Impact of Fiscal Policy Measures on the Control of Inflation in Nigeria

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ABSTRACT: *Fiscal policy is one of the public sector tools used in the pursuit of these macro-economic goals. Fiscal policy could then be said to be an embodiment of all government plans aimed at achieving desired macro-economic goals, without directly altering the level of money supply. Nigeria, like most other Third World Countries, is committed to the achievement of a range of economic objectives such as high level of employment, rapid economic development, equitable distributions as well as reasonable price stability. However, the problem of rising prices has been particularly acute in recent years and has not responded to monetary and fiscal measures. In particular, it is becoming increasingly evident that we cannot count on maintaining the desirable level of economic development and simultaneously achieving reasonable price stability (Tomori, S., 1982). It is in realization of this fact that emphasis is on highlighting the various fiscal policy measures with respect to the problem of inflation. Furthermore, a sound study of the effects of various fiscal policy measures on the control of inflation is necessary in the bid to determine the appropriate policy mix required for dealing with the problem.*

KEYWORDS: fiscal policy, measures, control, inflation, Nigeria

INTRODUCTION

In every economy, there is a need for a conscious direction of economic activities in order to achieve goals which are beneficial to the entire society. This need necessitates public sector operations. This sector initiates, articulates and implements policies aimed at desirable socio-economic objectives. The variables targeted include employment, exchange rate, price level, investment, budget balance, trade balance and growth rate.

Fiscal policy is one of the public sector tools used in the pursuit of these macro-economic goals. Fiscal policy could then be said to be an embodiment of all government plans aimed at achieving desired macro-economic goals, without directly altering the level of money supply.

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Such plans involve the use of fiscal policy instruments: government revenue, and expenditure taxes, subsidies, tariffs, quota, debt management and employment policy.

At the inception of fiscal policy in the 1930s, the aim was to increase aggregate output and reduce unemployment. After the Second World War, fiscal policy at different times sought to increase or decrease aggregate demand, depending on the objectives of policy makers.

In the Third World, fiscal policy is aimed at achieving full employment, high growth rate, price stability, equitable income distribution, external balance and overall development through generating. In many of these underdeveloped economies, most especially African economies, inputs are not very responsive to price or market signals, because of various market imperfections and structural ties. There are defects in market information and thus in signals emanating therefrom. The market system does not necessarily generate high employment, price stability and desired rates of economic growth. Public policy is, therefore, needed to secure these objectives (Musgrave,19 73 • 76). For Hutchison, (1968) no economy would dare operate without fiscal policy measures and programmes as scarcity and other forms of crises would erupt and the standards living of the people will be too grim. From these considerations, fiscal policies arise out of the need to address specific problems. Therefore, it is essential to study and understand the impact of various fiscal policy measures on the control of inflation and other economic problems.

Statement of the Problem

Inflation is the sustained rise in the general price level. It is one of the most crucial problems facing most countries, particularly underdeveloped countries. Inflation is usually marked by excess money supply or excess aggregate demand relative to existing supply.

Nigeria, like most other Third World Countries, is committed to the achievement of a range of economic objectives such as high level of employment, rapid economic development, equitable distributions as well as reasonable price stability. However, the problem of rising prices has been particularly acute in recent years and has not responded to monetary and fiscal measures. In particular, it is becoming increasingly evident that we cannot count on maintaining the desirable level of economic development and simultaneously achieving reasonable price stability (Tomori, S., 1982). It is in realization of this fact that emphasis is on highlighting the various fiscal policy measures with respect to the problem of inflation. Furthermore, a sound study of the effects of various fiscal policy measures on the control of inflation is necessary in the bid to determine the appropriate policy mix required for dealing with the problem.

Lipsey (1983) suggested that inflation causes major, arbitrary and sometimes, socially destructive re-distributions which are tragic to those who suffer them. Following the nature of the problems of inflation,, this study seeks to proffer remedies to it by ascertaining and recommending viable

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fiscal policy measures. However, fiscal policy as a tool of economic development is not an unmixed blessing. It has dangers which are inherent in its inflationary potential. When fiscal policy turns into inflationary policy, it defeats its purpose because it then aggravates the problem of upwards pressure on prices. Between 1970 and 1990, Nigeria passed through the stage of creeping inflation of about 3% annually into an era of trotting inflation of about 50% per annum. It is often assumed in the literature that creeping inflation, if unchecked, eventually accelerates through the trotting stage, until it becomes galloping inflation, leading to the collapse of national currency and the disruption of economic life. Examples of this are Germany in 1923, Hungary in 1947 and China in 1949. The current state of the Nigerian economy shows that it is about to enter the phase of economic collapse. This study is therefore, poised to investigate the nature, origin and causes of inflation in Nigeria. Various measures that have been adopted to curb the excesses of inflation will also be studied with a view to ascertaining their strengths and weaknesses.

