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ECO206 ASSIGNMENT

1. Public expenditure will continue to grow. Discuss.

Public expenditure is spending made by the government of a country on collective needs and wants such as pension , provision, infrastructure, etc.

There are several factors that have led to an enormous increase in public expenditure through the years

1) Defense expenditure due to modernization of defense equipment by the navy, army and air force to prepare the country for war or for prevention causes-for-growth-of-public-expenditure.

2) Population growth – It increases with the increase in population, more of investment is required to be done by government on law and order, education, infrastructure, etc. investment in different fields depending on the different age group is required.

3) Welfare activities – welfare, mid-day meals, pension provisions etc.

•Provision of public and utility services – provision of basic public goods given by government (their maintenance and installation) such as transportation.

•Accelerating economic growth – in order to raise the standard of living of the people.

•Price rise – higher price level compels the government to spend an increased amount on purchase of goods and services.

•Increase in public revenue – with the rise in public revenue government is bound to increase the public expenditure.

•International obligation – maintenance of socio-economic obligation, cultural exchange etc. (these are indirect expenses of government)

4) Wars and social crises – fighting amongst people and communities, and prolonged drought or unemployment, earthquake, hurricanes or tornadoes may lead to an increase in public expenditure of a country. This is because it will involve governments to re-plan and allocate resources to finance the reconstruction.

5) Foreign aid – Acceptance by the richer industrialised countries of their responsibility to help the poor developing countries has channeled some of the increased public expenditure of the donor country into foreign aid programmes.

2) Canons of public expenditure.

(1) Canons of Maximum Social Benefit:

The principle of maximum social benefit, as canons of public expenditure, implies that the Government should plan it’s expenditure in a manner as to promote the greatest good of the greatest number. Public expenditure refers to expenses Incurred by public authorities central, state and local on its various activities. The activities of public authorities Include the primary activities as the civil administration and defense of the country etc.

(2) Canons of Economy:

The canon of economy , as canons of public expenditure, suggests that the State should be economical in spending. It implies two things, Firstly; the Government should not spend more than the amount required to be spent on particular item of expenditure. Secondly, The State should spend money in such a way that might develop the productive capacity of the community as much as possible. The first consideration has reference to the present while second consideration has reference to the future. The main aim of the canon is to avoid the wastage and extravagance of any kind. In this reference, it is necessary to check duplication of expenditure. In this connection, the Government should see that the expenditure should not produce , any adverse effect on production and on the will and the power of the people to sue .

(3) Canons of Sanction:

What it implies is that the Government, before incurring any expenditure on any item should obtain the proper sanction and approval of the competent authority. Without its approval, the Government department cannot incur any expenditure or any expenditure beyond the specified limit. In a democratic country, competent authority is the legislature. The government presents its budget before the legislature and gets approval and only then the government departments can incur expenditure.

(4) Canons of Surplus or Balanced Budget:

According to this canons of public expenditure, the state must avoid resort to deficit financing as far as possible. The classical economists always preferred surplus budget just like an ordinary citizen. But in modern time, balanced budget (no deficit no surplus budget) is preferred. It implies that the balanced expenditure must be balanced to public revenue. The policy of deficit financing is not tenable for long. Surplus budget also cannot find favor because it implies that the government is spending much less than what it should. The tax payers will realize a burden in paying tax. So, the government should prepare a balanced budget.

(5) Canons of Flexibility or Elasticity:

Flexibility must be there in public expenditure. It implies that the expenditure may be expended or contracted according to the requirement of the time. At a time of crisis, the expenditure should be cut down because the income of the government is expected to be short at such a time.

3) Why do government borrow?

The government borrow due to the following reasons

1. To Finance Deficit Budget

When a government plans a deficit budget, it resorts to borrowing in order to finance it.

2. Fluctuation of National Income

Government may decide to borrow when its total income earned over a period of time falls below expectation.

3. To Finance A Huge Capital Project

Government of a country borrows in order to finance a huge capital project which the recurrent expenditure cannot finance.

4. To Procure War Materials

There may be a need for government to borrow in a war period in order to procure materials with which to go to war.

