**NAME: SOWUNMI MOTUNRAYOOLUWA CHINEZE.
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 **ANSWERS**

**1)Public expenditure** is the spending made by the government of a country to fulfill it’s responsibilities in a country. Such responsibilities include meeting the needs and wants of their citizens. The government has **5 basic roles** to perform which include:
1) Provision of internal and external security for their citizens.
2) They ensure infrastructural developments ( infrastructure and social amenities) like roads, schools, electricity, etc.
3) Ensuring price stability like stable inflation rate.
4) Providing full employment for their citizens; and
5) Redistribution of income.

From the above roles, it can be seen that there is need for the government to spend money in order to fulfill these roles for the benefit of their citizens and country. Fulfilling these roles of course will involve a whole lot of spending as it will not be fulfilled if spending isn’t involved. Nigeria alone has over 200 million citizens and making sure that each citizen’s need is met will involve a whole lot of spending.

The public expenditure will always continue to grow because at every point in time spending is involved before a change is made in a country. For a country to grow, it has to spend. Population of a country most times keep increasing and just that 1 reason will make public expenditure increase as they have more citizens and there is need to fulfill the needs of such citizens. Personally, as an individual my expenditure keeps increasing because I have needs to fulfill and the value of the currency I spend keeps dropping making me spend more than I ever bargained for but I have no choice because they are some necessities in life, I need and it’s non-negotiable. Some factors that lead to an increase in public expenditure include:

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) The Rural Development Effect:**In an underdeveloped country, the government has also to spend more and more for rural development. It has to undertake schemes like community development projects and other social measures.

**4) The Planning Effect:** In a less developed economy, the government adopts economic planning for the development of the country. In a planned economy, thus, when the public sector is expanding its role, public expenditure obviously shows an increasing trend.

5) **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.[[6]](https://en.wikipedia.org/wiki/Public_expenditure#cite_note-6)
* **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).

6) **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.

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.

CANONS OF PUBLIC EXPENDITURE

1. Benefit: Before a government can spend money it must be beneficial to majority of the citizens in a country. It should not be spent for just an individual or for a particular class of people (like the elites).
For instance, In a country of 200 million people, if money is to be spent on security by the government it should be for the benefit of over 100 million people in that country and not only on the president and government officials.
2. Economy: It implies that public expenditure should be incurred carefully and economically. Economy here refers to avoidance of extravagances or wastages in public spending. It should be productive and efficient. What the money was spent on must be able to yield enough revenue for the country.
For instance, If government spends money on electricity and electricity in the country is very effective, it will lead to a whole lot of revenue as industries will be able to generate more products which will add to the GDP of the country and increase revenue for the country.
3. Equality: Ensuring that individuals are treated equally irrespective of social, cultural, religion differences.
For instance, If Mr. Abdullah who is a citizen of a country and is Hausa and Mr. Bayo who is also a citizen but is Yoruba go for a job interview. The job shouldn’t be given to Mr. Abdullah because he is Hausa and the CEO of that company is Hausa. There should be fair and equal treatment void of tribalism.
4. Sanction: Before government spends money, he must be given sanctioned from a competent authority and also be used for the purpose for which it was stated and that is where budget comes in. A budget is needed to be signed into law before spending.
For instance, if 50 billion is set in a budget for education, it must be authorized by a competent authority to avoid extravagant spending and also to ensure the money is used for that purpose.

Government is an economic agent and every economic agent (individuals, firms, government, foreign sector) is involved in transactions. Government might make transactions in which they are not able to pay fully in cash and so, they run into deficit, hence having to borrow.
Government is always involved in continuous operations even during the process of the budget being passed into law and due to that, a lot of money is needed for them to keep up and fulfill their needs/obligations. Yes, there are other ways to generate revenue like taxes, fines, fees, public assets, grants and aids but sometimes, the revenue is still never enough to settle the expenditure so government tend to borrow.

Borrowing is not all so bad in itself but I believe they should be a limit to borrowing
 In a Country like mine(Nigeria), they tend to keep on borrowing for various reasons, sometimes, they even borrow to settle a previous debt which leads to a debt trap and that is not good at all.
I will advise Nigeria to stop borrowing because sometimes they borrow for the sake of it, other times for consumption activities instead of productive activities and sometimes to settle another debt, leaving them in a debt trap. Not being able to finance the economy as they ought to. Besides. There is really nothing to show for the money they borrow because most times due to corruption, the money goes into their pockets leaving citizens and the country the same way it was before if not even worse.