Objectives of the Study

The general objective of this study is to identify the reasons for the limited effectiveness of fiscal policy in dealing with inflation. It also aims at identifying the various causes of inflation in Nigeria and the effective measures that may be adopted in controlling it.

Specifically, the study will:

(a) Undertake an analytical investigation of the impact of various fiscal policy measures on the level and direction of prices.

(b) Determine the correlation and factors affecting the correlation between various fiscal policies measures and inflation.

(c) The study will suggest possible economic measures which can help in the control of inflation in Nigeria.

Significance of the Study

The Nigerian economy has been in a deep crisis for quite some time now. Consequently, the general standard of living and most economic activities have deteriorated.

Balance of payments deficits have worsened; investment has declined, unemployment rate is very high and the price level is very high and rising. The solution to this undesirable state of the economy has equally been a source of concern to the public and government. But somehow, the policies and attention aimed at controlling inflation have proved abortive.

Hence, it is a worthwhile venture to study inflation with a view to understanding its causal factors. This study thus becomes very relevant as an attempt to highlight the policy tools which can be effective in dealing with these causes of inflation. Thus, the significance of this study derives from the dire need to resuscitate the economy from its currently battered state. This would in turn, improve the general standard of living and promote economic activities in Nigeria.

Scope and Limitations of the Study

The study will trace the origin and nature of inflation in Nigeria. It will also review the impact of all major fiscal policy tools in the Nigerian content and their effects on inflation.

Fiscal policy and related measures to be discussed in detail in the chapter will focus primarily on the period 1980- 1993, but the estimation will cover 1970 to 1993. The era of regulation and deregulation will be discussed.

The study will be carried out using secondary data. These data will be sourced Publications of the Central Bank of Nigeria such as the Annual Report and Statement of Accounts, Statistical Bulletin, Financial and Economic Review; Publications of the survey unit of the Federal Office of Statistics (FOS) such as its Annual Abstract. IMF publications such as the International Financial Statistics.

1994 and 1995 fiscal years are not included because of the non-availability and imprecise nature of data for these. This study thus essentially focusses on fiscal policy tools such as government expenditure, public debt management, budget deficit and exchange rate. The effect of the interest rate on inflation was grossly underplayed. Wage prices is also not explicitly accounted for in this study, because of the absence of reliable data on wages and salaries in the country.

In this study, a one-directional causality is presumed such that fiscal policy is assumed to affect inflation. However, the impact of inflation on fiscal policy is ignored.

Plan of the Study

The study is divided into six chapters.

Chapter I contains introductory remarks, the statement of problem, objectives, and significance of the study. It also includes the scope, limitations, and plan of the study.

Chapter II contains the literature review and method. This will state the objectives, indicators, instruments, and targets of fiscal policy. It will also contain studies of inflation and fiscal policy in Nigeria. Lastly, it states the method to be employed in this study.

Chapter III will be devoted to the appraisal of fiscal policy in Nigeria as well as to theories and measurement inflation.

Chapter IV attempts a survey of the causes and control uses of inflation in Nigeria. Problems of fiscal policy action and implementation will also feature.

In chapter V the study will concentrate on the estimation model adopted for the study and analysis.

The last chapter will summarize the findings, present policy suggestions and recommendations to overcome the inadequacies revealed during the study and also state the conclusion of the essay.

Objectives of Fiscal Policy

The general objectives of fiscal policy should be accordance with the set goals of the public sector. In view of this, objectives of fiscal policy focus on the maximization of social goods while minimizing costs.

Writing on "fiscal policy and economic management" Aboyade (1983) opined that governments profess to seek the reduction of all unjustifiable inequality of wealth and economic opportunity, reduce unearned incomes, and lessen class division. In his opinion, especially in underdeveloped countries, is the most potent instrument of social intervention. He concluded that fiscal policy is therefore to be seen at all times in the overall context of general economic and development policy and as being supportive or supplementary to it.

According to him, the first objective of fiscal policy is to moderate resource allocation and adjust price mechanism in the direction of greater satisfaction of public needs. This is in recognition of the fact that such reallocated resources, if they had remained in private hands, would not be optimally utilized to reflect the higher goals of society.

