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DEPARTMENT: ECONOMICS

COURSE: ECO 206

ASSIGNMENT

1. Public expenditure will continue to grow. Discuss.

Answer

Public expenditure is spending made by the [government](https://en.wikipedia.org/wiki/Government) of a country on collective needs and wants such as [pension](https://en.wikipedia.org/wiki/Pension), provision, [infrastructure](https://en.wikipedia.org/wiki/Infrastructure), etc. It grows in response to growth in general price level (inflation).

Some of the reasons why public expenditure will continue to grow include;

* 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.
* Population growth: It increases with the increase in [population](https://en.wikipedia.org/wiki/Population), more of [investment](https://en.wikipedia.org/wiki/Investment) is required to be done by [government](https://en.wikipedia.org/wiki/Government) on law and order, [education](https://en.wikipedia.org/wiki/Education), [infrastructure](https://en.wikipedia.org/wiki/Infrastructure), etc. investment in different fields depending on the different age group is required.
* 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)
* 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.

1a. explain the various canons of public expenditure with appropriate scenarios..

Answer

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 Includes 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](https://www.knowledgiate.com/causes-for-increase-in-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](https://www.knowledgiate.com/effects-of-public-expenditure/) and on the will and the power of the people to sue.
3. Canon 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 canon 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 elasticity: This canon requires that the rules governing the expenditure policy of the government should not be rigid. There should be enough scope for change in expenditure policy, according to time and re­quirement. Government should be able to increase public expendi­ture during periods of economic emergency and to decrease during periods of normalcy. Even though it is easy to increase expenditure during periods of crisis, it is a difficult process to bring down the volume of expenditure. For example, when an economy suffers from unemployment and deficiency of demand, the government should be capable of spending more to overcome this situation.

1b. why do governments borrow? Looking at the economy situation of the Nigerian state will you advise borrowing? Justify your answer.

Answer

Government borrows for the following reasons:

* 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**. 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 stabilisers](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.
* **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.

I would not suggest borrowing. Because they would have to pay back and that will be a problem. Nigeria’s economy at this point is not all that bad, it can still manage with the funds it has, and if money embezzled can be recovered, it will have more than enough. Besides that we are still in debt so borrowing now will just add more to it and they might increase the amount of tax.

1. What are the indicators a laissez faire economy by Adam smith?

Answer

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.

1. 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

Answer

1. With practical examples, identify the canons of taxation as proposed by Adam Smith. How practical are the canons to Nigeria?

Answer

1. Equity: “The subjects of every state 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.”
2. Certainty: “The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person.”
3. Convenience: “Every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it.”
4. Economy: “Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasure of the state.

In recent times, these canons have only been practical in some parts of Nigeria which have good tax systems. An example is Lagos where revenue is remitted back to the federal government regularly. But for some states there is much needed to be done to improve the tax system.