INFLATION IN NIGERIA AND THE IMPORTANCE OF MONETARIST SCHOOL: A CONCEPTUAL REVIEW ON CURRENCY REDENOMINATION

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Abstract
Redenomination generally has good effects on the nation's economy and is symbolic. This study's objective is to theoretically explore currency redenomination as a monetary tactic for boosting the economy in the face of inflation. According to monetary theory, changes in the money supply, such as increases or reductions, are the most typical reason for economic fluctuations within a particular system, such as shifting inflation rates. In light of the rising cost of living and the naira's depreciation against other currencies, this paper concludes that redenomination as a monetary policy is a viable option for Nigeria's macroeconomic stability. It advises that the populace be informed about the complexities of redenomination beforehand, and that redenomination be implemented with the least amount of uncertainty and instability possible.
Keyword: Redenomination, Inflation, Monetarist School, Relevance, Economic thought.

Introduction

According to monetary theory, the most prevalent reason for economic fluctuations within a system, such as shifting rates of inflation, is an increase or reduction in the money supply (Friedman and Schwartz, 1970). Increasing the money supply is one method of controlling inflation and other economic factors (Ibid, 1970). In addition to the aforementioned monetarists, Paul A. Sameuelson (1915-2009), Arthur C. Pigou (1877-1959), John Maynard Keynes (1883-1946), Milton Friedman (1912-2006), James Tobin (1918-2002), and Johann Gustave Knut Wicksell (1851-1926) all made significant contributions to the field.

In the past, economists would separate the economy's material components from its monetary system, with the two only being connected through the use of absolute prices. It was once believed that the relative pricing of products and services were set by supply and demand. It was impossible for the monetary parts of the economy to disrupt the fundamental physical operations of the economy, and vice versa. The link between the two aspects of the economy was given a more firm basis with the help of Knut Wicksell's new line of investigation (Bhatia, 1978).

Notably, classical economics have affected monetarists' analysis. The name of the institution comes from the fact that it places an emphasis on monetary policies as opposed to other types of policies, such as fiscal policies. Although monetarists and classical economics share many beliefs, there are certain additional points on which they agree wholeheartedly:

i. Both strongly believe that economies move towards full employment equilibrium, wherein the transformation equation (developed by John Maynard Keynes) reads as follows: GDP = C + Inv + G + (eX - I). Exports minus imports equals GDP, where C and Inv stand for consumer spending, G and Inv for total investment, and eX - I for government spending. They reasoned that the equation reflected a state of full employment equilibrium.

ii. They consider the money supply to be the single most influential factor in maintaining economic equilibrium (the MV = PT equation, where M stands for the money supply, V for the velocity of circulation, P for the price, and T for the transactions or output).
iii. In support of the classical stance, they hold that full employment can only be attained in a free market economy, and not by government intervention.
iv. Monetarists looked at the interest rate, prices, and the profit rate as tools for creating stability. Increasing or decreasing these factors leads to inflation or deflation.

The Relevance of the Monetary School in Solving the Problem of Nigerian Currency in the Face of Inflation

The monetary economist posits that the paramount instrument for attaining stabilisation within an economy is the quantity of money in circulation. This notion is encapsulated by the MV = PT equation, which signifies a state of complete equilibrium. Here, M represents the Money Supply, V denotes the Velocity of Circulation, P signifies price, and T represents Transactions or Output. The manipulation of the money supply possesses the capacity to modify economic realities and exert influence upon pivotal macroeconomic variables, including but not limited to the price level, consumption patterns, and the purchasing power of currency. Henceforth, this study shall endeavour to scrutinise the potential efficacy of currency redenomination as a means to mitigate and resolve the prevailing issue of inflation within the Nigerian context.

The Experiences of Other Nations

However, redenomination is a fiscal policy that seeks to modify or readjust the denomination standards of the domestic currency in the case of hyperinflation, through a reduction or alteration of the denomination by a positive ratio or unit points to the left. The aforementioned phenomenon is clearly discernible in the case of Argentina during the year 1983, wherein the denomination of 1000 Peso was consolidated into 1 Peso, while maintaining its prevailing exchange rate intact (Edwin and Putu, 2017). In Turkey, there was a process of currency denomination whereby the old Turkish lira underwent a significant devaluation, resulting in a conversion rate of 1,000,000 old Turkish lira to 1 new Turkish lira. Similarly, in Ghana, a similar denomination occurred, whereby ¢10,000 cedi was converted to 1 new Ghana cedi ¢. The exchange rate of Argentina's currency exhibited notable fluctuations during the specified time period. In 1962, the currency was valued at 1100 units per dollar, which experienced an increase to 3500 units per dollar in 1969. Following a redenomination in 1970, the currency's value further evolved, reaching 18,000 units per dollar in 1980 and subsequently escalating to 180,000 units per dollar in 1982.