The task of fiscal policy here to discover, the proper balance, both in real and financial terms, between the benefits of greater resource allocation to the public sector and the opportunity cost of withdrawing them from the realm of private choice.

The second objective of fiscal policy is redistribution of wealth and income between one group in society and another as distinct from the redistribution between the public and private sectors. Fiscal policy here is designed to achieve some inter-personal balance in net disposable income, economic opportunity, or social welfare. The assumption here is that the marginal value of the reallocated income or wealth would be greater in the hands of the recipient individuals of those from whom it has been taken, than in the hands he third objective the general guidance of the national economy in terms of growth and stability. This often relates to changes in the level of aggregate output, income, employment and prices. The task here to design measures that would facilitate the full utilization of the nation's resources (material, human and financial) and in a way that preserves money incomes. The stabilization function of a particularly complex one, different elements of the general objectives often conflict practice, and policy makers are sometimes forced to trade one for

another, especially unemployment and inflation, and Musgrave Likewise, Musgrave /1984) posit that the objectives fiscal policy include the provision of social goods, or the process by which total resources are divided between private and social goods, and the process by which the social goods are chosen. They termed this the function".

Another objective is that of distributing income and wealth to conform with what other societies consider a "just" or "fair' state of distribution. That is called "distribution function".

Lastly, fiscal policy has the objective of striving to maintain high employment, a reasonable degree of price stability and an appropriate of economic growth with allowances for effects foreign trade and the balance of payments.

These objectives are referred to as the stabilization function.

They concluded by stating that the major problem is how to conduct fiscal Policy so that its prime objectives; distribution, allocation, and stabilization, can be met at the same time.

Finally, Due (1969) stated that the generally accepted goal of fiscal policy is that of attaining greater economic stability, that is, the maintenance of a reasonably stable rate of economic growth without unemployment, on the one hand changes in' general price level on the other thus the national product should continue to rise at a level permitted by changes in technology and factor supplies, the general price level should remain reasonably stable.

Fiscal Policy Instruments, Indicators and Targets

Fiscal Policy Instruments

Since the Keynesian revolution, fiscal policy has become the most powerful instrument for economic regulation. This is because it can directly affect aggregate demand through government investment and consumption activities. Can also work on the supply-side directly through investment. Generally looked upon as comprising those variations in government tax and expenditure programmes which are undertaken with the express securing the goals of macroeconomic policy (Shaw, 1972). By this definition, Shaw limited fiscal policygovernment revenue and expenditure, the manipulation of which is used to achieve desirable macroeconomic goals. This definition is, however, very narrow as fails to capture the scope of fiscal policy; it is silent on the mechanism which government adopts in the event of disequilibrium between revenue and expenditure.

According to Maxwell (1955), fiscal policy is a means of using government expenditure and revenue as a balancing to secure economic stabilization.

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For Hardwick et al (1983) fiscal policy is governments influence aggregate demand in the economy by regulating public expenditure and taxation. They stressed that fiscal policy is a flexible control which allows for three basic variations of budgeting. These are balanced budget, surplus budget, and deficit budget.

Fiscal policy instruments are tools used by the fiscal operators in pursuit of broad macroeconomic goals of society. The mix of tools employed depends on the nature and magnitude of the problems to be solved.

The following are the major instruments:

Government Revenue: This includes all funds accruing the state coffers, which does not increase the government's debt obligation. The sources of such revenue are varied and are usually manipulated depending on the intent of the government. The principal sources

a. Tax Revenue;

b. Commercial revenue and user charges which are profits from the production of goods and services:

c. Administrative revenue are earnings from general administration, including fees, fines and licenses. Government revenue also includes gifts and aid, mostly from international organizations and friendly governments. Of these, taxation is the most amenable in literature.

Taxation is the compulsory levy by government on individuals, groups, and organizations for which there is no quid pro quo' or direct return.

Among its many uses, taxation could be used to stabilize prices, especially if inflation is demand-pull in nature. In this case, the government will reduce purchasing power:

by increasing income tax. This will reduce aggregate demand and prices. It could also be used in the pursuit of economic justice, particularly with progressive tax which takes more from the rich.

d. Government Expenditure: This is the total of government spending or expenses on goods and services transfers, pro- duction and other purchases for the welfare of society. Government can therefore go "into production of goods and services to bridge shortfalls in supply especially if inflation is due to shortages.

