1997 East Asian financial crisis. It initially tightened both the monetary and fiscal policies. It later on followed an expansionary fiscal policy aimed at stimulating the economy after the crisis. The fiscal stimulus were made on educational reforms, health insurance, and village funds. This, however, increased the public debt to 58% of the GDP(Baharumshah and Lau, 2007). In addressing a similar crisis in 1986-1987), Hong Kong pursued a restrictive fiscal policy that led to excessive fiscal reserves that reduced the private sector's ability to borrow in counteracting cyclical fluctuations in the economy(Tang, 1997).

4.5 Some Policy Guidelines for Zimbabwe

Some guidelines for the expansionary fiscal policy include the need to make the fiscal policy dominant in the economy, making public expenditure, giving priority on health care, universal education and low risk infrastructure development projects, creating some fiscal space, and ensuring the government continue with its responsibility as an employer of the last resort- not to retrench its workers(Chowdhury and Islam, 2011). On the other hand a study by Banerjee(2014) on highly indebted European economies, had conclusive results which recommended Zimbabwe to generate and consolidate revenue by raising tax rates of PAYE, indirect taxes and other consumption rates. Though this might sound prescriptive, dangers of cutting expenditure in a deflationary economic period has far negative consequences to many economic fundamentals. Later on Banerjee(2014), however, noted that many of those debt ridden governments tried to incorporate painful fiscal discipline with little or no success. Public debt reduction led by shedding government expenditure through employment and pay cut had resulted in enormous socio-political tensions in the respective economies(Banerjee, 2014). This review aim at questioning the current fiscal thrust of cutting expenditure and government employees in the name of 'rationalisation'.

V. Uniqueness of Zimbabwe's Situation in Relation To Fiscal and Monetary Policy Statements.

1. Sanctions from the West and localised self-sabotage.
2. Interest rates are around 20%.(An opportunity to reduce these to 5%).
3. Inflation rate is about(-1%). So there is no problem of dealing with inflation, unlike in other economies!
4. Employees in Zimbabwe had generally agreed to wage 'freeze'. No salary or wage increases are expected.
5. The mainly used currency in the world is the main local currency in Zimbabwe(The \$Us dollar. Is stronger than the Rand.
6. The RBZ(Reserve Bank of Zimbabwe cannot issue notes and coins using the normal Lender of The Last Resort Function. Banks, households and firms are those who can do it to RBZ.
7. Tax rates on incomes are generally high in Zimbabwe(Hence little space for increasing it).
8. High formal unemployment (High employment in the informal sector-Those who don't pay income tax, though they pay VAT and other indirect taxes)
9. Foreign currency reserves can be increased by banking the unbanked in the local economy.
10. Balance of payment position not directly critical, as compared to other economies(Zimbabwe is dollarized).
11. We have less exports of minerals, agricultural products, spare parts, etc.
12. Zimbabwe receive foreign currency reserves from diaspora citizens in SA, UK, USA, Australia , Asian countries and other economies.(Estimate: 58% of all remittances)

13. Few people are saving through the Banks. We have about US\$7 Billion cash circulating in the economy which do not know the doors and links of formal banks.
14. High external and local debts that need to be serviced urgently.
15. Current Policy Responses
 - (a) Cutting the government salary budget from 80% of total budget to 40% of total budget. (About a 50% reduction of recurrent and salary related expenditure).
 - (b) There is increasing number of toll gates, taxation of imported consumer goods, duty on cars, and hiking of traffic offences penalty charges.

VI. The Policy Prescriptions

6.1 The Money(Monetary Policy) and Investment(Fiscal Policy) Multipliers

Instead of reducing the expenditure to the people or society, the economy of Zimbabwe should give funds to consumers, relevant firms, and relevant government departments so as to maintain the positive multiplier effect. It does not require much complex econometrics to believe that when government is reducing its expenditure, the negative multiplier effect will shrink the economy. Since Brooks and Quising(2002) recommended an expansionary monetary policy, the monetary authorities in Zimbabwe should continually reduce the interest rates and complement it by an expansionary fiscal policy that reward active sectors and punish idle resources. *For instance, 'All empty office space in town should be taxed-as to be done on farms!').*

