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INFLATION AND MONETIZATION OF FRINGED BENEFITS: THE NIGERIAN EXPERIENCE.

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Abstract

This paper examines inflation and monetization of fringe benefits in Nigeria. It aimed to find out the relationship between monetization of fringe benefits and the direction of inflation rate. The study adopts descriptive method of analysis on data collected from textbooks, journals, thesis and statistical figures. Findings revealed that monetization of fringe benefits was a welcome development in improving the life of workers and reducing waste in governance, it however has relationship with inflation. It was found that recurrent expenditure which measures government's expenses on monetization policy has relationship with inflation. It concludes that where monetization is not effectively managed, its value will be of no worth in the future. The study recommends that the problem of inflation should remain the topmost agenda of the government and Central Bank of Nigeria. Government should ensure fiscal discipline on monetization policy.

Keywords: Inflation, Monetization, Fringed benefits, governance, Nigerian.

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INTRODUCTION

The issue of inflation in economies has remained an issue of national and international debates with varying opinions on causes and the actual effect. To this end, inflation is rise in the price of goods and services. Going by the definition of Umaru and Zubairu (2012), inflation is the persistence rise in the general price level of broad spectrum of goods and services in a country over a long period of time. To Solomon (2016), inflation is not only a sign of instability; it is also a sign of more money pursuing fewer goods. Inflation is considered harmful to economic growth and welfare (Desta, 2016). When there is inflation, the currency loses purchasing power, that is, the purchasing power of a given amount of naira will be smaller over time when there is inflation in the economy. Inflation has been apparent in Nigeria from the outset of our national life. Inflation does not just appear from the moon, it is caused by varying factors as indicated by various studies (Itua, 2000; Bayo, 2005; Orji, Onyeze, & Edeh, 2014).

Although, there are numerous literatures and studies on government expenditure or financial size as a determinant of inflation in Nigeria, there is however insignificant literature on the relationship between inflation and monetization of fringe benefits especially in Nigeria. In 2003, the government of President Olusegun Obasanjo revisited the monetization policy. Conceptually, monetization as a policy has been very difficult to define in concrete terms. To Mobolaji (2003) it is a policy of government initiative involving systematic cash payments for benefits previously available in kinds to public officers.

Eke (2007) provides a more academic and illuminating definition by stating that in the truest sense, monetization is the actual quantification and payments for welfare packages in monetary equivalents. He continues by stating that monetization of fringe benefits refers to the actual quantification of in-kind, non-wage benefits of workers in monetary terms in proportional estimates of percentage value to salary grade level i.e. non-wage benefits are calculated in proportional monetary terms to wages.

Fringe benefits on the other hand are costs of keeping an employee other than salary and these benefits rates are typically calculated using fixed percentages that vary depending on the employee’s classification and often change from year to year (Ebru, 1995; Adeleke, 2010). Chukwu (2006) posit that monetization of fringe benefits entails the use of cash to settle non-cash benefits i.e. the conversion of hitherto, non-cash benefits to cash; consequently, they cease to appear in the overhead cost of government.

Ekaette (2003) documented that the purpose of the policy as contained in the government white paper is to remove the burden of providing basic amenities for public officers who have contributed significantly to the continuous increase in government recurrent expenditure, leaving very little for capital development; it is further argued that it will encourage efficient allocation of resources and equity in the provision of amenities for public officers; it will reduce the high cost of accommodation fee since the policy would encourage civil servants to build their own houses.

Monetization policy which was formally introduced into the Nigerian Public Service in 2005 led to monetization of those physical benefits which were added to the basic salary of workers. And this is an addition to the salary of workers (Adeleke, 2010). Monetization of fringe benefits may seem as a laudable policy by the government but its effect has become a source of debate. Monetization policy not only increases recurrent expenditure over capital expenditure, it also implies that government has to spend more on overhead which is an ingredient for more money into the economy. While most studies have tried to find its associate impact of Monetization on economic growth, few studies have made attempt to find out its relationship with inflation. Based on this, there is therefore little knowledge on the relationship between monetization policy and inflation and that informs the essence of this study. The aim of this paper is therefore to find the relationship between inflation and monetization of fringe benefits in Nigeria. The paper uses descriptive method of analysis based on theoretical review using data from documented literatures.