Subsidies can also be given to producers. This will serve to curtail the final market prices of commodities and foster production by cushioning costs.

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Note also, that a reduction of transfers to economic agents will re:>ult in a reduction in aggregate demand thus checking inflationary pressure.

e. Public Debt. This refers to all claims against the government by all domestic private residents and foreigners less all claims against private residents and foreigners by government.

Most often governments borrow to Smidge the gap between

its revenue and expenditure, or budget deficit. Debts are contracted to meet various objectives of the: public sector including stabilization. In this case, such borrowed funds are put into projects that will enhance the supply of goods and services. As such, commodities become abundant, and prices will reduce relatively and stabilize. Furthermore, the products can be used to repay the debt.

Targets and Indicators of Fiscal Policy

These are the goals which the government seeks to attain through fiscal policy operations. Broadly speaking, the government aims at maximizing the welfare of society. The specific macroeconomic targets of fiscal policy for doing these are:

1. Employment: Policy measures usually aimed at full employment or unemployment at a bearable minimum. This will enhance welfare, capacity utilization and growth.

2. Price level: Fiscal policy is aimed at the general price level for the purpose of ensuring relative price stability.

3 . Economic Growth. Fiscal policy aims at promoting.

investment or capital formation and enhancing capacity utilization, as a way of fostering economic growth.

4. Economic Justice: The aim here is to reduce the inequality gap possibly, through some form of re-distribution such as progressive tax structure. This also tries to ensure group and sectorial equality. So, fiscal policy targets income.

5. Balance of Payments Equilibrium: This is one of the major targets of fiscal policy to reduce

pressures on external reserves and the external debt service/GDP ratio, here, the focus is on exports and imports as well as public debt.

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Studies of Inflation in Nigeria

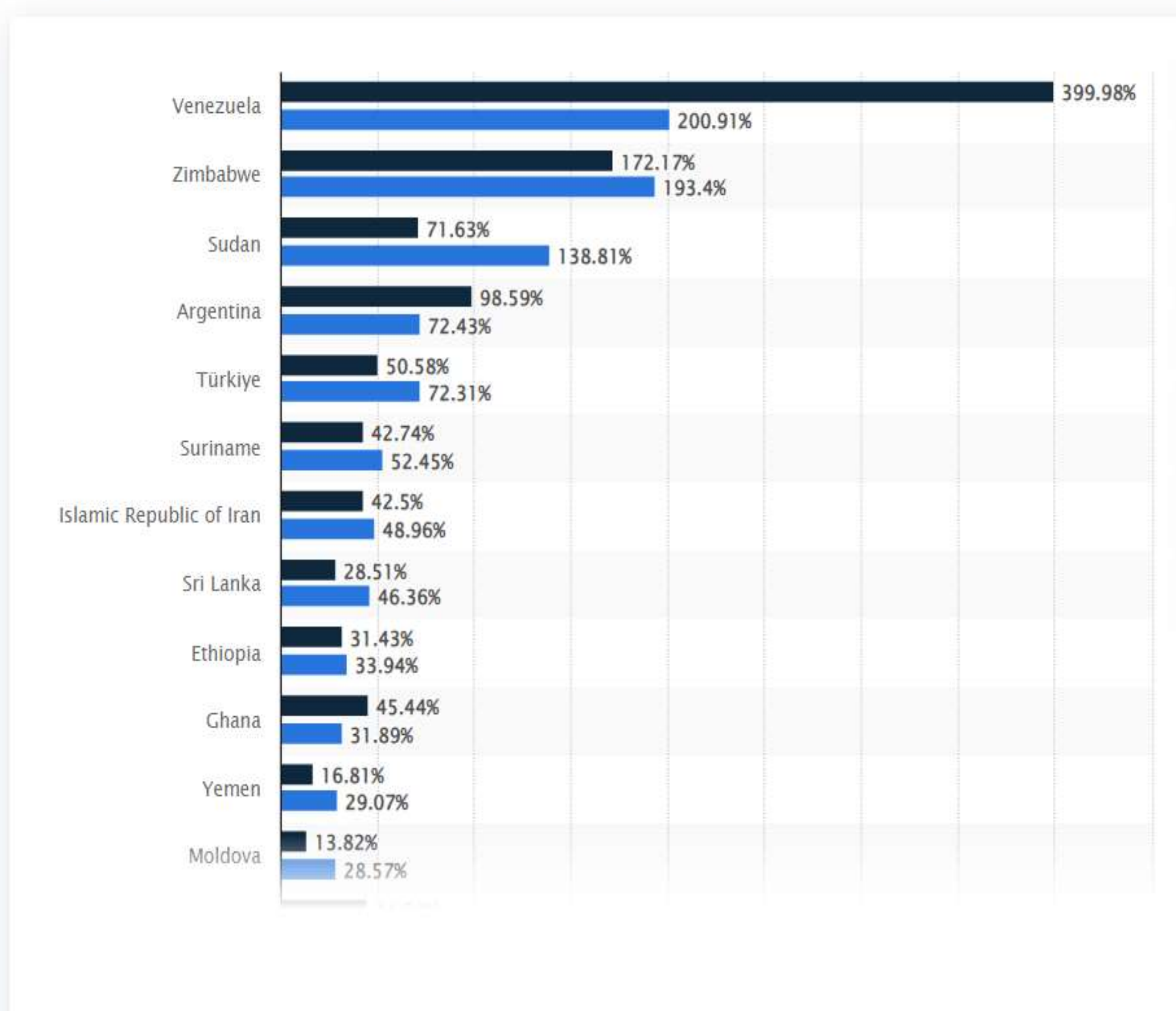
Inflation has been a major problem in Nigeria for both policy makers and the entire society since about1970. This concern is clearly reflected in the annual federal budgets and in the public discussions of the problem. Regardless of various measures adopted ’to check inflationary pressure, continued unabated, so also have discussions and the search for a lasting.