6.1.1 Money Multiplier Operations(Monetary Policy)

1. Increase 'bank based' savings- These savings are productive unlike those in the pillow. This can be achieved through financial inclusion. (See Harrod – Domar Growth Model)
2. Reducing lending interest rates and slightly increasing interest rates on deposits.
3. Building confidence of the banking sector. Protect all deposits of personal bank customers. Let them get some rewards-like a positive real interest rate for each deposit.
4. Moral suasion on risk management.
5. Encouraging banks to create money through loaning to productive and non-risk investments, like house construction, road construction, gold mining and tourism.
6. Introduce the US\$1.00 equivalent bond coin. The value should be equivalent to 50% of a month's Government budget of civil service salary. This would create deposits that give a 21 day advantage to the government. Expand the 50 cents bond coins and other denominations.
7. Encourage the use of Cheques and other forms of money (M_1 ; M_2 ; M_3 ; M_4)

The Basic formula for the money multiplier:

Money multiplier = $1/R$, where R is the reserve ratio

6.1.2 Investment Multiplier(Fiscal Policy)

1. Maintaining or increasing the number of formally employed people. Increasing the tax base. No to 'Three Months' notice to employees- since it negatively affect the guaranteed tax revenues.
2. Streamlining consumption of the government expenditure to locally produced goods. Local goods should be made in a more efficient and low cost way.
3. Expanding government expenditure on employment creation projects, which employ people who pay wage/salary taxation.
4. Maintaining tax rates or even reduce them in cases where they stimulate economic activity and foreign direct investment.
5. Ensuring and encouraging that everybody is paying taxation of all types. This is an area of urgency similar to the financial inclusion case. That is the prime role of the government. Don't burden the few people on the pay rolls!
6. Negotiate for future payment of government debt.
7. Maintain government expenditure on salaries and wages. The Zarepath Widow did not increase the last meal- but gave that last meal to Prophet Elijah. The multiplier effect worked and increased the flour and oil in her home(I Kings 17 Verse 10-16) .

Consider the formula: **GDP= C + I + G+ X-M**. Where **C** is the Consumption function, **I** is the Investment function, **G** is the Government expenditure and **X-M** represent net exports. Our model and discussion does not require any reduction in government expenditure since it would reduce both consumption and investment confidence.

The Basic formula for the investment multiplier:

Multiplier = $1 / (1 - MPC)$
 = $1 / (1 - 0.8) = 1 / 0.2 = 5$. Where **MPC** is the marginal propensity to consume the additional income, and is assumed to be 0.8 in the illustration above.

6.1.2 The Accelerator Principle

The basic formula of the accelerator factor is given below:

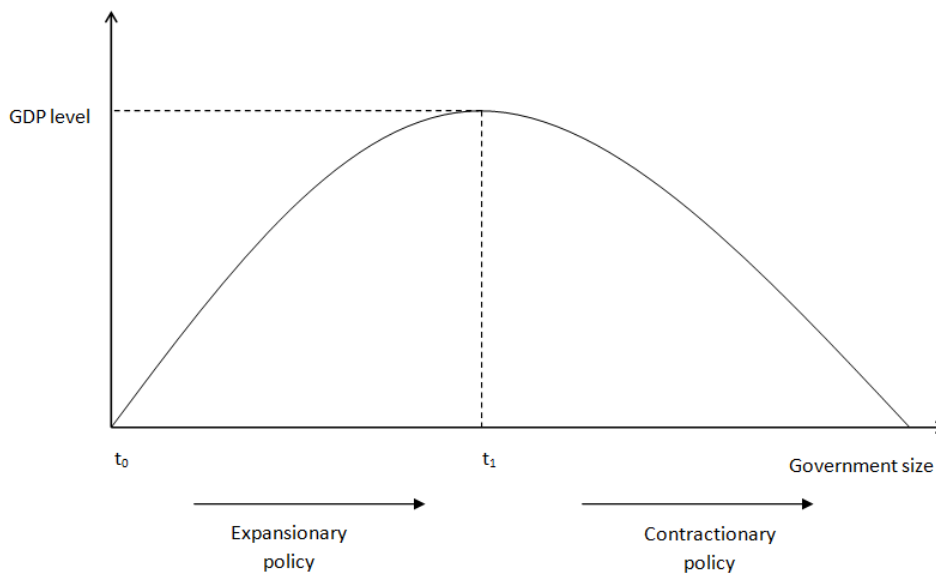
$V = \text{Investment} / \text{Change in GDP}$. The principle relate an increase in GDP to be a major cause of investment growth. In this discussion, an expansionary fiscal policy will lead to a high prospect of GDP growth and will more likely boost both domestic and foreign investors' confidence. The significance of the accelerator factor is felt due to its ability to boost the impact of the multiplier on economic growth. This is shown by the sequence below.