THEORETICAL FRAMEWORK

The idea of monetization can best be explained by the Keynesian Theory and the Piguo effect theory. Keynes in 1934 proposed a policy which allows government intervention in the capitalist economy and by so doing uses such policy as fiscal tools to direct the economy. He explains that increasing spending can help the economy during depression while reduction in spending can help the economy during periods of inflation. Piguo (1928) on his part noted that public expenditure "…ought plainly to be regulated with some reference to the burden involved in raising funds to finance them". He noted that if a community were literally a unitary being, with the government as its brain, expenditure should be pushed in all directions up to the point at which the satisfaction obtained from the last naira expended is equal to the satisfaction lost in respect to the last naira called up on government service.

Pigou recognized that no community is a unitary being in this sense. Therefore, the governments need to pursue policies capable of minimizing inefficiency and wastages. The costs of doing so, both the administrative and compliance costs and the excess burden or deadweight loss of taxation, he argued, ought to be taken explicitly into account in determining the appropriate level of public expenditure. Government interventions in economic activities are basically in the form of controls of selected areas/sectors of the economy (Ogbole, Amadi & Essi**,** 2011).

The government, along with the cost of economic stabilization, incurs distribution and allocation costs. However, increase in government spending in form of intervention, going by the neo-Classical economists could result to high inflation outcomes given the full-employment assumption (Olayungbo, David & Oluseum, 2013). In general, fiscal policy in many countries is faced with many problems which includes, tax collection difficulties, institutional inadequacy, problems related to access to foreign capital, money issuing to finance public expenditures which in turn causes inflation. Therefore, government expenditures in addition to the impact on production can have an impact on inflation (Georgantopoulos & Tsamis, 2010). It is therefore in the light of the above, that the need to examine the relationship between monetization of fringe benefits and inflation arise.

THE EMERGENT OF MONETIZATION POLICY IN NIGERIA

After the Nigerian independence in 1960 till September 2004, public institutions provided fringe benefits for their workers as part of their conditions of service. To Jimoh (2007), the first problem in running the Nigerian government was the increasing large number of workers entitled to fringe benefits (especially housing, etc) that were being provided with allowances in lieu, as the capacities of available facilities were being over-stretched. As noted by Talba (2004) available records show that as at June 2003, only about 20% of Federal public servants lived in government quarters (either government-owned or rented), while the rest were paid rent allowance implying that those who were entitled to the fringe benefits of living in government-owned houses but could not be provided had the corresponding fringe benefits monetized already. Secondly, the cost of servicing the public service was taking over 60% of federal Recurrent Expenditures (Adegoroye, 2005). CBN annual report further shows that, from 1996 to 2004, the Federal Government's wage bill was about 33% (for 1996) of the federal recurrent expenditures which peaked in 2000 (60%).

Okoye, Anazodo, Izueke and Eze (2012) argued that in reaction to the wastage, high cost of administration, and in search of an efficient means of managing the economy, the federal government introduced the monetization of fringed benefits. Ekaette (2003) describing the Recurrent and Capital Expenditure profile for 1999 - 2002, deduced it to imply a percentage rise of Recurrent over Total Expenditure as 47.45% in 1999; 65.84% in 2002; 56.91% in 2001, and 68.44% in 2002. To Ekatte, such an unpleasant trend could not be encouraged, and no sensible government should be devoting over 60% of its revenue to sustain a public work force that is less than 1% of its population, leaving very insignificant accrued revenue for national developmental projects or infrastructures.

The policy on Monetization was therefore adopted by the government to stem the ever-rising annual expenditure outlay on the benefits provided for public servants, so as to reduce waste. For instance, it costs government a lot of funds to construct, purchase or rent residential accommodation for public servants. Furthermore, large amounts of resources are occasionally spent on renovation, maintenance and furnishing of these residential accommodations as well as on the purchase, fuelling and maintenance of official vehicles for public servants. It was also evident that some public officers maintain many official vehicles in a variety of brands which were liable to various forms of abuse apart from the high maintenance costs.