Oyejide (1972) studied the impact of deficit financing on inflation in Nigeria. Having established the theoretical link between domestic money supply and inflation from the Fisherman equations, he went on to determine the of alternative definitions of deficit financing on inflation. Evidence from his study showed a direct correspondence though not on a one-to-one basis between general level: and measures of deficit financing over the fourteen years (1957 - 70) of his study of important less emphasis on deficit financing May limit the growth of price inflation in Nigeria.

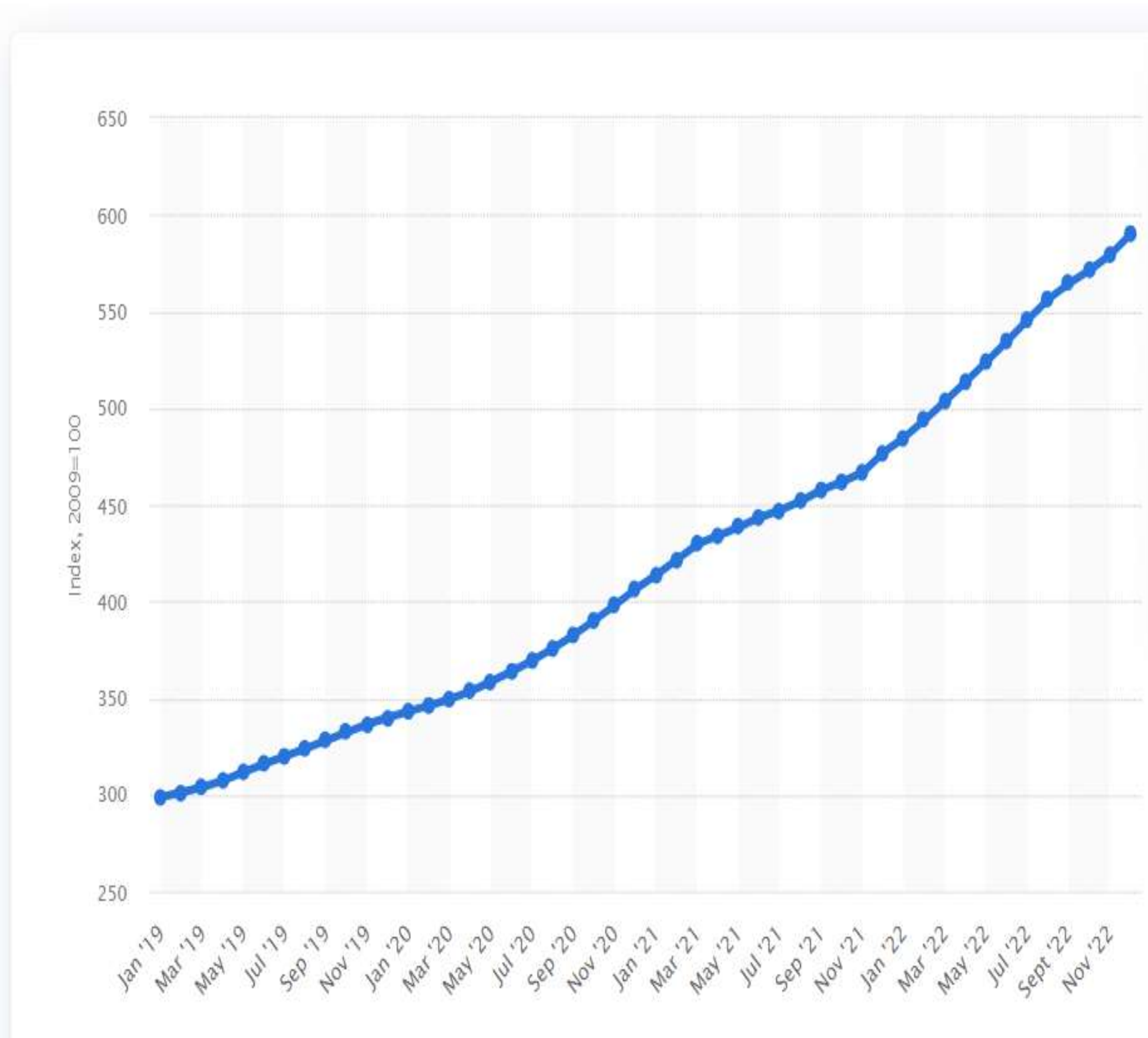
In 2021, Nigeria recorded one of the highest inflation rates in the world at around 17 percent. Higher inflation rates are typically more present in emerging economies. There are several reasons for this. Emerging economies are likely to grow faster, leading to an increase in demand for goods and services. However, when the demand increases but the supply stays the same, prices might increase, leading to inflation. Another factor that plays a role is the lack of a well-established monetary policy. This can turn into manipulation of the currency in order to achieve short-term goals, for instance to decrease the cost of exports. In addition, the excess of money printing presses the currency downward and pushes inflation higher.

