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QUESTION

1. Public expenditure will continue to grow. Discuss
2. Explain the various canons of public expenditure with appropriate scenarios
3. Why do governments borrow? Looking at the economic situation of the Nigerian state will you advise borrowing? Justify your answer.
4. What are the indicators of a laissez faire economy by Adam Smith?
5. As a new chief economic adviser of your state, how best will you want your tenure to be remembered, noting that government cannot do it all alone?
6. With practical examples, identify the canons of taxation as proposed by Adam Smith. How practical are the canons to the Nigeria?

ANSWER

1. Public expenditure firstly is defined as the spending made by the government on collective needs and wants such as pension, provision, infrastructure, etc. public expenditure will continue to grow for the following reasons
2. Defense expenditure due to modernization of defense equipment by the navy, army and air force to prepare the country for war or for prevention cause for growth of public expenditure.
3. 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.
4. 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 obligations, cultural exchange etc. (these are indirect expenses of government)

1. 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 government to re plan and allocate resources to finance and reconstruction.
2. Creation of super national organizations: eg, the United Nations, NATO, European community and other multinational organizations that are responsible for the provision of public goods and services on an international basis, have to be financed out of funds subscribed by member states, thereby adding to their public expenditure.
3. Foreign aid: acceptance by the richer industrialized 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 programs.
4. Inflation: this is the general rise in the price level of goods and services. It increases the cost of all activities of the public sector and thus a major factor in growth in money terms of public expenditure.
5. The canons of public expenditure are:
6. Canon of benefit: canon of benefit is one of the important canons put forwarded by professor kinley shiras. By this canon, public expenditure should aim to achieve maximum social benefits. It is based on the principle of equality. Because maximum social benefits can be established only when the public expenditure spends based on the principle of equality. That is, this canon accentuates to eradicate inequalities and other social burdens in between different locations, uses of economic resources, benefits of each sectors etc.
7. Canon of economy: similar to the canons of taxation, canon of economy is a strategic one. It is refers the economizing the public expenditure. That is public expenditure of an authority must aims to reap maximum benefits with limited costs. Canon of economy is again emphasis on the prevention of over expenditure and wastage in public finance. There must be proper planning in the economy for the better utilization of its resources.
8. Canon of sanction: canon of sanction in public expenditure is connected with the process of approval of various programs and schemes of government such as sanction of projects, researches, implementation of various recommendations etc. there should be a cost benefit analysis in the canon of sanction. Then only maximum social advantages can be attained.
9. Canon of surplus: canon of surplus is another principle of public expenditure. This says that, the government must follow reasonable policies in the budget. Canon of surplus accentuate on the avoidance of deficit budget. Even though deficit budget helps the economy to generate more employment and income particularly in times of depression, over spending will badly affect the entire economy and the control of government over the economy. In short canon of surplus highlights the major issues of over spending and long run experienced deficit budget.
10. Canon of production and distribution: this principle of public expenditure referred to the public expenditure must ensure maximum productivity. This will help the country to achieve growth and development. Along with that, the public expenditure aims at the sustainability. Similarly on the side of distribution, public expenditure must be based on the principle of equality. It should help the country to eliminate inequality in gender, community, classes etc.
