

"REVENUE-SPEND" OR "SPEND-REVENUE" HYPOTHESES. THE ZIMBABWEAN EXPERIENCE.

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ABSTRACT

There is a growing interest in literature on the relationship between government revenue and government expenditure. The main reason for that interest is that it has implications on the solution to the problem of budget deficit. Zimbabwe has a problem of growing budget deficit since independence in 1980 and researching on how to solve that problem becomes relevant. The relationship obtaining between Government revenue and Government expenditure can be described by any one of Tax-and-Spend, Spend-and-Tax, or Fiscal Synchronization Hypothesis. This study examines the relationship between government revenue and expenditure in Zimbabwe using fiscal data covering 1980 to 2007. The idea is to establish the existence or otherwise of a causal relationship and the direction of causality among the variables. Granger causality and Johansen cointegration methods were employed to produce empirical evidence on the relationship between government revenue and government expenditure so that appropriate policy measures to address some of the fiscal challenges facing Zimbabwe can be informed. The variables were found to be stationary at levels. The Johansen Cointegration test showed the existence of at least one cointegration relationship. Evidence of causality running from government revenues to government expenditures was found. The immediate implication is that Zimbabwe is characterised by the tax-spend hypothesis. The study thus calls upon fiscal authorities to focus attention on adjusting tax revenues in order to control spending and the size of budget deficits.

Keywords: *Government revenue, Government expenditure, Granger causality, Johansen Cointegration, Tax-and-Spend, Spend-and-Tax, Fiscal Synchronization Hypothesis*