Moreover, it is worth noting that redenomination, in its essence, carries significant symbolic implications, particularly in relation to its potential to enhance the overall state of a nation's economy. In contrast, it can be argued that redenomination proves to be ineffective and inefficient, as evidenced by its application in the contexts of Afghanistan, Zimbabwe, and Israel, where the redenomination policy implementation has been met with failure. Throughout the course of history, the Nigerian economy has experienced the implementation and dissemination of diverse denominations of the national currency, the naira, primarily aimed at addressing factors pertaining to political and economic circumstances.

The Current State of Affairs in Nigeria

The profound ramifications of the devaluation of the Nigerian currency, the naira, by the government in order to fulfil the prerequisites for securing loans from Western nations during the 1980s resulted in a significant depreciation of the naira's worth. Numerous African nations are compelled to yield to the influence of currency devaluation exerted by developed nations, which is often employed as a prerequisite for extending economic assistance to developing nations. The phenomenon of currency devaluation engenders a concomitant reduction in the intrinsic worth of the currency of developing nations, thereby endowing the currencies of developed nations with a comparative advantage in terms of value vis-à-vis their developing counterparts. In instances where a nation's currency experiences a substantial depreciation over an extended period, resulting in the necessity of utilising substantial sums of money for basic domestic supplies and transportation, coupled with heightened inflationary pressures, said nations may opt for a redenomination strategy. This strategic approach aims to enhance the value of their currency, mitigate inflation, and bolster public trust and confidence in their monetary unit. The depreciation of a nation's currency is positively correlated with the escalation of its inflation rate. Inflation precipitates a substantial depreciation in the value of currencies.

According to Rogers, Malancharuvil-Berkes, and Mosley (2005), inflation serves as the primary determinant for the occurrence of redenomination. Nations experiencing significant depreciation in the value of their currency, resulting in diminished confidence domestically and internationally, often opt for a strategy known as currency redenomination. This measure is undertaken with the aim of revitalising both the currency and the overall economy. The rationale behind redenomination lies in its ability to effectively manage the surplus liquidity present within the economic system. While Nigeria is not currently undergoing a state of hyperinflation, it is imperative to enhance the value of the national currency, the naira, in order to align with the overarching goal of establishing it as the common currency for the Economic Community of West African States (ECOWAS).

The deleterious impact on the value of the naira can be attributed to the deficient leadership attributes and the pervasive culture of corruption exhibited by our elected officials, who prioritise the illicit appropriation of our country's resources for personal gain, rather than allocating them towards the advancement of our economy (Ifunanya, Nduka, & Ogochukwu, 2021). The aforementioned phenomenon resulted in an escalation of inflation within the nation, thereby rendering the utilisation of lower denominations of the Nigerian currency, the naira, as an invalid medium of exchange. There exists a pressing imperative to revive the utilisation of metallic currency in Nigeria, wherein the coins necessitate fortification through a process of redenomination, thereby conferring augmented worth upon them.

The profound impact of the COVID-19 pandemic on the global economy, including Nigeria, has inflicted a substantial detriment upon the value of the Nigerian currency, the Naira, to the extent that it currently stands at an exchange rate of 0.0026 against the United States dollar, as of September 2020. The escalation of inflationary pressure to 13.39% as of September 2020 has prompted Nigeria to contemplate the prospect of redenomination as a potential measure to mitigate inflationary pressure and enhance the global standing of the national currency, the naira.

The impact of redenomination on a currency is a topic of considerable scholarly interest and economic analysis. Redenomination refers to the process of changing the face value or unit of a currency without altering its intrinsic value or purchasing power. This practise is often undertaken by countries seeking to simplify their monetary systems. The redenomination of the Naira has the potential to enhance the purchasing power of the currency. The enhanced acceptance of the Naira, both domestically and internationally, will engender heightened confidence among the Nigerian populace. The process of redenomination serves to augment the exchange rate of the redenominated currency in relation to other currencies (Ifunanya, Nduka, & Ogochukwu, 2021)

The proposed reform aims to facilitate the nation's transition away from the utilisation of high denominations possessing diminished purchasing power, in favour of introducing new lower denominations that possess enhanced purchasing power. The implementation of this solution has the potential to address the issue of cash mobility in Nigeria, consequently leading to a reduction in criminal activities and a significant decrease in the reliance on physical cash for conducting business transactions.