The idea of monetization policy is intended to reverse recurrent expenditure in favor of capital expenditure. Over the years capital projects have suffered due to high cost of running political, public and judicial office holders. Supporting this assertion, Iji (2003) notes that the burden of providing basic amenities for public officers have contributed significantly to the increase in government recurrent expenditure, leaving very little for capital development. In acknowledging this challenges, The Federal Government of Nigeria through (salaries, Allowances, etc) Act, 2002 which is aimed at efficient allocation of resources and equity in the provision of amenities for public officers, approved the monetization of fringe benefits of public and judicial office holders. Some of the fringe benefits according to the Act are summarized below:

Residential accommodation: Provision of residential accommodation for political, public and judicial officers has been monetized at 100% of Annual Basic Salary to be paid annually to enable the officers to rent houses of their choice. However, in order to avoid exerting severe strain on officers' presently occupying government quarters, in the first year of the monetization exercise, their residential accommodation allowance (100% of Annual Basic Salary) will be converted to rent for the quarters they occupy.

Furniture allowance: A furniture allowance of 300% of annual basic salary will be paid to political, public and judicial office holders once in every four years. This allowance will be paid annually at the rate of 75% of annual basic salary.

Utility allowance: The allowance had already been monetized and shall continue to apply as follows: G.L 01 – 06 - ₦3,600 per annum; G.L 07 – 10 - ₦6,000 per annum; G.L. 12 – 14 - ₦7,800 per annum; G.L. 15 – 17 - ₦9,600 per annum; Permanent Secretary- ₦16,800 per annum; Head of the Civil Service of The Federation - ₦16,800 per annum; Political, Public and Judicial Office Holder 20% of Annual Basic Salary.

Domestic servant allowance: The domestic servant allowance has already been monetized for public servants and the rates still apply as follows: G.L 15 - ₦119,586 per annum; G.L 16 - ₦239,172 per annum; G.L 17 - ₦358,544 per annum; Permanent Secretary has four domestic servants (₦478.344 per annum; Head of Service has four domestic servants (₦478,344 per annum); while political, public and judicial office holders receive 75% of annual basic salary.

Meal subsidy: The allowance has already been monetized as contained in the circular Nos. SWC 04/Vol. IV/991 of 5th May 2000 issued by the National Salaries, Incomes and Wages Commission (NSIWC) and will continue to apply as follows: G.L 01 – 06 - ₦6,000 per annum; G.L 07 – 10 - ₦8,400 per annum; G.L 12 – 14 - ₦9,600 per annum; G.L. 15 – 17 - ₦10,800 per annum; Permanent

Secretary - ₦16,200 per annum; Head of the Civil Service of The Federation ₦16,200 per annum (Bakare, 2011).

MONETIZATION AND ITS FINANCIAL IMPLICATIONS ON NIGERIA ECONOMY

The economic implication of the monetization policy in Nigeria according to Bakare (2011) is a failure since it did not contribute to an increase in gross domestic output nor did it fulfill its goals and targets. In the views of Saka (2012), the monetized of fringed benefit in the Nigerian public sector was expected to improve productivity and efficiency in resource allocation since the country is inching towards full economic liberalization, but if care is not taking in the execution of the policy, it will introduce negative mindset to the workers who may feel cheated by the policy.

Francis (2004) viewed monetization policy in Nigeria as a socially worthwhile initiative. He opined that the cash payment of benefits may act as an incentive to the employee to work harder. For example, the provision of a personal car for a civil servant has implications on his social status that can motivate him to work harder since there will be no need for him to look for loans to acquire this asset.

Ogugua (2009) argued that the challenges of monetization policy are how well the policy could be implemented. He suggested that sizable resources required to fulfill monetization policy should be mobilized for it to be effective. In addition to this, he advised that the government should create positive atmosphere that will allow public servants, whose involvement were not always market driven, the opportunity to successfully bid for and own the government asset to be traded in monetization policy.

MONETIZATION AND ITS RELATIONSHIP WITH INFLATION IN NIGERIA

Like many countries, industrialized and developing, one of the most fundamental objectives of macroeconomic policies in Nigeria is to sustain high economic growth together with low inflation. There is the need to highlight here that price stability does not portend static general price level of goods and services, but rather simply suggests that the rate of such changes is such that it does not attract attention of economic and policy agents. Steady increase in the general price level of goods and services over a long time frame provides evidence of inflation spiral. However, most studies have indicated that monetization of fringe benefits raises recurrent expenditure in that it is a channel through which government makes allocation for such policies since it has to do with wages, salaries and overhead cost (Bakare, 2011; Saka, 2012). From the foregoing, it can be said that monetization increases the level of recurrent expenditure.