5. Servicing of Loan

Government sometimes borrows to enable it pay interest loans it obtained and to repaid debts that are due which is called funding operation. This is a process whereby a short-term debt is converted into a long-term debt.

Due to current situation in Nigeria will you advice borrowing?

Justify your answer.

No I will not advice borrowing.

Reasons

1. I wouldn’t advice the government to borrow because they are already living in debts

2. If they borrow they will fall into serious debt trap

3. And they also borrow for borrowing sake.

3.INDICATORS OF LAISSEZ FAIRE ECONOMY BY ADAM SMITH

The individual is the basic unit in society, i.e., the standard of measurement in social calculus.

The individual enjoys a natural right to freedom.

The physical order of nature is a harmonious and self-regulating system.

The basic purpose of the laissez-faire economy is to promote a free and competitive market that demands the restoration of the order and natural state of liberty that humans emerged from. A laissez-faire economy is thus characterized by the free movement of forces of supply and demand, free from any form of intervention by a government, a price-setting monopoly, or any other authority.

HOW WILL YOU WANT YOUR TENURE TO BE REMEMBERED?

1. To be remembered for Developing specific policies on a regular basis. By law, these policies must promote free competitive enterprises.

CANONS OF TAXATION BY ADAM SMITH:

1. Canon of equity: according to Adam, the taxation imposed on an individual should be backed up by his ability to pay

2. Canon of convenience:the maxims seems to mensure that the time and method of payment of the tax become most convenient to the tax payer

3. Canons of certainty: a tax should not be hard for the payer to pay and it should not cause hardship. The individuals should be certain of the time they should pay their taxes.

4. Canon of economy: a good tax will require the least possible expenditure on collection of taxes

HOW PRACTICAL IS THE CANON TO NIGERIA

The Nigeria Tax system is basically structured as a tool for revenue collection. This is a legacy from the pre-independence government. Based in 1948 British tax laws and have been mainly static since enactment. The need to tax personal incomes throughout the country promoted the income tax management Act of 1961. In Nigeria, personal income tax (PIT) for salarien employment is based on a “pay as you earn” (PAYE) system and several amendment have been made to the 1961 ITMA Act. For instance, in 1985, PIT as increased from N600 or 10 percent of earned income to N2000 plus 12.5 percent of income exceeding N6, 000. In 1987, a 15 percent withholding tax was applied to savings deposits valued at N50, 000 or more while tax on rental income was

intended to cover chartered vessels, ships or aircraft. In addition, tax on the fees of direction was fixed at 15 percent. These policies were geared to achieving effective protection for local industries, greater use of local raw materials, generating increased government revenue among others.

Since the implementation of the Structural Adjustment Programme (SAP), however, taxes have been used to enhance the productivity and competitiveness of business enterprises. Consequently, attention has been focused on promoting exports of manufactures and reducing the tax burden of individuals and companies. In line with this charge in policy focus, many measures were undertaken. These involved, among others, reviewing custom and excit duties, continuing with the reduction of company and income taxes, expanding the range of tax exemptions and rebates introducing capital allowances, monetizing benefits and implementing VAT. Nigeria has a number of tax treaties referred to as double taxation Agreements with a number of countries. This is to ensure that the tax payables in Nigeria on the Profit of a Nigerian Company being remitted into the country are reduced by the amount of ‘Foreign Tax” paid abroad and vice versa. In the last few years, Nigeria has entered into double taxation agreements with a number of countries.

These agreements are entered into with a view to affording relief from double taxation in relation to taxes imposed on profit taxation in Nigeria and any taxes of similar character imposed by the laws of the country concerned. Where an Overseas Company receives profits from Nigeria that have already been taxed in Nigeria. Some of these countries include the UK, France, and Netherlands Belgium Canada and Pakistan. The following are however, exempted from tax:

• Medical or Dental expenses incurred by the employee

• Retirement gratitude and compensation loss of office.

• The cost of passage to or from Nigeria incurred by the

employees.

• Interest on loans for developing an owner-occupied residential

house.