According to Oshimowo (2007), the redenomination of the Nigerian currency, the naira, has the potential to result in increased costs for Nigeria's exports, thereby reducing their competitiveness in the international market. Conversely, this process could also lead to a decrease in the cost of imports, making them more affordable for the country. The individual issued a cautionary statement regarding the ramifications extending beyond mere currency fortification, positing that it may result in an escalation of export costs relative to goods originating from alternative regions. Adeyemi (2007) posited that the implementation of the reform would serve as a safeguard against a potential uprising directed towards the affluent millionaire class, thereby highlighting its significance.

According to Omobitan's (2007) perspective, the proposed strategy aimed at bolstering the naira is expected to enhance the currency's resilience and stability. The author posited that throughout the course of time, Nigeria has consistently employed a fixed exchange rate system prior to the implementation of the structural adjustment programme. The perception of the Nigerian naira being overvalued was engendered within the International Monetary Fund (IMF). According to the individual in question, the Nigerian currency, the Naira, was deemed to be 'overvalued' due to its fixed exchange rate of 1 Naira to 1 US Dollar.The seventh item in question; in advocating for the redenomination agenda, Dogarawa (2007) posited that governmental entities, in their pursuit of reaffirming monetary sovereignty and bolstering the trust of their populace in the domestic currency, ought to wholeheartedly embrace the concept of redenomination as a means to attain these objectives.

According to Adedipe (2007), it is his belief that the enhancement of the naira's credibility will result in an increase in demand for the currency, reminiscent of the levels observed during the 1960s and early 1970s. According to the findings of Olajide (2017), the implementation of redenomination has the potential to establish a direct and seamless connection between the naira and the dollar, thereby facilitating enhanced monitoring capabilities. Furthermore, this measure is anticipated to counteract the prevailing inclination to prioritise the accumulation of dollars over the naira. The individual proceeded to express their viewpoint that subsequent to the process of redenomination, the economic conditions typically exhibit a semblance of stability, as the burdens of inflation and exchange rate fluctuations may experience a temporary alleviation.The advantages associated with redenomination are manifold and warrant careful consideration:

(iv) Redenomination can enhance the efficiency and effectiveness of a country's monetary system, by reducing the number of zeros in a currency. The relative benefit of redenomination varies among nations based on their level of financial and economic development, as there are no economic theories that posit guaranteed economic gains for nations that adopt and implement redenomination. The primary advantage lies in the establishment of a narrative that signifies the cessation and eradication of the epoch characterised by hyperinflation. It is important to note, however, that this does not inherently imply a guarantee of low inflation in the future.

(v) The second point to consider is the presence of a robust and sustainable external reserve that is conducive to maintaining a state of good health within the economy.

(vi) The fortification of the banking system serves to bolster the burgeoning economy and foster the growth of the capital market. The desired economic conditions include a low level of inflation in the single digits, as well as a robust GDP growth rate of approximately 6% or higher.

Conclusion and Recommendations

Based on our analysis, it is evident that the escalating cost of living and the depreciation of the naira vis-à-vis other currencies necessitate the consideration of redenomination as a viable monetary strategy to attain macroeconomic stability within the Nigerian context. In light of the aforementioned discourse, it is incumbent upon us to proffer a series of recommendations that in order to enhance the currency's value and mitigate inflationary pressures to a single-digit level, it is imperative for the government to reassess its stance on the suspension of the naira's redenomination policy. This reconsideration is crucial in alleviating the inflationary pressures exerted on both the naira's value and the overall economy, which have been exacerbated by the adverse impact of the COVID-19 pandemic, resulting in elevated prices of goods and services.

The authors also suggests that, in preparation for redenomination, it is imperative to raise awareness and provide education to the general population regarding the complexities involved in the process. Furthermore, the implementation of redenomination should be executed in a manner that effectively mitigates potential uncertainties and instabilities, while simultaneously maximising the macroeconomic advantages.

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