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Question 1
Public Expenditure will continue to grow due to the following reasons:
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.

Question 1A

Canon of Benefit:

Benefits from public expenditure may be identified with achieve ment of proper allocation of economic resources, proper distribution of income and wealth in society and stability of price level and growth of economy. According to this principle "public expenditure in every direction must be carried just so far, that the advantage to the com munity of a further small increase in any direction is just counter balanced by the disadvantage of a corresponding small increase in taxation or in receipts from any other source of public income". This canon implies that public expenditure should be planned in such a way as to yield maximum social advantage and social welfare to the community as a whole and not to a particular group of the commu nity.

Canon of economy

According to Findlay Shirras canon of economy should be observed in public expenditure. Economy does not mean stinginess, but avoid ance of waste and extravagance. Limited revenue resources should be used in a productive manner. Duplication of expenditure and over lapping of authorities should be avoided. The money spend should result in the creation of productive powers of the society. Canon of economy also implies that government expenditure should not gen erate any adverse effect on production. Shirras, in this context ob served that "economy means protecting the interests of the tax payer and not merely in effecting economies in expenditure but in develop ing revenue"**.**

Canon of sanction

Canon of sanction has considerable significance in a democratic government. This canon requires that the public authorities should spend money, only after obtaining prior sanction from the concerned authority for the specified purpose. This is done as a safeguard against the possibility of unwise and reckless expenditure. Experi ence has taught the people that all unauthorized spending leads to extravagance and overspending. Without proper sanction there is the danger of misappropriation of funds and possibility of unneces sary spending of public money on the part of highly placed govern ment employees.

Canon of Surplus

The government should always aim at a surplus of income over ex penditure. Shirras observes "public authorities must earn their living and pave their way like ordinary citizens"**.**Government must live within his means. It should not always overspend and run into permanent deficits years after years.If possible the expenditure should be kept less than the earnings of government. The surplus thus gen erated can be used when there is unavoidable deficit. Surplus can be generated either by controlling public expenditure or by increas ing current revenue. However recently there occurred a rethinking about the budgetary policy. It is widely accepted that to fight depres sion and to achieve price stability and economic growth, deficit fi nancing is imperative.

Canon of Elasticity:

This canon requires that the rules governing the expenditure policy of the government should not be rigid. It should be allowed to vary according to needs and circumstances. The expenditure policy should be elastic, rather than rigid in character. There should be enough scope for change in expenditure policy, according to time and re quirement. Government should be able to increase public expendi ture 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.

Canon of Neutrality:

Canon of neutrality implies that public expenditure should have no adverse effect on production and distribution activities of the economy. Public expenditure should only result in increased production, re duced inequality of income and wealth and increased economic ac tivity. The spending activities of the government should always be directed to produce desirable effects and to avoid undesirable effect upon the economy. Public expenditure should only help to improve the production-distribution-exchange relationship in the economy.

Canon of Productivity**:**

This canon implies that, expenditure policy of the government should encourage production and productive efficiency of the economy. Public expenditure should be always directed towards enhancing the pro ductive capacity of the economy.

Canon of Equitable Distribution**:**

According to this canon, public expenditure should be incurred in such a way that the glaring inequalities in the distribution of income and Wealth are minimized. The expenditure pattern of the govern ment should be so designed to benefit the poorer sections of the community. Expenditure programs should be ordained to provide more educational facilities, medical benefits, cheap housing facili ties, old age pension and other social security measures to the vulnerable sections of the community. For achieving this canon, public expenditure should be planned according to specific programs and prioritized as per the availability of funds.

Question 1B

There are many different reasons for government borrowing they include the following;

- 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.
- 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.
- 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.

In conclusion, due to the current situation in the economy, I would not advise borrowing because:

1. The government are already living in debts.
2. If they borrow they will fall into serious debt trap

3. Government borrow money for the sake of borrowing.

Question 2

The laissez-faire theory mainly advocates government non-intervention. 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. Smith also believed that 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 demand and supply, free from any form of intervention by a government, a price-setting monopoly, or any other authority.

Question 2a

As the new Chief Economic adviser for my state, I'll first of all ensure that the president in sit has a vision for the economy and I think that is a problem because once you have a vision, then it is easy. You get people who buy into that vision and those who are competent to accomplish that vision, then it will not be difficult to execute. But once you don't have a vision, people would do their own thing. I would also set policies that would help improve savings and investment so that the state would be prepared for any eventualities or emergencies.

Question 2B

Canons of Taxation by Smith

1. Canon of equity: according to Adam, the taxation imposed on an individual should be backed up by his ability to pay
2. Canon of convenience:the maxims seems to mensure that the time and method of payment of the tax become most convenient to the tax payer
3. Canons of certainty: a tax should not be hard for the payer to pay and it should not cause hardship. The individuals should be certain of the time they should pay their taxes.
4. Canon of economy: a good tax will require the least possible expenditure on collection of taxes.

How practical the Canon is to Nigeria:

The Nigeria Tax system is basically structured as a tool for revenue collection. This is a legacy from the pre-independence government. Based in 1948 British tax laws and have been mainly static since enactment. The need to tax personal incomes throughout the country promoted the income tax management Act of 1961. In Nigeria, personal income tax (PIT) for salarien employment is based on a "pay as you earn" (PAYE) system and several amendment have been made to

the 1961 ITMA Act. For instance, in 1985, PIT as increased from N600 or 10 percent of earned income to N2000 plus 12.5 percent of income exceeding N6, 000. In 1987, a 15 percent withholding tax was applied to savings deposits valued at N50, 000 or more while tax on rental income was
intended to cover chartered vessels, ships or aircraft. In addition, tax on the fees of direction was fixed at 15 percent. These policies were geared to achieving effective protection for local industries, greater use of local raw materials, generating increased government revenue among others.

Since the implementation of the Structural Adjustment Programme (SAP), however, taxes have been used to enhance the productivity and competitiveness of business enterprises. Consequently, attention has been focused on promoting exports of manufactures and reducing the tax burden of individuals and companies. In line with this charge in policy focus, many measures were undertaken. These involved, among others, reviewing custom and excit duties, continuing with the reduction of company and income taxes, expanding the range of tax exemptions and rebates introducing capital allowances, monetizing benefits and implementing VAT. Nigeria has a number of tax treaties referred to as double taxation Agreements with a number of countries. This is to ensure that the tax payables in Nigeria on the Profit of a Nigerian Company being remitted into the country are reduced by the amount of ‘Foreign Tax” paid abroad and vice versa. In the last few years, Nigeria has entered into double taxation agreements with a number of countries.

These agreements are entered into with a view to affording relief from double taxation in relation to taxes imposed on profit taxation in Nigeria and any taxes of similar character imposed by the laws of the country concerned. Where an Overseas Company receives profits from Nigeria that have already been taxed in Nigeria. Some of these countries include the UK, France, and Netherlands Belgium Canada and Pakistan. The following are however, exempted from tax:

- Medical or Dental expenses incurred by the employee
- Retirement gratitude and compensation loss of office.
- The cost of passage to or from Nigeria incurred by the employees.
- Interest on loans for developing an owner-occupied residential house.