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Question:

1. There exists a sharp contrast between theories of public expenditure increase even as population increase while some opined that national expenditure increases in developmental stages. Are these statements true about Nigeria?

b) You had been contacted to as Chief Economic Planner of the state on the subject “Corruption in Nigeria is endemic: Challenges and Solutions”, how do you intend to delight your audience?

2. Conceptualize government failure. What are the scenarios in which it could occur?

b) Presently the global economic is witnessing a nose dive given the pandemic (Covid-19), due to widespread shutdown of productive activities in big economies, restriction of movement by governments, human capacity development inhibitions etc., and your home country has done same. As a social crusader and scientist will you support the gesture in Nigeria? Justify your answer with practical examples.

Answer:

1. Wagner's law suggests that a welfare state evolves from free market capitalism due to the population voting for ever-increasing social services as general income levels grow across broad spectrums of the economy. In spite of some ambiguity, Wagner's statement in formal terms has been interpreted by Richard Musgrave as follows:

As progressive nations industrialize, the share of the public sector in the national economy grows continually. The increase in State Expenditure is needed because of three main reasons. Wagner himself identified these as (I) social activities of the state, (ii) administrative and protective actions, and (iii) welfare functions. The material below is an apparently much more generous interpretation of Wagner's original premise.

Socio-political, i.e., the state social functions expand over time: retirement insurance, natural disaster aid (either internal or external), environmental protection programs, etc.

Economic: science and technology advance, consequently there is an increase of state assignments into the sciences, technology and various investment projects, etc.

Historical: the state resorts to government loans for covering contingencies, and thus the sum of government debt and interest amount grow; i.e., it is an increase in debt service expenditure.

Wagner argued that social progress brought increasing state activity which in turn meant more public expenditure. He adduced three reasons for this growth of state activity:

First, with economic development and increasing division of labor, economic life would grow more complex and therefore the causes of friction would increase for the state to maintain law and order and an efficient economy would require more resources on police and legal services.

Second, new technology would create the need for large amounts of capital in production, which could only be provided by joint stock companies or public corporation. In Wagner's view, public corporation was superior to joint stock company. In particular the state had an increasing role in production where technical conditions favored monopoly.

Finally, Wagner's Law of increasing state activity in field like health and education where the social benefits of the service were not susceptible to economic evaluation. Wagner's thesis contained important insight. He appreciated some of the market limitations. But his thesis in part depended on a particular "organic" view of the state, which was not a necessary interpretation of the situation

Rostow and Musgrave, also carried out a research on the growth of public expenditure and conclude that at the early stages of economic development, the rate of growth of public expenditure will be very high, because government provides the basic infrastructural facilities (social overhead). And most of these projects are capital intensive, therefore, the spending of the government will increase steadily. The investment in education, health, roads, electricity, and water supply are necessities that can launch the economy from the traditional stage to the take off stage of economic development making government to spend an increasing amount with time in order to develop an egalitarian society

I believe this statements to be true especially the rostow and Musgrave theory because Nigeria has to spend more on the development of this first stages first and make it efficient as from this stage will it advance to other stages and the statement that increase in population leads to more expenditure because as the population continues to increase there are needs for more expenses and more spending in the economy in other to bring about growth

1(b). corruption simply means bribery in general understanding but it's more than that. Corruption means injustice, misuse or disorder in morality [bad habits/character], monetary [bribery/fraught/laundering], mental [negative attitude], physical [unwanted provocations] etc. Corruptions of any kind are nuisances to the society. Corruption is the root causes of all the evils in the society. It hampers progress. It brings unhappiness. It produces terrorists. It brings war.

Some challenges to combating and fighting corruption is:

A. The fight against corruption remains uncoordinated, without a well-established plan meaning there are no adequate measures put in place to fight the menace that is corruption