Below is an Analysis on:

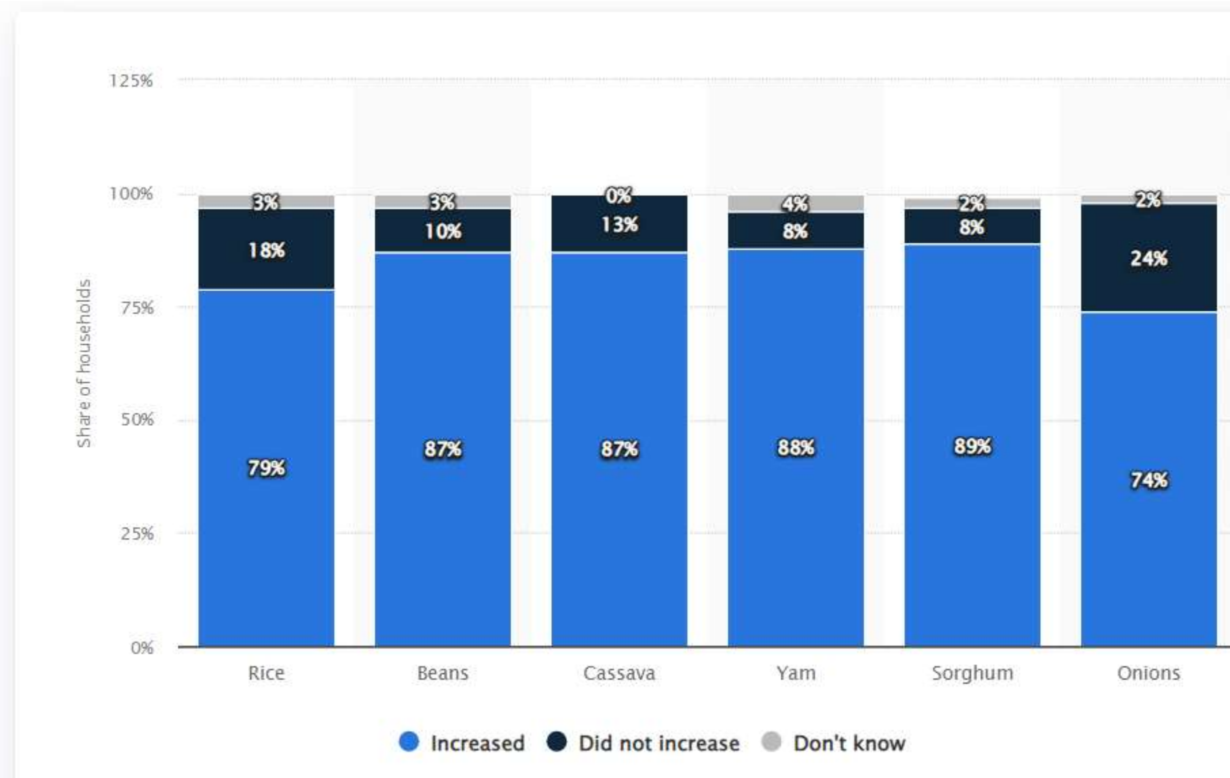
1. Inflation
2. Consumer Price Index
3. Food Prices



