The Case for an Entrenched Balanced Budget Constitutional Provision in Ghana

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Abstract

Fiscal indiscipline has been a major tussle of most African nations and a disturbing problem. African governments are challenged by how to subscribe to the basic principles and canons of institutional restraint and accountability which are hallmarks of good governance. The paper employs institutionalism (North 1991, Putnam's notion of social capital to show that when it costs to transact, institution really, matter. Cases of best practices exist elsewhere in East Asia and advanced counties to confirm these assertions. The paper attempts to provide some reasons for the menace and some mechanisms for resolution.

Key Words

Fiscal indiscipline, institutional restraint, accountability, liberal democracy.

Introduction

There is no doubt that fiscal prudence is a virtue of good governance and democracy. It is indicative of how a government and the people of a nation subscribe to the basic principles and canons of institutional restraint and accountability. These are hallmarks of good governance. Indeed, of all the major causes of poor governance and its associated problems of poverty, indebtedness, instability and underdevelopment, the absence of institutional restraints, especially, in the area of national finances, has been noted as the single major factor accounting for mass poverty in developing countries. In Ghana, it is a well-known fact that the greatest source of interparty and governmental castigations, and disappointments that emerge after governmental change-over has been due to the incidence of huge indebtedness left by outgoing administrations. The scourge of national indebtedness emanating from unrestrained governmental spending is such that it has become a major source of the loss of confidence on the part of the people of Ghana in their government, irrespective of whichever party comes to power. This has been a specially recurrent challenge that has faced Ghana throughout its post-independence history. Not only have our governments acted without restraints, they have also, in the absence of institutional restraints wantonly violated the rules of democratic game. Indeed, governments of poor nations such as Ghana have been able to act with impunity because they are not limited in any way in the extent to which they can spend, even if it is clear they do not have the resources available.

Fiscal deficits bequeathed by outgoing governments have always been decried by incoming governments. In its 2010 budgetary statement to parliament, the government lamented about the crumbling economy. The Minister of Finance and Economic Planning presenting the government's budget statement noted that "The truth that must be told is that, the Government inherited a distressed economy characterised by huge twin deficits," (Republic of Ghana, 2009: 3). The Minister noted that "the fiscal deficit alone stood at GH¢2.6 billion at the end of 2008 when the New Patriotic Party (NPP) left office compared with GH¢260 million registered at end of 2000 when the National Democratic Congress (NDC) left office" (ibid). He lamented that "in addition, by end September, arrears and unpaid bills amounted to GH¢1.7 billion in 2008, amounting to almost 22% of GDP," and that "never in the history of our country have we faced such a huge fiscal deficit in proportion to GDP." What was worse, the Minister noted that this huge indebtedness had occurred despite “the significant increases in Government resources between 2005 and 2008.” The conclusion thus, was that “the huge deficit showed a serious failure of expenditure control”, and that, as a nation, “we were living beyond our means in a manner that we could not sustain” ibid).

The Scourge of Fiscal Indiscipline

The devastating impact of fiscal indiscipline on Ghana’s long term prosperity, dignity and national pride cannot be gainsaid. It was the urgent need to mitigate the perennial economic devastation and the strain that huge indebtedness put on the country’s efforts at economic development that the country had to travel the painful and degrading journey of a ***Highly Indebted and Poor Country (HIPC).*** While mindful of what the humiliation effects that such a declaration meant for the country, including international ridicule, and the possible closure to access to international capital, the country nonetheless accepted to take the painful road or the bitter pill. It was obvious that as a nation we had realized the devastating consequences of unsustainable fiscal deficits. And it was to curb the cancer of fiscal indiscipline the entire country yielded to the option of swallowing the bitter pill through the **HIPC** status. Having gone thus far in our effort to initiate renaissance in our spending habit, one would have thought our governments had their bitter lesson and would not want to witness such a humiliation in the future. But that was not the case, because in the absence of a culture of moral probity, not constrained the leaders to turn a new leaf to become fiscally responsible. The reason is quite obvious. In the absence of clearly and rigidly provided institutional restraints to serve as warning signals and self-control, and in a society whose politics is colored in neopatrimonial politics, our governments will be unwilling or unable to rationalize their spending behavior.