$K(\text{multiplier})$ lead to Change in Y and the $V(\text{accelerator})$ lead to Change in Investment - in the same direction. This means an increase in government expenditure will boost GDP using the multiplier effect, and that resultant growth in GDP will lead to growth of induced investment to the Zimbabwean economy. This model works well when the bank based savings are channelled to productive sector investments. This is referred under the Harrod-Domar economic growth model, where increase in bank based savings(APS) will lead to economic growth(GR) at a given Capital-Output Ratio. The formula is given below.
 Harrod- Domar Model $GR = APS / \text{Cap-Output Ratio}$.

6.1.3 The ArmeY Curve and Expansionary Fiscal Policy

A related principle that require government's deep consideration when deciding to use either an expansionary fiscal policy or a contractionary fiscal policy is the ArmeY curve. See the diagram below.

Fig I: The ArmeY Curve Analysis

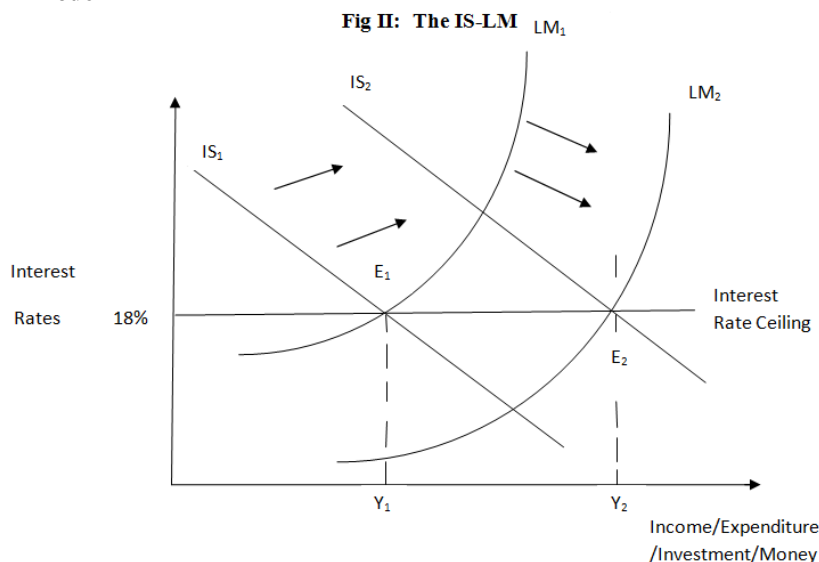


There is time when government expenditure need to be increased for the economy to realise economic growth(Nademi, Abounoori and Kalmazi, 2005). Referring to the diagram above, any reduction in government expenditure on civil service salaries and other recurrent expenditure below t_1 is counterproductive. An expansionary fiscal policy is also counterproductive at all points of government size beyond t_1 . If we assume that Zimbabwean government's size is in the t_0 to t_1 range, then we recommend an expansionary fiscal policy for growing the economy(Vedder and Gallaway, 1998).

6.2 The Diagrammatic Application Of IS- LM Model

6.2.1 Drivers of the LM and IS Curves

Fig II: The IS-LM Model



LM- Curve. Financial inclusion and intermediation will make the LM model functional. Deposit creation will increase money supply. The improvement in liquidity will be achieved through adding some more coins in form of US\$1 bond coins and 50 cents bonds and other denominations. This will increase the velocity of circulation-hence positive effects to the money multiplier. The moral suasion that will improve deposits levels in banks will also add to the liquidity(Financial inclusion).

IS-Curve. Maintaining government expenditure and encouraging every body to pay tax will increase revenue collection base. Soli, Harvey and Hagan(2008) in their study on fiscal policy and private investment found out that government recurrent expenditure, current government capital expenditure and tax on domestic goods and services were important determinants of private investment. Encouraging investments to be done on expanding sectors will cause an improvement in the IS-Model(Bofinger and Mayer, 2003). Maintaining government expenditure in a deflationary environment has equal power to the increasing expenditure in a normal inflationary economy. O' Connell(2010) support a possible right ward shift of the IS Curve basing on the 'bank loan-financed' public works that increase employment. This will build investor confidence. Investment on expanding sectors will push the IS curve to the right. The strengths of the IS-LM model is its plasticity and ability to model economic interdependence that enable planning and evaluation of policy prescriptions(De Vroey and Malgrange, 2011).