Monthly Consumer Price Index (CPI) of food in Nigeria from January 2019 to December 2022



January 2020 and January 2021



Theoretically, economists of different persuasions (Classists, Neo-classists, Keynesians, Post-Keynesians, Monetarists, Structuralists and Neostructuralists) have contributed copiously to the literature on inflation. On definition, inflation is persistent increases in the general level of prices (Bannock et al., 2003). Classical economists see money as just a "veil" in the sense that its increase would lead to a positive change in the general price level while leaving purchasing power of income, interest rate and output level unaffected (Javed et al., 2010). The neo-classical economists also believe that inflation can be engendered by an unchecked increases in the money supply (Javed et al., 2010). According to Weidenaar (1979) monetary economists are of the view that once full employment is attained, the only factor that can alter the price level is the availability of money in the economy. In other words, if the money in circulation in the economy increases two-fold, then the general price level would also increase two-fold.

The Keynesian economists hold the view that with an economy experiencing underemployment, an expansion of money in circulation may in the short run spur aggregate demand, employment, and output (Javed et al., 2010). In the long run though, money supply more than potential output can be inflationary (Javed et al., 2010). Weidenaar (1979) also expressed the Keynesian perspective on inflation as a phenomenon resulting from excessive spending (at full employment)

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relative to available supply of goods at current prices, thus causing prices to rise for the goods market to clear.

Jhingan (2003) expressed the structuralist economists' view on inflation as occurring in the long run because of differences in some of the features of the service sector relative to the industrial sector. Such features are prices, productivity growth, elasticities of income and the wage rates between the two sectors. Bowman (2003) submitted that in explaining inflation, premium is put on costs by the post-Keynesians, thus they see wage demands by the unions, commodity prices set by the firms, prices of imports set by foreign producers and markup as the root causes of inflation.

Commenting further, he submitted that the post – Keynesians disagree with the notion of a Wicksellian natural rate of interest which makes inflation to be constant, output operating at full-employment capacity and unemployment hovering around the natural rate. Under this regime, a downward deviation in interest rate would cause inflation and output to rise beyond full-employment and unemployment would reduce to below the natural rate. According to him, the post-Keynesians instead emphasize cost-push inflation which is the underlying cause of distributional conflict. Echoing a similar theme, Perry &Cline (2013) have submitted in their post-Keynesian and structuralist model that the variable that drives inflation the most is distributional conflict.

Bowman (2003) agreed with this position taken by Perry & Cline (2013). Also agreeing, Filho (2000) concluded that to the post-Keynesians, neostructuralists and Marxists, distributional conflicts arising from concentration

of capital and workers' militancy will aggravate the susceptibility of the economy to inflation. According to them, in a regime where monetary and fiscal policies are not effective, and money supply is determined within the system, then monopolists and unionized labor wield a market power to determine the prices of goods and services without due regard for demand.

As a result of this, inflation would emerge when there are increases in the markup or when the wage rate rises in excess of productivity gains (Filho, 2000).

But how do the market power of oligopolistic/monopolistic business firms, unionized labor and import prices (degree to which these can be passed on to domestic prices) spur inflation? The market power of firms is derived from firms' ability to practice markup pricing. In a perfect market, firms would produce at where marginal cost of production is equal to the market price

which would make markup price to be equal to unity (Bowman, 2003; Shahor, 2011) and making the allocation of resources to be efficient (Shahor, 2011). However, in imperfect markets, firms wield the power to set prices at where marginal cost is lower than the market price, thus causing markup to exceed unity (Bowman, 2003 & Shahor 2011) causing inefficient allocation of resources

(Shahor, 2011). So what are the factors which influence the ability of firms to practice markup pricing successfully? Taylor (2000) submitted that the amount of market power that firms believe or think they have and therefore can use to practice markup pricing, is purely a function of how well the product is differentiated from other products or how well other products can serve as substitutes to the product and on the response of other firms to the firm's exercise of markup pricing power. Put differently, the pricing power of firms is a function of how other firms would react and on the utility maximizing behavior of consumers (Taylor, 2000).