Thus, the preamble that highlighted fiscal imbalance was replayed in the 2011 budgetary statement. Thus the Minister noted sadly that though there is some significant improvement “the fiscal deficit reduced significantly from the double digit of 14.5 percent on cash basis at the end of 2008 to 9.7 percent in 2009.” To be sure the scourge of deficit budgetary situation continues to haunt us as a nation. There is the urgent need to find a way to mitigate this undoubtedly catastrophic economic situation if we are to achieve our goal of a better Ghana. It will be recalled that the same lamentation about wanton fiscal indiscipline, ravaged the entire country in 2001 when the then Minister of Finance referring to this same unbridled budgetary deficit used the terminology of “trillion” in quoting the national debt. Thus, the problem of unrestrained fiscal indiscipline has not only become a noticeable anathema in our politics, but it is increasingly becoming unacceptable by the entire nation and the key political players in our political game.

The presentation is premised on the arguments that:

- The entire nation is becoming weary about the perpetual game of budgetary indiscipline and unbridled indebtedness of governments.
- There is the need to take decisive decision by way of constitutional restraints on the problem of budgetary indiscipline.
- The only way to halt the accusations and counter accusations of our various governments over the problem of macroeconomic uncertainty is to craft constitutional rules or norms that rationalize the financial behavior of our governments, including their revenue mobilization and spending behavior
- Our governments would be able to exhibit the capacity for effective and efficient planning and also be able to make reasonable predictions about our overall future financial stability and sound economy and development if we consciously indicate a cap on permissible governmental spending.

Several examples or evidence exist from best practices elsewhere in the Highly Performing Asian Economies (HPAEs), as well as the Advanced Industrialized Countries, that point to the imperative that **a balanced budget principle** is not only desirable, but a fundamental governance principle that should guide the Poorly Performing African Countries (PPACs) including Ghana in their desire to ensure economic growth and prosperity for their peoples. It is also one of the major indicators of the level of institutional restraint required for both political and economic stability, while curbing arbitrariness, and capricious governance.

Liberal democracy does not imply the simple act of election of leaders. While this is a necessary aspect of democratic governance, the really important part of democratic governance is to have governments and leaders that actually deliver and act according to the norms of economic and political rationality. More important, such a society, under normal circumstances, must be seen as not dependent on the charity of other nations (a situation which is highly unpredictable and not dignifying, in any case). Democracies thrive on good governance. Nonetheless, they persist only under sound macroeconomic regimes, which in itself is a further indicator of the prevalence of a culture of moral probity and accountability.

The Rationale of Balanced Budget Principle

The purpose of a ***balanced budget*** is to ensure that governments are disciplined and spend within their means.

- Just as in conventional individual behavior budgetary discipline requires a convergence of revenues and expenditures, a balanced budget sets a convention that unrestrained leakages of public funds is intolerable and that state resources must as far as practicable be utilized for their sole intended purposes.
- The balanced budget convention has the potential of cautioning government that society takes mapping or tracking of all possible routes for corruption seriously.
- It is also a major indicator of a self-restraining state which is a fundamental principle of democracy (Andreas, Diamond and Plattner 1999). Simply put, governments must act responsibly in terms of spending, and when the urge for spending becomes necessary, it must be in tandem with the capacity to raise revenue.
- In fact, the principle serves as a great motivation for government to be enthusiastic in the area of firm, fair and rational revenue mobilization.