6.2.2 Diagram Description

A controlled interest rate supported by falling prices of commodities will lead the equilibrium to be at Y_2 . This shows an expansion of GDP. The diagram above shows an equilibrium point E_1 where IS_1 and LM_1 curves meet at aggregate output of Y_1 . Some output is currently imported to complement the 'below capacity utilisation' in the country. A controlled interest rate level of 18% per year and below is likely to encourage serious investors to borrow for business expansion. If financial inclusion and additional coins are used, then more funds will accumulate in the bank. This will be ready for re-investment into low risk and profitable projects.

The increase in money supply is represented by a right ward shift of the LM curve from LM_1 to LM_2 . The increase in investment is represented by the rightward shift of the IS curve from IS_1 to IS_2 . This will generally lead to the increase in GDP from Y_1 to Y_2 as given by point E_2 on Figure I.

What will push the money multiplier, the investment multiplier and the accelerator factor are the high recurrent government expenditure on consumables and civil service salaries, private investment on non-risk projects and high 'bank- based' savings. The use of a consolidated revenue fund will enable the fiscal authorities to see the size of the cake and distribute it effectively to the Prophet Elijah(The Productive Projects and Civil servants salaries).

VII. Limitations of The Expansionary Policy For Zimbabwe

The salaries and wages given to the locals might leak through buying of foreign produced goods like cars, computers, clothing, services and other similar commitments. The financial inclusion might yield positive results but the accumulated savings might be routed to other countries by ruthless economic saboteurs(Reynolds, 2002). The expansionary policy requires use of new and upgraded machinery for producing basic commodities like bread, cooking oil, mealie-meal, detergents and other fast moving consumer goods. A tricky situation is that expansionary fiscal policy is generally effective in fighting deflation if the government budget deficit(BD) and debt are not high(Brooks and Quising, 2002). The policy is mainly banking on possible boom in public and investor confidence with the fiscal policy announcements(Gogas and Pragidis, 2015).

There could be need to create fiscal space by inviting foreign private and public investors to pour funds in long term projects like dam construction, roads, housing and new electricity generating plants(Carranza and Melguizo, 2014). This becomes necessary since most developing economies do not have fiscal space to finance large scale countercyclical measures associated with a deflation(Chowdhury and Islam, 2011). There could be need to avoid appeasing electorate by directing the limited fiscal resources on risk projects that do not increase employment in the long term(Soli, Harvey and Hagan, 2008). Kandil(2006) highlighted that a possible weakness is that expansionary government shocks may increase the demand for loanable funds and raise the interest rate and hence crowd out private sector general and investment spending. This is, however, contrary to the view that a cut in government spending may give a negative signal to the private sector on the economic prospects and cause reduction in private investment expenditure(Fountas, 1994).