I advise Nigeria to engage in other activities to raise revenue internally through taxes, fees, fines, etc. Proper enforcement and monitoring should be done when it comes to tax. Government should ensure all citizens comply with the stipulated rules and regulations of tax payment. Our budget is significantly lower relative to GDP. We are currently at six per cent. It is lower than all our peers. We are currently at six per cent and that is the lowest in sub-Saharan Africa and one of the lowest in the world.

“Our budget size is too small and that means we can only pay salaries in some cases and we don’t have money to deliver essential services.

Increased revenue will ensure sustainability, will prevent us from falling into a debt trap and will reduce our debt service to revenue ratio.

Kemi Adeosun once said “Statistics show our tax to GDP at 6 per cent, while the sub-Saharan Africa average is 17 per cent; Asia’s is 26 per cent. Most of the emerging markets and advanced countries are at 30-35 per cent. It is interesting, if you look at the statistics, there is no poor country that has a high tax to GDP ratio and there is no rich country with a lower one. And so, if we want to move with the prosperous countries, we have to do what they do. We will not achieve prosperity in Nigeria if we continue on the tax to GDP ratio that is in the peer group of Afghanistan. I’m sure none of us aspires for Nigeria to become like Afghanistan. We are trying to benchmark ourselves against more developed countries and we must address these problems in a more fundamental sense.”

2) A laissez-faire economy seeks to limit the amount of government intervention in a nation’s economy. Adam Smith wrote about a concept he called “the invisible hand.” Rather than requiring governments to move or allocate resources according to economic needs, the invisible hand was seen when individuals made their own economic decisions. The invisible hand moves goods through a nation’s economy when suppliers take natural resources and produce consumer goods. Once consumers purchase these goods, companies will continue producing them as long as it remains profitable.
Comparative advantage is another unique feature of laissez-faire economics. Countries often have the ability to produce an item better or more efficiently than another. Additionally, countries may have more natural resources to produce consumer goods. A comparative advantage in laissez-faire economics allows countries to engage in a free market, where they can buy or sell goods without fear of government intervention. The efficient use of economic resources ensures that countries can make significant gains for their domestic and international economies.

Indicators include:

Ownership – Assets owned by private individuals.
Equality – Income determined by market forces.
Prices – Prices determined by demand and supply.
Efficiency -Market incentives encourages firms to cut cost.
Taxes – Limited taxes / limited government spending
Healthcare – Healthcare left to free workers.
Problems - Inequality, market failure, monopoly.
Advantages- Dynamic economy, incentives for innovation and economic growth.

2a) As the Chief Economic Adviser, my plan is to advise the government on economic issues especially relating to finance because there is really nothing that is to be done by the government of a country that wouldn’t involve finance (i.e. money). I will let the government know how ensure that there is a management of finance. The Nigerian government has duties/obligations to fulfill which is very true and to fulfill that finance is obviously needed. I will ensure there is a management of this finance as poor management will affect the economy of the country by advising and telling them the positive effects on the economy. My plan is to advise the government on how to effectively prepare a budget having in mind fulfilling their roles as a government and ensuring that the money given to them as a result of approval of the budget is not spent wastefully, instead used for the purpose it was set. Their aim is to cater for the general welfare of the people and that can be done without an extravagant spending by making sure they use the amount budgeted on a particular thing is actually spent on that thing and the money is used for productive activities that will lead to an increase in the GDP of a country.
Although, before spending is done revenue has to be put in place and that involves taxes, fines, fees, borrowing, grants and aids. I will personally advise the government to stop borrowing as a lot of borrowing has been done over the years and our debt rate keeps increasing year by year and if not careful could lead to a debt trap. Debt holders demand larger interest payments. They want compensation for an increasing risk they won't be repaid. That increases interest rates and slows the economy. It puts downward pressure on a country’s currency. Instead of borrowing, I will ensure that the government uses other means like taxes to generate revenue for the country with the aim of fulfilling the canons of taxation. The government can’t provide revenue alone so I will ensure proper rules and regulations guiding taxation is put in place and that citizens follow it thoroughly as their little input is needed in the economy. At the end of it all, the aim is to have enough revenue to cater for the general welfare of the economy.

2b) **(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. Example: All citizens should pay 10% rate of their income.

**2) 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. Example: Payment should be like every month and the same amount e.g #10,000.

**(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. Example : Land revenue in India is realized 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.