The great founders of the American Democracy recognized this nearly a century ago. Thomas Jefferson is on record as noting that fiscal deficits and wanton debts left by previous governments and generations were not only morally unacceptable, they are also unauthorized. As he intimated, the principle of a Balanced Budget "is of such importance as to place it among the fundamental principles of government", and warning that current governments and generations "should consider ourselves ***"unauthorized,"*** (emphasis, authors) to saddle posterity with our debts" to which the future generation did not contribute to its accumulation (Http://cwx.prenhall.com/bookbind..... last visited November, 2016).

Indeed, the scare of unbridled indebtedness and the need to ensure fiscal prudence on the part of our governments appears to be such indubitable that one may not be wrong to argue that it is the shared position of all our governments when they take over the reign of government from their predecessor. Thus, one can argue convincingly that all the stakeholders, governments and the entire population alike share this position to warrant making a provision on this issue a critical aspect of the constitution review exercise. The need to be prudent in one's management of resources and in particular fiscal matters warrants much of our attention as it deserves. There is no need to talk of poverty reduction in the face of unbridled and wasteful spending. Reckless spending is tantamount to disregard for future unfortunate and unanticipated events that may need scarce resources. To reduce poverty warrants being able to have a revolving fund one can fall on the rainy day. As Ayimpusah and Opoku-Afriye (2008) rightly observed, one of the best strategies to confront or mitigate poverty is to be mindful of “the need to have a dual strategy of raising incomes”.

The idea of a balanced budget could be institutionalized through several ways, one of which might be to establish an estimated per capita limitation on the national debt permissible for incumbent governments. Another would be to place an estimated projection on the level of deficit governmental spending that may be tolerable in view of future urgent demands and the extent that unsustainable deficits would hamper the future plans of current generations. In fact, a major overarching conclusion arrived at in the US Congressional discussions on the importance of a balanced budget rule are based on the understanding that *persistent deficits threaten the nation’s long-term prosperity.* Accordingly, congressional debate conclusion on fiscal prudence is that since the search for popular and painless ways to limit deficit spending is difficult to come by, a balanced budget constitutional provision may be the only way to provide the fiscal discipline the nation desperately needs (ibid: 3).

Lessons from Best Practice Cases

Recent findings by reputable research think tanks clearly suggest that part of the explanation for the Asian economic miracle growth lies in the area of fiscal restraints (Campos and Root: 1996). According to these findings, regime commitment to fiscal discipline is one of the surest ways of ensuring institutional credibility necessary for economic growth and development. It is thus reasonable to argue, from these abundance information available on best practices from the High Performing Asian Economies (HPAEs) that budgetary discipline played no mean role in the economic success in those countries. Among the key instruments that accounts for the rapid economic growth and development of virtually all the HPAEs. Campos and Root (1996: 127) provide abundant data that clearly points to the role of budgetary controls. While noting the depth of the commitment and reliance of regime leaders in these countries on technocratic policy advice, they attributed so much of the success on the advice that technocrats provided with special emphasis on fiscal discipline. The major argument can be summed up in the extent budgetary discipline provided grounds for sound macroeconomic management.

According to Campos and Root (1996) a major hallmark of the technocrats’ policies which ensured responsible macroeconomic management was stringent controls on their budgets among others. They argued that the regime of Soeharto, for instance committed itself to growth by following the advice of the technocrats lock, stock and barrel. As they put it, in the bid of the Soeharto regime to demonstrate commitment to provide a sound macroeconomic environment, “***he had a balanced budget requirement inserted into the constitution in 1967”*** (Campos and Root ibid: 140). That was so many years ago and during the twentieth century when the advanced nations such as US had also initiated debate on the importance of balanced budget for macroeconomic stability and overall development. This should thus tell how significant the issue of budgetary discipline has taken center stage in discussions on development, good governance and institutional restraint among rich and developing countries alike.