B. citizens believe the fight against corruption has become a “witch-hunt” against members of the opposition party (PDP, previous ruling party)

c. there has not been a single major conviction; all of the politically exposed individuals are yet to be prosecuted

and some of the solutions are:

a. Develop a strong and sustained political will and commitment that is matched by action

b. Improve coordination at all levels including international cooperation so Nigeria can obtain assistance

c. Reduce political interference

d. Societies affected by corruption must develop basic democratic standards, such as freedom of speech and respect for fundamental human rights

e. improves the rule of law in order to overcome the vulnerabilities that aid corruption

f. Promote a strong civil society that can demand action against corruption

2. Government failure, in the context of public economics, is an economic inefficiency caused by a government intervention, if the inefficiency would not exist in a true free market. It can be viewed in contrast to a market failure, which is an economic inefficiency that results from the free market itself, and can potentially be corrected through government regulation. The idea of government failure is associated with the policy argument that, even if particular markets may not meet the standard conditions of perfect competition required to ensure social optimality, government intervention may make matters worse rather than better. As with a market failure, a government failure is not a failure to bring a particular or favored solution into existence but is rather a problem which prevents an efficient outcome. The problem to be solved need not be a market failure; governments may act to create inefficiencies even when an efficient market solution is possible. Government failure (by definition) does not occur when government action creates winners and losers, making some people better off and others worse off than they would be without governmental regulation. It occurs only when governmental action creates an inefficient outcome, where efficiency would otherwise exist

The scenarios in which it could occur are

Distortion of the price mechanism

Intervention through taxation, through subsidization, or via other interventions can result in a distortion of markets and a weakening of the operation of the price mechanism. Taxes and subsidies on goods and services can artificially raise or lower prices and distort how markets work to allocate scarce resources.

Direct taxation can create a disincentive effect for households and firms. We have seen that taxes on harmful demerit goods, where demand is inelastic, may simply mean that more income is allocated to expenditure on harmful goods, and hence less income is available for spending on beneficial goods.

The same is possible with the imposition of a minimum price, such as the one on alcohol, where spending is distorted with the consumer allocating more income to alcohol rather than less.

Subsidies can be criticized as they can encourage the wasteful misuse or over-use of scarce resources. For example, free healthcare can result in doctors’ waiting rooms becoming become full with the malingerers and the so-called ‘worried well’. This can result in a waste of public resources and a denial of access to these services by those in genuine need.

Subsidies may also protect inefficient firms from open competition as well as creating artificial barriers to entry for new firms – given that prices are kept ‘artificially’ low. Subsidies, and other assistance, can lead to the wider problem of moral hazard.

Taxation can also distort behavior by encouraging people to either avoid taxes (which is the attempt to find legal loopholes in the tax system) or evade taxes (which is illegal) through criminal activity such as smuggling and the use of black markets.

Governments can also fix prices, such as minimum and maximum prices, but this can create distortions which can lead to:

Shortages, which may arise when government fixes price below the market rate. Because public healthcare is provided free at the point of consumption there will be long waiting lists for treatment. Surpluses, which may arise when government fixes prices above the natural market rate, as supply will exceed demand. For example, guaranteeing farmers a high price encourages over-production and wasteful surpluses. Setting a ‘minimum wage’ is likely to create an excess of supply of labor in markets where the ‘market clearing equilibrium’ is less than the minimum.

Imperfect knowledge

Information failure is also an issue for governments, given that government and policy makers do not necessarily ‘know’ enough to enable them to make effective decisions about the best way to allocate scarce resources.

Government intervention requires decisions to be made about the degree of intervention and its timing. In order to prevent or reduce market failures, tax rates need to be set and level of subsidies and minimum prices must be decided. However, governments and agencies do not have access to all the knowledge that it required to set the necessary rate or level to achieve the desired outcome. For example, if the government wishes to get 3 million students to attend university each year it may decide to subsidize tuition fees, but it is highly unlikely that it could achieve such a target with precision.

Human factor

People working inside the governments are also ordinary humans. It is usual for humans to strive to reach personal interests and maximize welfare. Thus, if a person places own interests above common interests, decisions taken by such person can degrade public welfare.

Influence of interest or pressure groups

Not uncommon is also the impact of people or even groups of people, who are able to manipulate politicians inside a government in order to reach their common goals. These groups usually have a powerful influence. It is difficult for the society to confront them because these groups act in a coherent way due to restricted number of members and shared objective in contrast to the rest of the society.

Political self-interest

When politicians and civil servants seek to pursuit self-interest, it can lead to incorrect allocation of resources. The pressures of the upcoming elections or the influence of interest groups can support an environment in which inappropriate spending and tax decisions can be made. - e.g. increasing social expenditure before the elections or presenting the main capital expenditure items for infrastructure projects without the projects being subjected to a full and proper cost-benefit analysis to determine the likely social costs and benefits.