11. Canon of elasticity: the principle of elasticity says that, public expenditure must have the character of flexibility. This is because, sometimes, the economy may be in need of huge public expenditure particularly in the time of depression. Therefore, it must be elastic in nature. Then only can economy maintain stability.
12. Canon of certainty: canon of certainty refers that; there should be a surety in public expenditure. Because, there are so many groups in the economy, who are interested to know about public expenditure. Surety in public expenditure denotes the government support. This is very essential for the creation of inspiration among producers, consumers and other economic agents.
13. Canon of neutrality: this principle talks about the equilibrium in public expenditure. This means public expenditure must keep an equilibrium level which is favorable to the entire parts of the economy. It should not badly affect the economy such as production, distribution, exchange, etc. In fact, canon of neutrality is emphasis on the sustainability of an economy.
14. Canon of program and canon of performance: canon of program says that, there should be a good programs and schemes in the public expenditure which ensure the equality in the economy. The programs may be in the forms of welfare schemes, social insurance etc. similarly, canon of performance is emphasis on the evolution of programs and schemes implemented in the economy. Good system of auditing will ensure the better maximization of the society by eradicating corruption, unlawful practices etc.
15. Reasons why government borrow are:
16. Tax revenues are less than predicted: borrowing means the government can meet a temporary shortfall by borrowing, rather than having to immediately cut back on spending. Like an overdraft facility, government borrowing gives the government more flexibility and means they can maintain wages and spending commitments without having to keep cutting spending.
17. Automatic fiscal stabilizers: in a recession, government tax revenues fall (eg, people earn less so pay less income tax). Also, the governments have to spend more on unemployment benefits. Therefore, in an economic downturn, borrowing rises. To eliminate borrowing in a recession would make the recession worse and increase inequality. If the government couldn’t borrow in a recession, the unemployed may not get any benefits and have no income. Also, higher taxes and lower spending would reduce domestic demand and make recession even worse.
18. Investment: the government may invest in public sector investment. For example, building schools, hospitals, better roads. This investment can give a return on the investment which helps boost productive capacity and increase economic growth. In this case, the government is acting like a firm whom takes out a loan to finance investment.
19. Spending commitments: the government is committed to providing certain benefits, such as pensions and health care spending. With an ageing population, this puts upward pressure on government spending to rise; therefore, governments may start to run a structural deficit.
20. Political: the biggest tendency to borrow comes from political pressures voters generally like to hear the promises of lower taxes and increasing spending. A manifesto to tackle a budget deficit (higher taxes and lower spending) is unlikely to be popular. Voters often are supportive of the general idea of reducing government debt, but when it comes to actual policies like lower benefits, higher pension age, increased VAT rate, and then it is likely to hit some particular pressure group with a vested interest in maintaining low tax and spending. For a government to increase borrowing is generally less politically damaging than increasing taxes.
21. War: during a war, government spending is stretched leading to higher borrowing. The highest rate of borrowing occurred during the two world wars. Also, during wars, it may be easier to self-bond as you can play the patriotic card to encourage people to finance government borrowing.
22. It’s cheap: governments like the UK can usually borrow at very low interest rates, especially during an economic downturn. This is because people have confidence government bonds are secure and so are willing to lend at low interest rates. When borrowing costs are low, it can be more desirable to borrow than raise taxes.
23. Economic growth tends to reduce the real debt burden: in the early 1950s, UK public sector debt was over 200% of GDP. However, very next few decades, economic growth helped to reduce the burden of debt. Assuming constant economic growth of 3% a year, the government can borrow more but maintain the same % of tax revenue on interest payments.