The record is thus replete and clear on the potential economic and political befits to be derived from the application of a balanced budget principle as a foundation for overall good governance and development especially in the Poorly Performing African Economies such as Ghana. In the ***key to the Asian Miracle*** Compas and Root (1996) provide compelling arguments on the need for considering the balanced budget principle as an institutional foundation not only for stable development, but also for sustained economic growth, lessons worth noting as we in Ghana make strenuous efforts at establishing a constitutional framework that will not only ensure stable economic growth but peaceful democratic development as well. Campos and Root note emphatically that the HPAEs, Thailand, Indonesia as well as Japan have been the strongest adherents to hard budgetary rules, which implies predictability for a nation's economic transactions.

What are the benefits to be derived from a balanced budget constitutional provision?

While the positive benefits need not be overemphasized, a few concrete social, economic and political benefits can be summed up here. Campos and Root (1996: 155-161) provides several time tested beneficial outcomes including the following:

- **Credible and predictable macroeconomic environment:** The first is that a credible and predictable macroeconomic environment that emerges definitely will provide foundation for curbing the chaotic economic environment that often characterizes Third World economies and the constant search for leverage from outside agencies with concomitant economic uncertainty.
- **Autonomy and Adherence to Economic and Bureaucratic Advice:** Adoption of credible budgetary constraints via the aegis of a ***balanced budget principle*** is a sure way of giving the economic bureaucracy the desired autonomy over macroeconomic policy making.
- **Mapping and Tracking Macroeconomic Management:** Well established and institutionalized budgetary rules that are entrenched in a constitution also provide efficient and low cost means of monitoring macroeconomic policy. The well-known adage of North (1990) that when it is costly to transact, institutions matters is very true under this circumstance. Institutionalized budgetary constraints, provides the surest way and strongest way of constraining the influence of the political elite and their comprador private parties over government expenditure, because it will take away capricious and arbitrary economic decision making from the momentary whimsical pursuits of politicians.
- **Curbing Wanton Corruption:** Pervasive corruption in the Less Developed Countries always results from the capture of the state in patronage and neopatrimonial politics and policy making practices that involve the dispensing of favors rather than promoting the broader public good. The surest way to combat or limit this, is to institute institutional mechanisms that ensure that state resources are prevented from being employed directly and indirectly for political advantage with impunity.
- **Curtailment of Uncontrollable Inflationary Spiral:** In more concrete terms, because budgetary constraints will ensure certainty and predictability of the macroeconomic regime, it will curb uncontrollable inflationary spiral, a condition that is antithetical to private economic initiative.
- **Motivation for Private Investment:** The stable macroeconomic environment, devoid of uncontrolled inflation, and the disciplinary economic framework in itself is beneficial for overall economic growth as this will motivate and invigorate private economic actors to initiate investment projects for the overall national economic health, especially in the area of employment and increased productivity.
- **Incentive for Revenue Mobilization:** There is no better signal for private business activity than a sound, stable and predictable macroeconomic environment. At the same time an invigorated economic environment would provide huge benefits in terms of government revenue mobilization capacity.

- **Checking Overreliance on Foreign Loans and Donor Conditionality:** Finally, strict adherence to fiscal discipline through the adoption of a constitutional provision on a cap on the national budget would be one of the surest ways, that Ghana can avoid overreliance on unpredictable and debilitating foreign loans. For as Deyo (1992) notes, one of the major reasons why the East Asian New Industrialized Countries (NICs) have ensure sustained growth and development is their ability to avoid overreliance on foreign loans.

Conclusion

The urgent need for a much more concrete harmonized legal and regulatory provision in the area of fiscal restraint and discipline cannot be overemphasized. In sum, a balanced budget constitutional stipulation would help reduce unbridled financial leakages by serving as a constant caution of societal desire for fiscal discipline. This will also go a long way in corruption reduction in our governments by highlighting national consensus on the anti-corruption drive. In our desire for promoting economic growth and development for our people, especially through the aegis of the private sector which has become universally recognized as the engine of growth, there can be no better idea or approach than that provided by the adoption of hard and budgetary discipline, which brings economic certainty and predictability in overall national development. The urgent need for the provision of a cap on our budgetary framework so as to ensure sound macroeconomic environment, good governance and development cannot therefore be delayed any further.

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