Policy myopia

Another cause of the government failure, as many critics of government intervention claim, is that politicians tend to look for short term fixes with instant and visible results that do not have to last, to difficult economic problems rather than making thorough analysis for solving long term solutions.

Regulatory Capture

This happens when the industries under the control of a regulatory agency act to secure commercial or political interests of producers rather than consumers. Which can cause a risk that reduces the quality of life of those consumers. Regulatory capture can happen due to various reasons such as corruption, bribery, etc., mostly when regulators come to the realization of getting some kind of profit from the industry they are regulating. In general, it is expected that the regulatory agency and its industry should have some professional relationships. However, how to spot that it already crossed the line? When the relationship becomes too smooth, close with de-fusing principles, that can be the first incentive of regulatory capture.

Government intervention and evasion

It is believed that when a government tries to levy higher taxes on goods such as alcohol, also called de-merit goods, it can lead to increase attempts of illegal activities as tax avoidance, tax evasion or development of grey markets, people could try to sell goods with no taxes. Also legalizing and taxing some drugs may arise in a quick expansion of the supply of drugs, which can lead to overconsumption, which can mean a decrease in welfare.

2(b). For Nigeria, the country is still sluggishly grappling with recovery from the 2016 economic recession which was a fall out of global oil price crash and insufficient foreign exchange earnings to meet imports. In the spirit of economic recovery and growth sustainability, the Nigerian federal budget for the 2020 fiscal year was prepared with significant revenue expectations but with contestable realizations. The approved budget had projected revenue collections at N8.24 Trillion, an increase of about 20% from 2019 figure. The revenue assumptions are premised on increased global oil demand and stable market with oil price benchmark and oil output respectively at $57 per barrel and 2.18 Million Barrels Per Day.

The emergence of COVID-19 and its increasing incidence in Nigeria has called for drastic review and changes in the earlier revenue expectations and fiscal projections. Compared to events that led to recession in 2016, the current state of the global economy poses more difficulties ahead as the oil price is currently below US$30 with projections that it will dip further going by the price war among key players in the industry. Unfortunately, the nation has grossly underachieved in setting aside sufficient buffers for rainy days such as it faces in the coming days. In addressing these daunting economic challenges, the current considerations to revise the budget downward is inevitable. However, certain considerations that are expected in the review must not be left out. The assumptions and benchmarks must be based on realizable thresholds and estimates to ensure optimum budget performance, especially on the non-oil revenue components.

Furthermore, cutting expenditures must be done such that the already excluded group and vulnerable are not left to bear the brunt of the economic contraction. The economic and growth recovery program which has the aim of increasing social inclusion by creating jobs and providing support for the poorest and most vulnerable members of society through investments in social programs and providing social amenities will no doubt suffers some setbacks. Besides, the downward review of the budget and contractions in public spending could be devastating on poverty and unemployment. The last unemployment report released by the National Bureau of Statistics (NBS) ranks Nigeria 21st among 181 countries with an unemployment rate of about 23.1%. The country has also been rated as the poverty capital of the world with an estimated 87 million people living on less than $2 a day threshold.

The decision to cut the retail price of gasoline under a price modulation arrangement is a welcome development. The cut is expected to curb rising inflation, especially food price inflation which will mainly benefit the poor. However, rather than the price capping regime introduced, by which it is expected of the Petroleum Products Price Regulation Agency (PPPRA) to constantly issues monthly guide on appropriate pricing regime. It is expected that the government will use this opportunity to completely deregulate the petroleum industry in line with existing suggestions and reports. In the event that the global economy becomes healthier and crude oil prices increases, the government might return to the under-recovery of the oil price shortfall by the Nigerian National Petroleum Corporation (NNPC). A policy that annually costs the government huge revenue and recurring losses to the NNPC.

Basically, the Nigerian government essentially must lead economic diversification drive. It is one practicable way to saddle through the current economic uncertainties and instabilities. What the consequences of COVID-19 pandemic should further offer the Nigerian economic managers and policymakers, is that the one-tracked, monolithic reliance on oil is failing. Diversification priorities to alternative sectors such as agriculture, solid minerals, manufacturing and services sectors, should be further intensified.

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