NAME: MENDIE, ETIMBUK IME

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**QUESTIONS:**

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

B. You had been contacted to as Chief Economics Planner of a state on the subject “Corruption in Nigeria is endemic: Challenges and Solutions”. How do you intend delight your audience?

2. Conceptualize government failure. What is the scenario in which it could occur?

B. Presently the global economic is witnessing a nose dive given the widespread shutdown of production activities in big economies, restriction of movement by the governments, human capacity development inhibition 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 example.

**ANSWERS**

1. **WAGNER LAW**

Wagner’s law, known as the law of increasing state of spending, is a principle named after the German economist Adolph Wagner (1835 to 1917). He first observed it for his own country and then for other countries. The theory holds that for any country, that public expenditure rises constantly as income expands, the law predicts that the development of an industrial economy will be accompanied by an increased share of public expenditure in gross national product.

Wagner law suggests that the welfare of the state evolves from free market capitalism due to population voting for ever increasing social service as a general income levels grow across broad spectrum of the economy. In spite of some ambiguity, Wagner’s statement in formal terms has been interpreted by Richard Musgrave as follows; the increase in state expenditure is needed because of the three main reasons. These are social activities of the state, administrative and protective actions, and welfare functions. The following are the interpretation of Wagner’s original premise;

* **Social political**; the state social functions expand over the time of retirement insurance, natural disaster aid (either internal or external), environment protection programs, etc.
* **Economic;** science and technology advance, consequently there is an increase of state assignment into the science, technology and various investment project, etc.
* **Historical;** the state resort to government loans for covering contingencies, and thus the sum of government debt and interest amount grow, i.e., it is an increase in the debt service expenditure.

There has been considerable increase in revenue to the government due to the economic developments over the years, thereby leading to a boost in public expenditure.

**ROSTOW MODEL**

The theory as formulated by Walt W. Rostow in 1960 has five stages which he believed the advanced countries passed through before they got to the stage of development. According to Rostow, transition from underdevelopment to development starts from the traditional society to precondition for take-off, then take off stage and then drive to maturity and eventually to the age of high mass consumption which is the final stage. The five stages are explained below.

1. The Traditional Society Stage

The traditional society stage is characterized by the following: Changes are actually very slow; the economy is agrarian as over 75% per cent of the working population is involved in agriculture; the method of production is crude and as such there is low per capita output and barter system of exchange.

1. The Pre-Conditions for Take-Off Stage

Pre-condition for take-off stage is a period of transition geared towards creating an enabling environment for a self-sustained growth. The traditional society’s rigidity is broken with the development in education; an improvement of science and its application to communication, agriculture and transportation; the emergence of entrepreneurs and a simple banking system, and hence rising savings at this stage.

1. Take-Off Stage

This stage is characterized by rapid, self-sustained growth where the traditional institutions habits do not have significant influence on individuals and the society is driven more by economic processes. At this stage, economic growth becomes a nation’s second nature and shared goal Drive to Maturity Stage According to Rostow, it takes approximately sixty years to get to this stage from the take–off stage. At this stage, 10-20% of national income is steadily invest, output outstrip population, the makeup of economy changes as technology improves rapidly, and new industries accelerate taking the place of old ones

Conclusion

Using Nigeria as a case study, the Wagner law is applicable reason because it is more realistic and it is convenient for a third world country like Nigeria.

B. CORRUPTION

Corruption is a persistent phenomenon in Nigeria. In 2012, Nigeria was estimated to have lost over $400 billion to corruption since independence.

### **Organisational impacts of corruption**

* financial loss
* damage to employee morale
* damage to organization’s reputation
* organizational focus and resources diverted away from delivering core business and services to the community
* Increased scrutiny, oversight and regulation.

### **Individual impacts of corruption**

* disciplinary action
* termination of employment
* criminal charges
* May affect relationships with family, friends and colleagues.

### **Community impacts of corruption**

* wasted taxpayer funds
* loss of goods and services
* lower community confidence in public authorities
* Disadvantage to honest business that miss out on government contracts.
* Over time, corruption has been defined differently. For example, in a simple context, while performing work for a government or as a representative, it is unethical to accept a gift. Any free gift could be construed as a scheme to lure the recipient towards some biases. In most cases, the gift is seen as an intention to seek certain favours such as work promotion, tipping in order to win a contract, job or exemption from certain tasks in the case of junior worker handing in the gift to a senior employee who can be key in winning the favour.
* Some forms of corruption – now called "institutional corruption ‘are distinguished from bribery and other kinds of obvious personal gain. A similar problem of corruption arises in any institution that depends on financial support from people who have interests that may conflict with the primary purpose of the institution.
* An illegal act by an officeholder constitutes political corruption only if the act is directly related to their official duties, is done under colour of law or involves trading in influence. The activities that constitute illegal corruption differ depending on the country or jurisdiction. For instance, some political funding practices that are legal in one place may be illegal in another. In some cases, government officials have broad or ill-defined powers, which make it difficult to distinguish between legal and illegal actions.

