1. Public expenditure will continue to grow. Discuss.

Public expenditure will continue to grow because of:

* + 1. Population and size of the country: As a result of the expansion in population and geographical areas of nations, government has to spend to cater its citizens, by creation of jobs, building of infrastructure and investment in defense to protect its region and it citizen from internal or external aggression.
		2. Defense expenditure: a tremendous amount on public expenditure can be attributed to defense. Nations of the world spend a lot on money improving their defense system from a never ending threat of terrorism and war generated externally or internally. No great war has been conducted in the second half of the twentieth century. But the threats of war have not vanished; rather it looms large. Thus, mere sovereignty, demands a larger allocation of financial sources for defense preparedness.
		3. Welfare: in a country where socialist principles are accepted and practiced, the main aim of the government is to uplift its masses and providing social amenities such as; light supply, health care, good roads e.t.c. Various socio economic programs are also undertaking, which increases public expenditure.
		4. Economic development: Economic development is largely conditioned by the availability of economic infrastructure. Only by building up economic infrastructure, road, transport, electricity, etc., the structure of an economy can be made to improve. Obviously, for financing these activities, government spends money.
		5. **Price Rise:** Increase in government expenditure is often ascribed to inflationary price rise.
			- 1. . Explain the various canons of public expenditure with appropriate scenarios..

**1**[**Canons of Maximum Social Benefit**](http://www.knowledgiate.com/principles-of-public-expenditure-cannons-of-public-expenditure/)**:**

This 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. For example defense of the country and its citizens in which everybody including firms benefit.

2 Canons of Economy:

This canon 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. In this connection, the Government should see that the expenditure should not produce, any [adverse effect on production](https://www.knowledgiate.com/effects-of-public-expenditure/) 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](https://en.wikipedia.org/wiki/Public_expenditure)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.

b. why do government borrow? Looking at the economic situation of Nigeria state will you advice borrowing? Justify your answer.

* **Automatic fiscal stabilizers**. In 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 stabilizers](https://www.economicshelp.org/dictionary/a/automatic-stabilisers.html))
* **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](https://www.economicshelp.org/blog/27451/economics/uk-pension-spending-of-gdp/)
* **Political**. The biggest tendency to borrow comes from political pressures. Voters generally like to hear the promise 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, 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. (though ironically, I feel austerity can be [politically popular at all the wrong times](https://www.economicshelp.org/blog/5350/economics/why-austerity-is-politically-popular/))
* **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.
* **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.

In view of the current global situation, the pandemic covid 19 which have affected many countries Nigeria inclusive. For a developing economy like ours, I would advise borrowing as it will aid in battling the current pandemic, by provide safety kits for citizens and front line responders and also to refuel the economy when this is all over.

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**](/resources/knowledge/economics/economic-indicators/).Laissez-faire is an economic philosophy of free market capitalism.

The laissez-faire theory mainly advocates government non-intervention. Economic theorist [**Adam Smith**](https://www.adamsmith.org/about-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,**](/resources/knowledge/economics/supply-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 new chief of economic adviser to the plateau state government I would want my tenure to be remembered as a state of bliss and balanced economy, by prompting the government in investing in:

* Tourism sector
* Farming sector
* Mining sector
* And also generation of revenue through effective taxation and renewable energy.

Plateau state Nigeria is known for high valleys and rocky terrains therefore making it a good site for tourist and wildlife development, through development of standard zoos and wildlife reserved areas, which will in turn increase the number of people visiting in a year thereby generating revenue. For example the rocky areas of Riyom local government area of plateau state can be used by tourist mountain and rock climbers, and also kura falls of mangu

Plateau state is also known geographically for having good climate and soil type for both live stock farming and crop farming. For example mangu local government area, plateau state fresh water crabs and cat fish can be found.

Mining of silver, columbite , and tin can be sold for a greater profit and further manufactured into the production of iron based goods.

Generation of revenue by adequately sensitizing citizens on the need to pay tax and the penalty of tax evasion

And also renewable energy can be made and further sold through hydro turbines installed in kura falls and lamingo dam in generation of energy which can be further sold to neighboring states.

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 bepracticable 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.