Mehrara, Soufiani & Rezaei (2016) using the dynamic system showed more detailed analysis on the relationship between inflation and higher government expenditure by stating that if government expenditure increases, this increase makes the budget situation worse and leads to deficit. They stated further that increasing government debt to central bank (as a source of monetary base) will bring increase in monetary base, and will lead to increase money supply and with regard to the positive relationship between the general level of prices and liquidity, increasing the money supply will lead to an increase in inflation.

Aluko (2003) documented that the major thrust of the policy was the government's resolve to dispose the government houses being occupied by workers before the policy to the occupants of such houses unfortunately these residential houses were offered to workers at outrageous cost beyond their reach. Also, that initially, workers were asked to pay 10% of the cost of such houses for commitment while subsequent payments would be directly deducted from the workers' salaries for between 10 to 15 years period. Against this expectation, the government directed the house occupiers to private Finance Houses for mortgage loans with the finance houses and mortgage banks paying en-bloc the costs of the houses to the Government. Therefore, the fate of the workers were left in the hands of the Finance Houses who were now paying through their noses because of high interest rate, administrative cost and other charges and had been mandated to move their salary accounts from the conventional banks to the various finance and mortgage banks.

For the few years past in Nigeria, government expenditure has kept a rising profile and the trend of inflation rate appears to be on the path of increase as shown in Table 1 and figure 1and 2 below. Central Bank of Nigeria's Statistical Bulletin shows percentage innovations in aggregate government size as 9.52, -9.66, 20.59, 6.90 and -9.42 for 1981, 1991, 2001, 2010 and 2015 respectively with inflation rates responding as follows: 7.7 for 1981, 5.72 for 1991, 18.87 for 2001, 13.72 and 9.42 for 2015.

Table 1: Recurrent expenditure from 1980-2014

Year	Capital expenditure (₦'m)	Recurrent expenditure(₦ 'm)	Inflation (₦ 'm)
2000	239450.90	461600.00	6.9380
2001	438696.50	579300.00	18.8690
2002	321378.10	696800.00	12.8830
2003	241688.30	984300.00	14.0330
2004	351250.00	1290201.90	15.0010
2005	519470.00	1589270.00	17.8560
2006	552385.80	2117362.00	8.2180
2007	759281.20	2300194.30	5.4130
2008	960890.10	2117362.00	11.5810

2009	1152800.00	2127971.50	12.5430
2010	883870.00	3109378.51	13.7200
2011	918500.00	3314513.33	10.8000
2012	874800.00	3325156.25	12.2000
2013	1108386402.10	3689061.06	8.5000
2014	783120.00	3417580.00	8.0000

Source: CBN Statistical Bulletin December 2015.