As a citizen of Nigeria I do not advise Nigeria to borrow in this present economic situation. Nigerians debt status has increased from 2015 till now with an amount of over $85 billion. We remain dependent on oil for 90% of our export earnings which owes partly to the fact that almost two third of the economy remains in informal sector. The money being borrowed by Nigeria is not showing because we the citizens don’t see any improvement. The money Nigeria owes as a country it will take a lot of time before it is completely paid back and that’s if our government isn’t adding to the debt status. As it is now a large chunk of our national’s budget is still committed to debt serving. This often affects state spending on other important aspects that have direct and positive impacts on the lives of working class people such as health, education, Social infrastructures and public industries. 50% of the country's revenue generated is spent on external debt servicing and the government will still want to borrow more. As a citizen I strong advise the government to stay away from borrowing completely and try to pay up the debt and not rely completely on the oil sector to do so. Also they should not spend 50% of revenue generated to pay of external debt when the country needs such amount of money to grow and develop. If they can sponsor the development of the country, when the country is fully develop and are generating revenues from different sources, paying the debt back becomes easier.

1. The indicators of a laissez faire economy by Adam Smith are:
2. The individual is the basic unit in society, i.e., the standard of measurement in social calcus.
3. The individual enjoys a natural right to freedom
4. The physical order of nature is a harmonious and self-regulating system
5. Absence of taxes
6. As a new chief economic adviser I would like my tenure to be remembered for the good things it will do and these are:
7. I would always prepare an annual economic report that I shall release in a specific month of each year. The report will give the economic background that supports the president annual budget using data and analyses to back up these priorities.in this report I will firstly summarize what happened to the economy, and what’s likely to happen, from some of the most knowledgeable economists in the country that I will hire to help me. Secondly I will provide useful data that can’t be gotten anywhere else. Thirdly I will give an insight into the president’s budget. I will explain why sometimes are in the budget, why some where cut out and all.
8. I will review economic indicators
9. I will review federal agencies. I will recommend corrections to the president if agency activities don’t support economic initiatives
10. I will by the help of some law makers develop specific policies on a regular basis. By law, these policies must promote free competitive enterprise. This will help in making the country's business world booming cause a lot people will go into starting their own companies thereby making goods available in abundance to citizens and reducing the prices of goods. The policies will also suggest ways to avoid future economic crises or end the existing one .the recommendations must also maintain employment and production.
11. I will prepare economic research reports and I will need the help of a lot of researchers to do this. The report will cover a broad range of current issues and also suggest new ways to measure GDP.

I hope with this my tenure will be remembered for good and only the best of things.

1. Canons of taxation:

A tax has no connection with the benefit received by the payer. Also, charge is compulsory.

Hence in distributing the burden of taxation, a person’s share cannot be decided with reference to the benefit derived by him.

Adam smith laid down four principles to guide the taxing authority.

Adam smith’s canons: the principles or canons of taxation enunciated by Adam smith were so important that they have become classic. They are:

i) Canon of equality: ‘the subject of every state’, smith asserted, ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities, that is, in proportion to the revenue which they respectively enjoy under the protection of the state. In the observance or neglect of this maxim consists what is called the equality or inequality of taxation. ‘Equality here does not mean that all tax payers should pay an equal amount. Equality here means equality or justice. It means that the broadest shoulders must bear the heaviest burden.

This canon has given rise to two theories:

a) Equality or sacrifice theory: it means that the burden of taxation should involve an equal sacrifice for every individual. This equality, however, though good in theory, is difficult to attain in practice. Sacrifice is subjective, something in the mind and feelings of a person. It is difficult to measure. Besides, it has to take into consideration the number of dependents on the earning member in the family and their standard of living.

b) The second principle indicating justice is the ability or faculty theory: which hold that the rich should be made to pay something more than proportionate to their income? A man with an income of Rs.500 per month will not, other things being equal, feel the same pinch in parting with Rs.50, as a man with an income of only Rs.50 feels in paying Rs.5 (though the percentage is the same), because the farmers faculty to pay is greater. On this principle is based progressive taxation, i.e., increasingly higher rates of taxation as income increase. Proportional taxation will not do justice.

ii) Canon of certainty: Adam smith further said, ‘the tax which each individual has to pay ought to be certain and not arbitrary. The time of payment, the amount to be paid ought all to be clear and plain to the contributor and to every other person’. The individual should know exactly what, when and how he is to pay a tax otherwise it will cause unnecessary suffering. Similarly, the state should also know how much it will receive from a tax.

iii) Canon of convenience: smith wrote, ‘every tax ought to be levied at the time or in the manner which it is most likely to be convenient to pay it’. Obviously, there is no sense in fixing in time and method of payment which are not suitable.

iv) Canon of economy: lastly, Adam smith held that ‘every tax ought to be so contrived as both to take out and keep out of the pockets of people as little as possible over and above what it brings into the public treasury of the state’. This means that the cost of collecting should be as small as possible. If the bulk of the tax is spent on its collection, it will take much out of the people’s pockets but bring very little into the states pocket. It is not a wise tax.

Other canons were later added to Adam smith’s canons and they are:

1. Canon of productivity
2. Canon of elasticity
3. Canon of simplicity
4. Canon of variety
5. Canon of flexibility

The canon of taxation by Adam Smith is very practical in Nigeria. We have a body that does the work of collecting the tax and this is called the FIRS. There are taxes such as companies income tax, personal income tax, value added tax, capital gains tax, withholding tax, stamp duties, custom and excise duties. The taxes are made at a specific date in a month and they are mostly paid online. We pay our personal income tax at a progressive rate.