

**BUDGET CONTRIBUTION SPEECH BY HON. DR.  
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**Honourable Speaker and Members of Parliament**

May I join the rest of honourable members who congratulated, Minister, Deputy and entire staff of MoF for a job well done!

During budget time, there is a need to participate and contribute in a productive and constructive manner along the expectations of the budget and that of the nation. In fact, budget represents the expectations of the people for a better and improved life in many ways. In this respect, the government is entrusted with undertaking many economic endeavours on priority basis. As a result, it is inevitable that the size of the budget becomes sometimes bigger than percentage of GDP. **In fact, we have witnessed this phenomenon since independence.** However, some economists and policy makers argue that a bigger government budget hinders economic growth and welfare of the people as the

expansion of the size of the government is not conducive to economic growth due to some reasons.

Today, in view of challenges of the economy and hence priorities of the government, I would like to discuss whether expansion of budget would support or whether it would hinder economic growth and development.

Advocates of bigger government budget argue that government expenditure provides valuable “**public goods**” such as education, health and infrastructure. They also claim that increases in government expending can boost economic growth by putting money into people`s pockets and improve purchasing power. In fact, people have hopes and the government needs to accommodate and support those hopes to be realized on the ground.

People are encouraged to work hard for basic needs. They are concerned about their children`s education, health, housing and future. In this incidence the government, business, NGOs and other organisations work together to create a better economic future. In the same vein, citizens want government to enhance skills development, create jobs, reduce poverty and narrow income disparity. In other words, people will be

economy in many ways (i.e. size is not confined or limited to the domestic market). In other words, in a broader sense, **Inclusive Economic Growth** refers to the fact that no economy can grow by excluding some citizens of the country. It must be noted that an economy that is not growing cannot integrate all citizens in a meaningful way.

Furthermore, as a nation, there is a substantial agreement that our key challenges are unemployment, poverty, ignorance and inequality.

### **Honourable Speaker, Honourable Members**

In light of the above, government is committed and devoted as depicted in the budget to undertake many and broader development initiatives with limited means as economic law dictates (i.e. these initiatives are better education, health, transport, housing, water and sanitation etc). **History of economic growth and development in any country in the world has gone through bigger (government budgets) at the initial stage of economic development, and hence Namibia is not an exception.**

**Our policy is to transform the economy as I explained above, so what is our strategy for this transformation then?**

As I indicated above, structural transformation is the foundation and key element for a better future. Furthermore, structural transformation should take place through diversification of the sources of economic growth, reduction of poverty and income inequality as well as employment creation which should be stable and sustainable. This means that we need to focus on **Inclusive Economic Growth** in which the poor and unemployed should participate and contribute to GDP growth figure as per budget and in turn benefit from GDP growth. In other words, the poor and unemployed should be integrated in economic growth or **Employment Sensitive Economic Growth, hence the introduction of TIPEEG.**

Thus, **the concept of *Inclusive Economic Growth*** refers to the pace of economic growth (i.e. how rapid is the economic growth or whether it is 5% or 7% etc.), pattern of economic growth (i.e. based on comparative advantage and hence intensive production based on comparative advantage) and enlarging the size of the

therefore committed and devoted to economic growth and development. In this way government is left with no option but to effectively lead and assist the people to realize their expectations.

### **Honourable Speaker, Honourable Members**

When I say that the government should effectively, lead and support, I actually mean that **the policies and strategies** of the government must stimulate economic growth and realize development objectives, in my honest opinion this is what is happening as it is clearly reflected in the tabled budget.