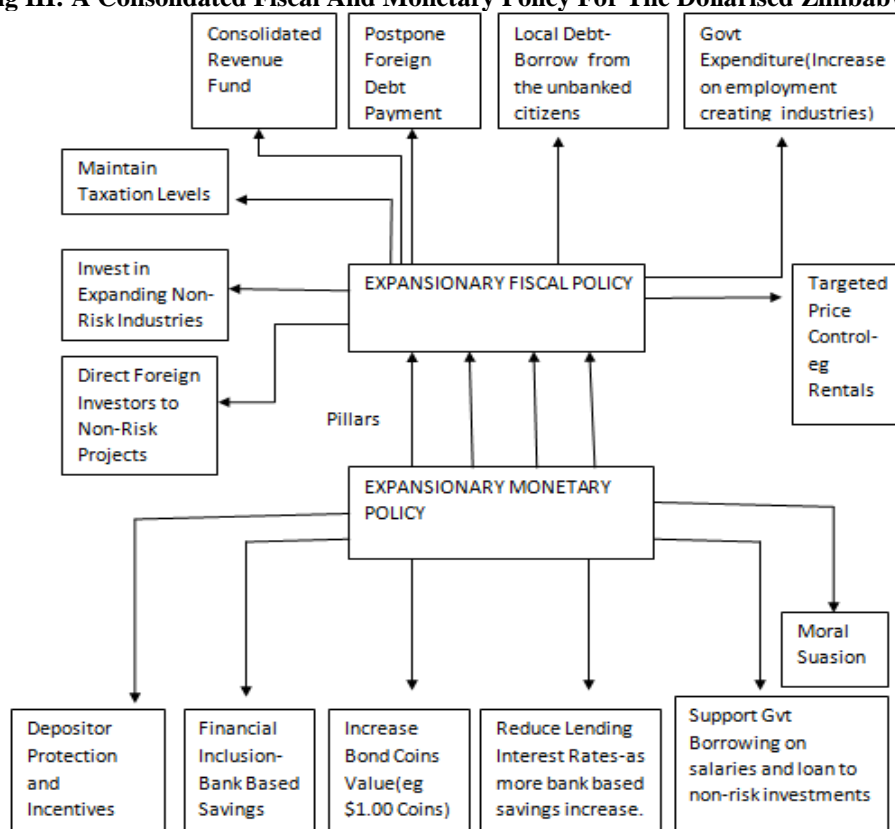
VIII. Conclusion

As long as the expansionary fiscal policy is well co-ordinated with an expansionary monetary policy, a deflationary environment will be the best environment for economic growth in terms of real GDP . We also need to be careful on how we calculated our GDP growth rate to real figures under deflationary environment. A fall in nominal value could be reflecting a growth in real GDP! Even if the leakages, market distortions and sabotages might be done, the Zimbabwean GDP will not fall. If we were to cut and cut government expenditure this was going to start a negative investment multiplier and a negative accelerator effect that has a combined downward spiral to the GDP growth. Who would invest in any economy where every economic participant is withdrawing his or her resources. The failure of the conventional macro economic policy mix and unique features of Zimbabwe means that fiscal policy multipliers and accelerators need to be accompanied by monetary expansion that has no inflationary effects(Chowdhury and Islam, 2011).

IX. Recommendations

The recommendations are in form of the diagram below(Fig. III) which shows the possible deliverables of an effective fiscal and monetary policy.

Fig III: A Consolidated Fiscal And Monetary Policy For The Dollarised Zimbabwe



Note: The model need to ensure that companies make profit by producing high volumes of goods and services, and not by hiking prices and not by taking advantage of possible shortages that might come as a result of import duties and other import controls of basic commodities.

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Appendices

1. Appendix A

- 1. Growth with Equity (1981)
- 2. Three Year Transitional National Development Plan(182-85)
- 3. First Five Year National Development Plan(1986-90)
- 4. Economic Structural Adjustment Programme(EASP)(1991-1995).
- 5. Zimbabwe Programme for Economic and Social Transformation(ZIMPREST, 1996-2000)
- 6. Millenium Economic Recovery Programme(MERP, 2001-2002)
- 7. Post-Election Economic Development Strategy and Economic Recovery Programme(With the 2002 Ten Point Plan).
- 8. National Economic Revival Programme(NERP-2003)
- 9. Macro-Economic Framework(MPF, 2005-2006)
- 10. National Economic Development Priority Programme(NEDPP, 2007)
- 11. Zimbabwe Economic Development Strategy(ZEDS, 2008).
- 12. Short Term Emergency Recovery Programme(STERP 1, Feb =Dec 2009)
- 13. Three Year Macro –Economic Policy-MTP, Budgetary Framework(2010-12)
- 14. Zimbabwe Agenda for Sustainable Socio-Economic Transformation(Zim Asset, 2013-2018).

Appendix ii:

Newspaper Articles Related To Fiscal and Monetary Policies

- 1. 8000 Graduates for Labour Export- Business Herald, Wednesday 09/09/2015.
- 2. RBZ puts 18% cap on interest rates- The Herald, Thursday 06/08/ 2015.
- 3. RBZ secures \$210 for projects- Business Herald, Thursday 06/08/2015.
- 4. Mid Term Monetary Policy Highlights- Non-performing loans down from 15% to 13%, Business Herald, Thursday 06/08/2015.
- 5. DPC pays out \$2,7m to depositors- Business Herald, Wednesday 09/09/2015
- 6. Manufacturing most affected by job cuts(July 17, 2015: Supreme Court- Labour Ruling)- Business Herald, Wednesday 09/09/2015
- 7. Dangote Team gets down to business-The Herald, 09/09/2015.
- 8. Major road project primed for take-off- The Sunday Mail Business,06/09/2015.
- 9. Zimra to name, shame tax invaders- The Herald, 01/09/15.
- 10. Zim Offers Vast Investment Chances- The Business Herald, 01/09/15.

End