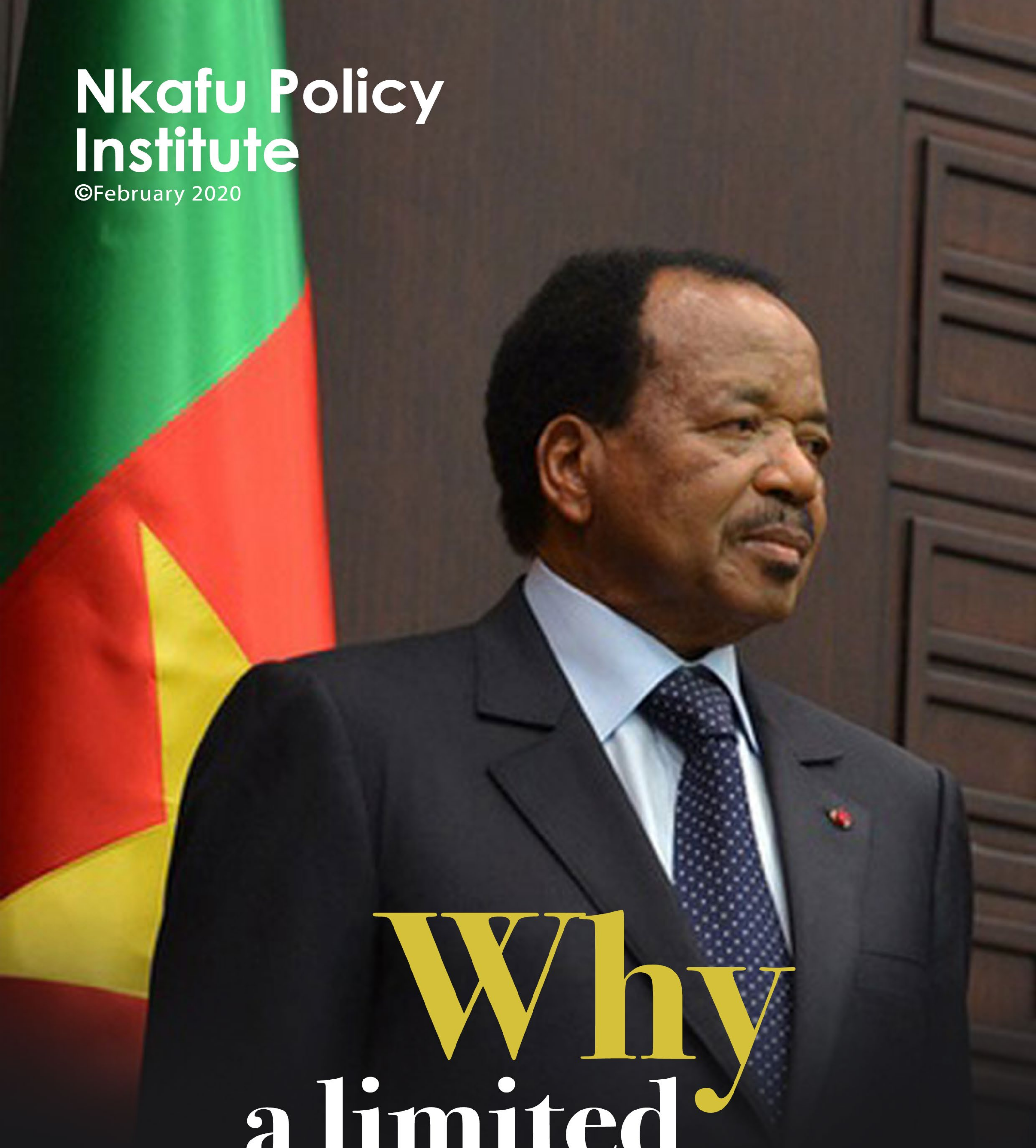

Nkafu Policy Institute

Why a limited government is important for Cameroon

By Ulrich D'POLA KAMDEM

The size of government has always been a matter of debate in economics. According to the Fraser Institute, the government size indicates the extent to which countries rely on the political process to allocate resources, goods, and services. In other words, countries with small government sizes tend to promote economic liberties whereas countries with big government sizes reduce the freedom of individuals and are less free economically. At this level, it is good to distinguish between government and state. A government is a consensual organization by which disputes are adjudicated, rights are defended, and certain common needs are provided; whereas state refers to an intimidating organization asserting a monopoly over the use of physical force in a specific geographic area. Hence, a limited government is one whose legalized force and power is restricted through delegated and enumerated authorities. In Cameroon, the government size in the economy is big. Indeed, the government remains the largest employer in the country according to the National Institute of Statistics. For example, in 2018, the government's wage bill was an alarming 1,058 billion FCFA in comparison to the formal sector enterprises' wage bill estimated at 996 billion FCFA. Based on this background, a limited government is important for Cameroon because of two reasons including the cost and the coordination of actions.