**So, what is our policy?** The government policy, in a broader sense of the word is to transform the economy and strengthen it (i.e. structural transformation) paving the way by creating skills, generating more jobs, diversifying the sources of economic growth and hence expanding our regional market (SADC) the entire African continent and rest of the world as part and parcel of globalization. **With respect to the above, we are ambitious yet realistic. We will be bold yet pragmatic. We will be creative and inventive, yet we will build on a sound, and secure foundation.**

If we assume a situation, that there is zero spending by the government, there will be little economic growth and development because enforcing contracts, protecting property, provision of education, health and infrastructural development will be very difficult. In other words, at least some or minimum level of government spending is unavoidable. In fact, economic activities are very low or non-existent in the absence of government spending. As a result, the benefits outweigh the costs. However, some economists claim that costs of government interventions in the economy outweigh the benefits which cannot be ignored as well. **Therefore, it is useful and relevant to look into such claims.**

The extraction cost is among such claims, government spending requires costly financial choice as government cannot spend money without taking that money from someone or other sources such as taxes and levies. Taxes discourage productive behaviour in many ways. Another instance is that public borrowing consumes capital that could otherwise be available for companies and individuals for investment. Further it could be contested that due to public borrowing, increased interest rates and inflation would cause widespread economic

distortions in the economy, to array the fear of this line of thinking, overall environment supports and stimulate the productive behaviour, conversely benefits outweigh the costs of tax or negative impacts of tax as argued by critics of this budget.

**Another argument refers to displacement costs.** Some critics believe that government spending displaces private sector economic activity. Because every dollar that government spends necessarily means one less dollar in the productive sectors of the economy as private sector is part and parcel of economic growth and development. At the surface this argument appears to be right, however, it should be noted that the private sector investment is not decided or determined with money alone as the private sector faces challenges due to skilled labour, lack of entrepreneurship, limited markets and competitions to mention but a few. Further, well-functioning legal, regulatory system and conducive investment climate provided by the government have a “high-rate of – return” which cannot be measured and valued on the basis of narrowly defined benefits on the ground alone.

**Subsidy and social security measures are part and parcel of government expenditure,** but some economists argue on their existence and validity some believe that, subsidy creates market distortions with respect to prices and **a third party payer problem.** It should be pointed out that subsidy is not a widespread phenomenon as strictly speaking only the poor and vulnerable need such subsidy. This applies to the provision of social security as well. Social security measures consume substantial government expenditure in developed countries too. Accordingly, it is not appropriate to indicate or argue that such measures are counter-productive, misallocation of resources or underutilization of resources. **In fact, such government expenditure needs objective judgement rather than confining it to how it contributes to the size of the government.** In other words, due to many historical, economic, and social reasons, benefits of subsidy and social security outweigh the costs.

### **Honourable Speaker, Honourable Members**

I'm glad that this time around the Minister of Finance has decided that with this budget, we are expected to "do



more with less". On the contrary there are still critics who maintain that the increase of budget in some sectors is not efficient and effective. It is further argued that government spending inhibits innovations and competition. In my view, the above argument should not be applied as common for all public sector entities. **Because, some entities are efficient, some are good, and others are committed to make improvement. Even in most developed countries too, this is not an exception.**

**As a matter of principle, public sector expenditure, and size is not a choice of the government, but it is a priority of the majority of people of this country.** People have hopes. As a result, government wants to improve the peoples' lives to bring them on par with the developed countries as envisaged in **Vision 2030**. In light of the above, there are some situations in which costs of government expenditure are higher than benefits, but government involvement in the economy is not an endeavour in matching costs and benefits alone. The mandate of the government is to increase welfare of people, and this cannot be judged in terms of narrowly defined, costs and benefits. In this regard, many activities

abandoned as not profitable by the private sector shall only be undertaken by the government for the benefit of its people. Therefore, not only does government expenditure support and enhance profitability of the private sector and its expansion, but such expenditure supports and enhances overall welfare improvement of our people. This truth cannot be defeated. Therefore, the argument that increasing or higher expending by the government will undermine economic growth and development by transferring resources from the productive sectors of the economy to the government should not go unchallenged.

It is my conviction that Namibia has travelled a reasonable distance on the road to developed nation status since the introduction of Vision 2030.

We must accomplish this mission lest we risk calamity.

These type of progressive budgets help us focus on moving forward. There is therefore no need for long drawn-out public debates as the latter may send wrong signals.

I support the appropriation bill whole heartedly.