Fig 1: Recurrent expenditure from 1980-2014

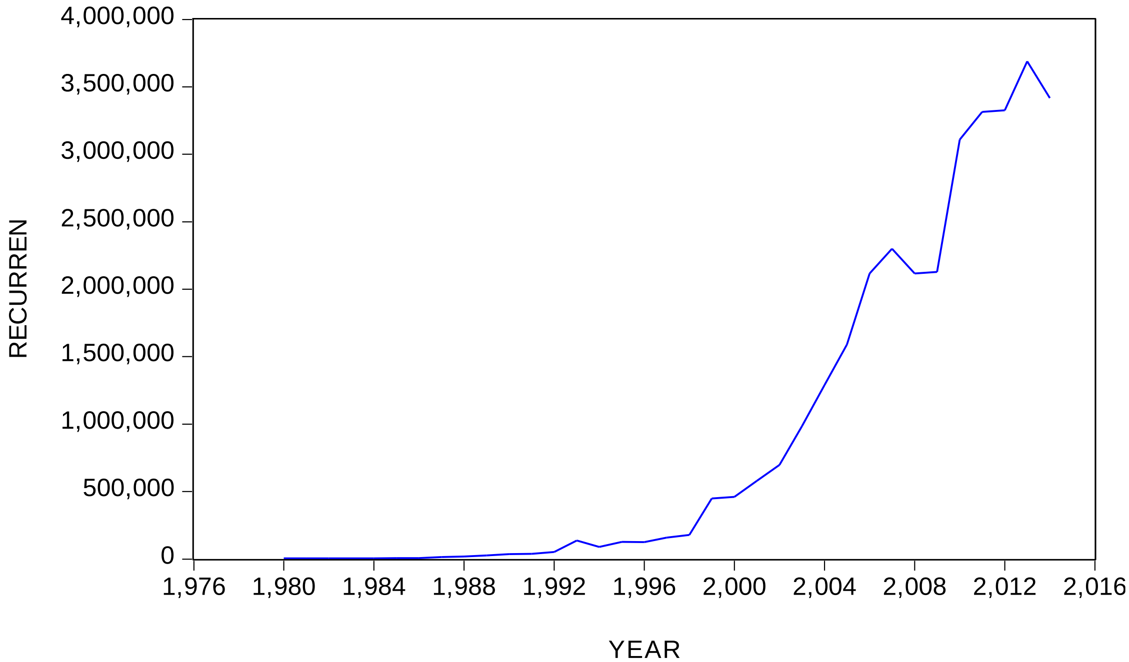
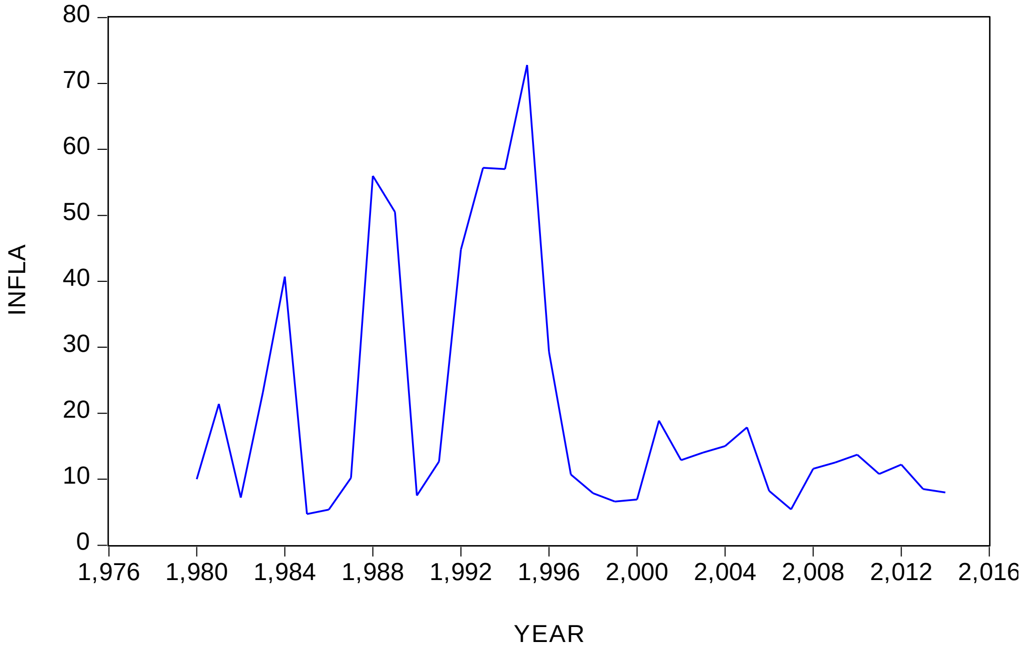


Fig 2: Inflation from 1980-2014



The figure 2 above shows that inflation and recurrent tend to move in the same line direction.

Earlier studies such as Akinifesi (1984) cited in Egbe (2015) identified factors such as increase in government expenditure financed by monetization policy and credit from the banking system has been responsible for the expansion of money supply which in turn, with a lagged-in-effect contributed immensely to inflationary tendencies. Okpara (1988) in his study on government expenditure, money supply and prices in Nigeria, found a very poor and insignificant relationship between government expenditure and prices. He concluded that inflation in Nigeria is a monetary phenomenon. Han and Mulligan (2002) investigated the relationship between inflation and the size of government. They found that inflation is significantly and positively related to the size of government mainly when periods of war and peace are compared. Also they show a weak positive peacetime time series correlation between inflation and the size of government and a negative cross-country correlation of inflation with non-defense spending.

