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ASSIGNMENT

1. Public expenditure will continue to grow. Explain.

Public expenditure is spending made by the government of a country on collective needs and wants such as pension, provision, infrastructure, etc.public expenditure grows in response to growth in the general price level (inflation), which means that even if the population does not increase, or its growth rate remains constant, the public expenditures will still increase to keep pace with the rising costs of inflation.

Causes of growth of public expenditure

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) Creation of super national organizations – E.g., 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.

6) 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.

7) 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.

1a**) Canons of public expenditure**

There are 5 canons of public expenditure which are presented for you one by one.Generally, government expenditure on public activities is much higher than the revenue collected through various sources. The deficit is made lip of public debts and other sources.5 canons of public expenditure are:

(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.

The principles or 5 canons of public expenditure should be followed by the government which taking up the project. Sanctioning authority should think well before sanctioning a budget.

1b) why does government borrow?

government borrows so that it can enable higher spending without having to increase taxes.

- The annual amount the government borrows is known as the budget deficit.
- The total amount the government has borrowed is known as the national debt or public sector debt.

There are many different reasons for government borrowing.

- 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.

- Automatic fiscal stabilisers: n a recession, government tax revenues fall (e.g. people earn less so pay less income tax). Also, the government 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 the recession even worse. (automatic fiscal stabilisers)
- 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 to boost productive capacity and increase economic growth. In this case, the government is acting like a firm who takes out a loan to finance investment.
- 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. See – rising cost of pension spending
- War. During a war, government spending is stretched leading to higher borrowing. The highest rates of borrowing occurred during the two world wars. Also, during wars, it may be easier to sell bonds as you can play the patriotic card to encourage people to finance government borrowing.

ADVISE:
Looking at the economic situation of Nigeria at the moment, I would advise borrowing as it will help with the current pandemic in terms of providing food for the citizens, getting the right equipment and safety gear needed to combat the virus and assisting in sending out safety measures to citizens.

2.) According to Adam Smith, what are the indicators of a lassiez faire economy?

- Laissez-faire is a French phrase that translates to "leave us alone." It refers to a political ideology that rejects the practice of government intervention in an economy. Further, the state is seen as an obstacle to economic growth and development.Laissez-faire is an economic philosophy of free market capitalism.

The laissez-faire theory mainly advocates government non-intervention. Economic theorist Adam Smith believed that the optimal functioning of markets needed minimal government intervention. However, Smith did raise concerns about the drawbacks of the theory, particularly in relation to the possibility of creating an indolent, lazy, but financially powerful feudal class.

Basic Principles of a Laissez-faire Economy

- 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.

2a.) As the new Chief Economic Adviser of your state, how best will you want your tenure to remembered, noting that government cannot do it all alone

As the current economic adviser of my state(Enugu state), I will want my tenure to be remembered as the period where goods things happened, by doing the following:

firstly I would advise the Governor on how to generate revenue for the state through the royalties the state is entitled from revenue crude oil and through effective tax.

- We would impose effective tax on citizens on the state but we would sensitize the crowd on the effects of paying tax

- I would also set in place policies that would help improve savings and investment so that the state would be prepared for any eventualities or emergencies.

2b.) Adam Smith's Canons:

The principles or canons of taxation enunciated by Adam Smith were so important that they have become classic.

They are:

1) Canon of Equality:

"The subjects 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.

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.

(3) 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 a time and method of payment which are not suitable. Land revenue in India is realised after the harvest has been collected. This is the time when cultivators can conveniently pay.

(4) 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 the people as little as possible over and above what it brings into the public treasury of the State." This means that the cost of collection 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 State's pocket. It is not a wise tax.

In recent times, these cannons have only be practicable in some parts of Nigeria which have good tax systems. An example of some of those states are Lagos state and FCT where revenue is remitted back to the federal Government regularly.
But as for the other states there is much needed to be done to improve the tax system.