SOLUTIONS TO CORRUPTION

Though corruption cannot be totally eradicated, it can be curbed in the following ways,

* The “zero currency” note is a visual aid that encourages people to say “no” to corrupt officials who demand a bribe and to expose where and when bribes are demanded. The concept originated in India where it was known as the “zero rupee” movement and has proved to be a formidable tactic in fighting corruption.

Here’s how it works: when asked for a bribe, you “pay” with a bill that resembles real currency but is actually fake paper money that includes anti-corruption messages.

Youth groups share their disapproval of corruption and are found at local and national levels. Different groups have different goals, but they have one thing in common: a willingness to talk openly about their opposition to corruption and raise awareness about its adverse effects on society. These groups can be formed to take part in a one-off event, around a single issue – stopping bribery for grades in school, for example –or for longer term campaigns.

* **CITIZEN REPORT CARDS**

Most people have an opinion of their government or the services it provides, but how often do they take the time to write down their views? You can help by collecting citizen report cards that provide feedback on public services by the people who use them.

An individual card might not seem meaningful in itself, but a collection of hundreds or thousands of completed cards can generate new perspectives on government performance – which can then be shared with media and used by the public to bring about change.

### **ELECTION PLEDGES**

Politicians may be running for office – but they shouldn’t be able to hide. During the lead-up to elections, candidates are in the spotlight and this is a good time to hold them accountable for their campaigning and election promises.

You can ask your local candidates to sign a pledge against corruption or agree to take specific steps to stop corruption. They can, for example, pledge not to buy or sell votes during the election, a very common form of corruption.

2. GOVERNMENT FAILURE

It refers to as government intervention to resolve market failures, and to manage the macro economy, can fail to achieve a socially efficient allocation of resources. Government failure is commonly defined as a situation where government intervention in the economy creates inefficiency and leads to a misallocation of scarce resources.

#### **Examples of government failure include:**

##### Distortion of the price mechanism

Intervention through taxation, through subsidisation, 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 criticised 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 behaviour 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 provide 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 labour in markets where the ‘market clearing equilibrium’ is less than the minimum.

##### Costs of administration

Excessive bureaucracy is also a potential government failure. This is caused by the public sector when it tries to solve the principal-agent problem. Government must appoint bureaucrats to ensure that its objectives are pursued by the managers of public sector organisations, such as the NHS.

Intervention through the imposition of taxes or through legislation incurs various administration costs. Taxes must be collected through government departments, including **Her Majesty’s Customs and Excise** (HMRC) and laws must be enforced through the legal system. Both of these incur considerable costs.

##### 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 subsidise tuition fees, but it is highly unlikely that it could achieve such a target with precision.

Many economists believe in the efficient market hypothesis, which assumes that the market will always contain more information than any individual or government. The implication is that market prices and market movements should be free from interference because markets cannot be improved upon by individuals or governments.

Critics of intervention and supporters of free markets, such a **Hayek**, argue that it is impossible for a group of planners to have as much knowledge as is contained within a free market, and that government intervention almost inevitably is less efficient as compared with allowed resources to be allocated through freely interacting market forces.

2.

In December 2019, a cluster of pneumonia cases from an unknown virus surfaced in Wuhan, China. Based on initial laboratory findings, the disease named Coronavirus disease 2019 (abbreviated as COVID-19), was described as an infectious disease that is caused by severe acute respiratory syndrome coronavirus 2. The COVID-19 outbreak has since spread to about 196 countries and territories in every continent and one international conveyance across the globe. While there are ongoing efforts to curtail the spread of infection which is almost entirely driven by human-to-human transmission, it has accounted for over [**400,000 confirmed cases with over 18,000 deaths**](https://www.worldometers.info/coronavirus/)

The slowdown in the global economy and lockdown in some countries

# **The implication of Covid-19 pandemic on the Nigerian Economy**

**The Global Health Hazards and Economic Impacts of COVID-19**

In December 2019, a cluster of pneumonia cases from an unknown virus surfaced in Wuhan, China. Based on initial laboratory findings, the disease named Coronavirus disease 2019 (abbreviated as COVID-19), was described as an infectious disease that is caused by severe acute respiratory syndrome coronavirus 2. The COVID-19 outbreak has since spread to about 196 countries and territories in every continent and one international conveyance across the globe. While there are ongoing efforts to curtail the spread of infection which is almost entirely driven by human-to-human transmission, it has accounted for over [**400,000 confirmed cases with over 18,000 deaths**](https://www.worldometers.info/coronavirus/)[**[1]**](http://cseaafrica.org/the-implication-of-covid19-on-the-nigerian-economy/#_ftn1).