A study by Ezirim & Muoghalu (2006), suggests that the magnitude of government size as a proportion of gross domestic product (GDP) reflects the level of taxation in the economy. They were of the view that when the size of the public sector (measured by the share of expenditure on GDP) exceeds a certain threshold, incentives to produce are discouraged (because of high tax burden). According to them, this will lead to reduction in aggregate supply, scarcity of goods and services making for excess of demand over supply. The net effect of such a bad adjustment between demand and supply is an inflationary spiral.

The outcome of the estimations in a study by Muhammad & Attiya (2013) identified a long term relationship amongst rate of inflation, economic growth and government expenditure. The results further revealed that in the short run time frame, inflation rate is found not to affect economic growth but rather government expenditures is found to have link with economic growth. The causality test results suggest that inflation rate cause economic growth with government expenditure also causing economic growth in Pakistan. The Nigeria context as Olaiya, Nwosa and Amassoma (2012) had noted that in the short run a unidirectional causality existed from economic growth and government expenditure to inflation rate while no feedback from inflation rate was observed. Based on these findings, this study recommends that government should implement policies that would moderate government spending in order to reduce inflation rate.

Saka (2012) using empirical analysis is based on data from the Central Bank of Nigeria statistical Bulletin for the period of 1985 to 2010 examine macroeconomic impact of monetization on the Nigerian economy. The results of the study show that wages and salaries, fringe benefits of public servants and monetization contribute significantly to recurrent expenditure while the real domestic direct resources away from recurrent expenditure towards capital expenditure. In the output estimates, new salary package which has monetization as an important component varies in the right direction with output, and the implication is that new salary package through monetization increases productivity and output.

Ogbonna (2014) using co-integration and vector error correction model (VECM) methods to determine the correlation between government size and developments in consumer price index in Nigeria indicates a long run equilibrium relationship between consumer price index and government size in Nigeria but concludes that in the short run changes in inflation. Oni, Aninkan & Akinsanya (2014) investigates the joint effects of capital and recurrent expenditures of government on the economic growth of Nigeria using the ordinary least square method. The findings in their study indicates that capital and recurrent expenditures impacted positively on economic growth with the recurrent expenditure having a stronger and more accelerating than capital expenditure.

Oniore, Obumneke & Torbira (2015) in their study using Augmented Dickey-Fuller (ADF) Unit Root test, Johansen Co-integration test and the Granger Causality test to determine the causal relationship existing between public expenditure growth and inflation in Nigeria found that there is no statistically discernible relationship between the variables. Mehrara, Soufiani, & Rezaei (2016) based their study on nonlinear relationship between inflation and government spending using quarterly data over the period of 1990-2013. The study uses Smooth Transition Regression Model for a two regime model by using inflation, government expenditure growth, GDP growth and liquidity growth with findings indicating a lag of liquidity as transition variable. It also showed that in regime of tight money or low growth of liquidity, government expenditure is not inflationary.

Conclusion and Recommendations

The essence of monetization of fringe benefits in the public sector was aimed to reduce cost of governance, expenses, and wastages and make the public and civil servants live a better life after retirement. But the macroeconomic effect of this policy has been the focus of this study. The macroeconomic variable in particular was inflation. Available literatures which were revealed had shown that there has been rising recurrent expenditure especially since the beginning of the policy. Table analysis supported by graph also indicates that inflation line and recurrent expenditure line moved in the same direction, an indication that a relationship between exist between these two variables. From all indication, monetization policy seems a welcomed development but its long term effect needs to be checked since inflation reduces the value of currency in the future. That is, the value of money worth today may be less under a growing inflation rate tomorrow. Workers may then be worst off as they may have to pay more and receive little value for what they are saving for.

It however provides a benefit for those making payment now since the price for the asset been sold by the government is lower now than it may be later in the future. This implies that based on the payment arrangement there may be lose from the two sides (seller and buyer) in terms of value. Therefore the problem of inflation should remain the topmost agenda of the government and Central Bank of Nigeria. Government needs to also ensure fiscal discipline in its monetization policy while excessive spending should minimized to reduce the volume of money in circulation. This can be done by investing in assets that are beneficial to the workers, while amortization of the assets should be spread and done in way not to increase to much money in the hanks of financial institutions.

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