The costs associated with big size of government

A limited government is important for Cameroon because having a big government size in an economy is expensive. Big government size is expensive as it implies more expenditures in terms of the operating budget, human resources, and logistics. Indeed, big governments usually increase taxes to finance their expenditures. They tax workers and corporate bodies at higher rates. For example in France, single workers earning two-thirds of the average wage hand over 43% of their potential income to their government. This is somehow unbelievable.

In Cameroon, because of the big size of government, workers and corporates bodies are charged at higher rates. Cameroon's corporate tax is 33% in total. It is high as compared to the average rate across African countries estimated at 28% in a recent study. In general, corporation tax refers to a direct tax imposed on the net income or profit that enterprises make from their businesses. So, a high rate implies fewer funds available to make productive investments and to build greater companies. This situation can discourage foreign investors and drive out domestic investors.

Moreover, Cameroon's value-added tax (19.25%) remains also high compared to the average rate across African countries estimated at 16%. This value-added tax represents the main source of fiscal receipts as it accounted for 26.5% of the 2019 annual budget. In general, value-added tax (VAT) is a consumption tax that the seller of goods or services must add to the price. So, a high VAT increases the retail price level of food, for example, it reduces the purchasing power of households and, it erodes workers' extra earnings.

Based on the above explanations, it is clear that a big government size reduces opportunities and economic liberties in Cameroon. Under these conditions, small businesses are prevented from growing and workers are inhibited from enjoying prosperity as well as welfare. This situation is not really surprising as 79.1% of Cameroonians believe the economy is headed in the wrong direction according to a 2018 public opinion survey. It is, therefore, possible to perceive a problem of coordination associated with the big size of government.

The problems of coordination in a big government system

A limited government is important in Cameroon because, in big government systems, it is difficult to enforce contracts. Indeed, Nobel Prize-winning economist Douglass North identifies the lack of means for enforcing contracts as the single most important source of economic stagnation and underdevelopment. In other words, countries that enforce contracts at a high speed usually experience an economic booming.

In Cameroon, the enforcing contract indicator, which measures the time and cost for resolving a commercial dispute through a local first-instance court, is not good as compared to other countries and regions. For example, according to the 2020 Doing Business Index, it takes 800 days to resolve a commercial dispute through a local first-instance court in Cameroon as compared to approximately 655 days in the Sub-Sahara region, 300 days in Nigeria, 465 days in Kenya, and 589 days in the Organization for Economic Cooperation and Development (OECD). In addition, the cost of resolving a commercial dispute through a local first-instance court represents 46.6% of the claim value in Cameroon as compared to 41.6% in the Sub-Sahara, 39.8% in Nigeria, 41.8% in Kenya, and 21.5% in the OECD region.

In 2019, Cameroon made enforcing contracts easier by adopting a law that regulates all aspects of mediation as an alternative dispute resolution mechanism. However, it is not yet possible to experience and quantify the benefits of such a law as courts remain the most used mechanism by Cameroonians to resolve disputes.

In addition to the above arguments, it is possible to observe that in big government systems, the administrative bottleneck is a shared value. Indeed, it is difficult to follow a file and to realize a public policy that requires the intervention of several administrations. Government cohesion is not at its top. Many ***tracesseries*** are observed. And as a consequence, corruption arises.

Generally, countries with small government size are less corrupt and freer economically. In Africa, it is the case of Mauritius, Nigeria, and Kenya just to name but a few. As compared to Cameroon, these countries occupy high rankings both in the 2017 Economic Freedom Rankings (from the Fraser Institute) and the 2018 Corruption Perceptions Index reported by Transparency International. The table below gives a clear overview:

Table 1. Economic Freedom, Size of Government and Corruption

	Economic Freedom Index (World Ranking on 162 countries)	Size of Government (Score on 10)	Corruption Perception Index (World Ranking on 180 countries)
Mauritius	9	8.05	56
Kenya	70	7.43	144
Nigeria	81	8.59	144
Cameroon	140	6.95	152

Source: Author (based on data from Fraser Institute (2017) and Transparency International (2018).

To conclude, a limited government in Cameroon will enable small businesses to flourish and create opportunities for all. It will stimulate choice and competition, government efficiency in resource allocation, and reduce corruption. Limiting the government size in the economy will lower tax rates for workers and corporate bodies hence promote economic welfare. Adopting such a measure will also help to shift the current paradigm and place the private sector at the center of the economy. To do so, policymakers need to adopt and encourage policies that favor economic liberties and economic freedom. In that perspective, an e-governance system will enable citizens to track budgets hence promoting transparency as well as accountability.

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