

Public finance and taxation assignment

Business



There are varying definitions of what public sector economics is and what topics it covers. In a layman's language public economics is the application of economics to the activities undertaken by the state. Black et al. defines public sector economics as "the field of economics which studies the nature, principles, and economic consequences of government expenditure, taxation, financing and the regulatory actions undertaken in the non-profit making government sector".

Thus it looks at the efficiency of various approaches used by government in its day to day operations. For the government uses economic policy instruments which are designed to influence economic behavior in order to achieve certain outcomes. The government has various goals which it pursues they include; I) Macro-economic stability II) Enhanced economic growth III) Balance of payment stability ; v) Income distribution. The ultimate goal of these policies is to improve people's welfare. As already mentioned government uses instrument of fiscal and monetary policy to achieve its goal.

The use of government expenditure and taxation to influence economic outcome is referred to as fiscal policy. Fiscal policy is often outlined through the annual budget which is presented to parliament every year. The budget outlines its objectives in the budget and how these are going to be achieved. On the other Monetary policy is aimed at influencing the supply of money and consequently economic growth. The central Bank is an independent arm of the state which is mandated with running the monetary policy. In Zambia, monetary policy is the responsibility of the Bank of Zambia.

In public sector economics we study the Impact of Instrument of fiscal policy on economic efficiency. Instruments of fiscal policy include; i) Expenditure i) Taxation iii) Financing ; v) Regulations The first two involves the procurement and spending of the government funds on various programs such as public infrastructure, education, health and public security. Example the government collects revenue using tax and spends the revenue on education, health, roads etc. In economic terms the use of these two constitutes the direct manipulation and allocation of scarce resources.

In contrast, regulation entails a law or administratively proclaiming an enforceable Instruction that leads to a different allocation of private sector resources than would apply In the absence of government Intervention. That Is allocation resources are Influenced indirectly. Example the government through the Environmental Council of Zambia investment in environmentally friendly technology by private firms. This is something the profit seeking private sector would not have done if there was no government intervention.

PUBLIC FINANCE AND IDEOLOGY Opinions on how government should function in the economic sphere are influenced by the ideological views concerning the relationship between the state and the individual. Political philosophers have distinguished two major approaches. These approaches are the organic view and the mechanistic view of government. Organic View of Government In this view society is considered as a natural organism and the government is the heart of such an organism. Society is an organic whole, Just as the human body.

Each individual is a constituent part of the organism just like a body part. In this view an individual has significance only as a part of the community and the good of the individual is defined with respect to the good of the whole. A person's action is seen as important if it leads to the improvement of the wellbeing of society. In Plato's view, ' an activity of citizen is only desirable if it leads to a just society. In this view, the goals of society are set by the state which attempts to lead society, toward their realization.

The goals of society do differ from one state to another. For example Plato conceived that the goal of government was the achievement of a golden age in which human activities would be guided by rationality. In short society strives to achieve a state in which the decisions of all individuals and the state were rational. So society would support all activities which would lead to the achievement of this goal. In Adolf Hitler's view, the state's goal was the achievement of social purity. He envisaged the creation of a superior race.

To achieve this goal the state supported all activities which were aimed at removing human impurities. They include bizarre actions such as extermination of Jews, physically disabled people and invasion of all countries to ensure that his goals are achieved over the world. The Grand Ayatollah Khomeini argued that the goal of society is to create good believers. Thus all actions of individuals and the state should be aimed at creating a cadre of believers. Closer home, Uganda envisaged that the goal of society was the attainment of a just society.

He coined the concept of human centered development or Humanism. In this ideology he argued all the actions of individuals and government should be

aimed at achieving a society in which all persons are equal to each other.

Proponents of the organic view argue that certain goals are natural for the societal organism such as pursuit of sovereignty over some geographical area. From a policy perspective, the organic view emphasizes combating poverty and equity issues notably redistribution of income as justification for government intervention.

In addition, this view tends to support the existence of a large government. That is, government has a large part to play in the nation's activities.

Mechanistic View of Government In this view, government is not an organic part of society, but it is a creation of people to better achieve their individual goals. Here, government is seen as a reflection of individual preferences or tastes. In short, society is a mirror of individual wants and needs. In this case, government intervention is only justifiable if it leads to individual welfare maximization.

An individual will only support a government if it helps him/her to achieve their individual goals. Example: government should protect. In Adam Smith's view, government should protect society from violence and invasion from other states. This view advocates for government intervention only to correct market failures and letting the market decide who gets what. In addition, the role of government should be limited to certain public works such as roads, bridges, sewer, and airports. These are infrastructures which make society function.

There are several divergent views within the mechanistic view. Some of these are;) Libertarians' View which argues against any further role in the

economy beyond providing Justice and protecting individual liberty. It) Social democrats believe that sustained government intervention is need for the good of individuals. These interventions can be as diverse as safety regulations at work place, banning racial discrimination, welfare payments to the poor. In totality, the mechanistic approach focuses relatively more on the efficiency of markets and economic growth.

Equity and Efficiency Principles Parent Efficiency-occurs when it is not possible to improve the welfare of some people without making the welfare anyone worse. An economic system that is not Parent efficient implies that it is possible to change resource allocation without making any one worse off. Example if an economic system is not Parent Optimal it is possible to increase consumption by one group and reduce for others without making them feel worse off. This is known as Parent Improvement.