Beyond the tragic health hazards and human consequences of the COVID-19 pandemic, the economic uncertainties, and disruptions that have resulted come at a significant cost to the global economy. The United Nations Trade and Development Agency (UNCTAD) put the [**cost of the outbreak**](https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2300) at about US$2 trillion in 2020. Most central banks, finance ministries and independent economic experts around the world have taken solace in the prediction that the impacts might be sharp but short-lived, and economic activities would return to normal thereafter. This line of thought mirrors the thinking of the events that shaped the 2007 global financial crisis. However, it is quite instructive to note that the 2007 crisis which emanated from the United States’ [**subprime mortgage crisis**](https://www.cnbc.com/id/18718555) was mainly an economic phenomenon, with its fallout spreading across many regions of the world. When compared to COVID-19, the 2007 crisis could be described as minor and manageable. The tumultuous events that COVID-19 had spread across the globe cut across every facet of human existence and the consequences may linger [**beyond the second half of 2020**](https://www.weforum.org/agenda/2020/03/the-economic-geopolitical-and-health-consequences-of-covid-19/).

The slowdown in the global economy and lockdown in some countries, such as Italy, Spain and most Eurozone economies and beyond, as a result, COVID-19 has also taken its toll on the global demand for oil. The decline in oil demand is estimated to surpass the loss of nearly 1 million barrels per day during the 2007-08 recession. This is also coming at a time when two key players in the global oil industry – Russia and the OPEC cartel – are at loggerheads on the decision to cut output. The unequivocal oil price war started between these two global oil market giants may have more dire consequences on the oil price that has started to dive. .

Sector-specific implications and impacts could vary. For example, the impacts on the global aviation and tourism sectors are a result of the implications of the pandemic on global travel. As discretionary spending by consumers continues to decline, cruise companies, hotels, and hospitality are facing declining demand and patronage. For example, in Hungary alone, about 40 to 50% of hotel reservations have been **[canceled](https://hungarytoday.hu/tourism-and-hospitality-industries-hit-hard-due-to-coronavirus/)**. Also, the pandemic is placing up to [**8 million jobs in the leisure and hospitality sector**](https://www.usatoday.com/story/money/2020/03/17/covid-19-job-cuts-layoffs-coronavirus-economy/5068695002/) at risk, with travel crashes and cancellations expected to continue. Moody’s Analytics, a rating agency, stated that more than half of the jobs in the United States which is about [**80 million**](https://www.cnn.com/2020/03/16/economy/job-losses-coronavirus/index.html) may be in jeopardy.

The virus is also taking its toll on health facilities and infrastructures across the globe. Italy is currently the largest affected country with a number of deaths surpassing China, since the outbreak of coronavirus. Across northern Italy, the virus has pushed the country’s National Health Service to a breaking point, emphasizing the test that other countries, especially developing and low-income countries, might face in their approach to contain the virus spread. Most hospitals and health facilities that could not handle the hazards are resulting to operating below their capacity by taking a few regular health-related cases or shutting down. What could be more devastating is the fact that the economic pains that accompanied the virus might not go away soon as envisaged.

The conventional policy measures currently being taken such as reducing interest rates and costs of borrowing, tax cuts and tax holidays are quite remarkable. However, these conventional policy measures are quite potent when there are demand shocks. There are limitations to the successes that can be recorded when demand shocks are combined with supply shocks. It is already apparent from the emergence of the current crisis that there are implications on the economy from both the demand and supply sides. Some of the demand factors include social distancing with consumers staying at home, limitations in spending and declining consumptions. On the supply side, factories are shutting down or cutting down production and output, while in other instances, staff work from home to limit physical contact.

The decision to close educational institutions and schools around the globe in an attempt to contain the pandemic has also led to a soaring number of children, youth and adults not attending schools. According to UNESCO Monitoring report on [**COVID-19 educational disruption and response**](https://en.unesco.org/themes/education-emergencies/coronavirus-school-closures), the impact of school closures in the over 100 countries that have implemented the decisions around the world has impacted over half of the global students’ population. These educational disruptions are being escalated particularly for the most vulnerable members of society.

**Bracing up for COVID-19 consequences on the Nigerian economy**

For most developing economies, the odds of sliding into a downturn are gradually expected as the global coronavirus outbreak puts severe pressure on the economy. 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**](https://www.premiumtimesng.com/news/headlines/301896-nigerias-unemployment-rate-rises-to-23-1-nbs.html) released by the National Bureau of Statistics (NBS) ranks Nigeria 21stamong 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.