In explaining why inflation reduced in most of the advanced economies of the world in the 1990s in the face of robust economic conditions, Bowman (2003) argued that firms' market power dwindled in those economies due to increased competition both domestically and internationally. He further mentioned the factors that can stimulate competition. These factors are globalization, decreased regulation, new economy that is information technology driven and productivity growth. In other words, autarky, reduced deregulation, market structures that do not enjoy the spillovers of advances in information technology and loss of productivity may increase market power of firms.

Disagreeing with the position that increased competition may reduce the pricing power of firms, Ball & Romer (2002) presented consumer search model to show that low price dispersion and therefore the effectiveness of consumer search as a channel that forces firms to lower mark-ups, suggesting that higher price dispersion makes consumer search to be costly and firms would therefore increase mark-up. Also, Taylor (2000) submitted that it is price persistence that determines the direction that the price level would move.

He utilized a model of staggered pricing in which producers are assumed to set prices in advance. If for instance, marginal cost increases, and prices are sticky, producers believing that such an increase is temporary, would not increase prices. But, if the cost increase is seen by producers as permanent, they will likely pass a great part of it on as price increases (Taylor, 2000). So high price dispersion, costly or inefficient search by consumers can influence markup pricing.

Firms pricing power to practice markup pricing is profit-push variant of costpush inflation. Another variant of cost-push inflation is one induced by the market power of organized labor. This is called wage – push inflation.

Sometimes, these two feeds on each other in which case a wage-price spiral would ensue. According to Javed et al. (2010), whenever firms increase prices, the cost of living of wage earners tend to rise and, in a bid, to compensate for a loss in welfare, workers demand for higher wages which also forces business firms to increase the prices of their products to protect their profit margins. Some contributors claim though that it is organized labor that initiates the spiral.

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The market power of workers is derived from unionization. Given a workforce of a known size, the number of workers in the workforce that are members of unions is known as the union density of the workforce (Lye & McDonald, 2006). If many workers in the economy are members of labor unions, then it is said that the union intensity of such economic system is high. Viewed from the prism of post–Keynesian paradigm, workers may not be compensated based on the incremental contribution of labor to output and are therefore forced to resort to a united front and some hostilities in negotiating wages (Perry & Cline, 2013). So, it is through the process of collective bargaining that unionized labor presses home its wage demands that may sometimes be more than productivity growth. Usually, the increased wages garnered by one union through collective bargaining may not be limited to the industry that that union belongs to. When producers in a certain industry acquiesce to the wage demands of labor in that industry, a reference wage is set and in assessing the value of the wage earned by members of a sister union in another industry, they compare such wage to the reference wage (Lye &McDonald, 2006) and uses it as a benchmark upon which the wage demands of the sister union would be based, thus aggravating inflation.

It is not always because of the collective bargaining process of unionized labor that may trigger wage increases. For instance, Jaumotte & Morsy (2012) have submitted that productivity growth in the traded goods sector may encourage labor from non-traded goods sector to move to the former sector.

A factor that may prevent this from happening is if producers raise wages in the sector with lower productivity. The effect of this would be that producers in the non-traded goods sector must raise the relative prices of their goods,

thereby causing the overall price level in the economy to rise. This is what Mihaljek & Saxena (2010) have referred to as the "Balassa – Samuelson effect".

Apart from the causes of inflation hitherto discussed, some strands of literature have mentioned that inflation can be caused by the pass-through of import prices to domestic inflation and have identified some exogenous supply shocks as engendering inflation. Exchange rate pass-through (ERPT) is the extent to which a change in the exchange rate between an exporting and an importing country would affect the importing country's import prices (Campa & Goldberg, 2001). Many contributors have pointed to different factors as the causes of ERPT. Benigno & Faia (2010) mentioned the degree of market concentration, increase in the share of foreign products sold in a

industry (which may stimulate competition) and globalization as the causes of ERPT. Taylor (2000) saw the cause of ERPT as inflation persistence. It may be caused by microeconomic factors such as demand elasticities and market structures (Choudhri & Hakura, 2006). It may even be caused by low autonomy and integration (Holmes, 2006) in which case the pursuit of an independent monetary policy may be difficult. As for some exogenous supply shocks, it can be

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conceived of as events that suddenly change the price of a commodity or service (Javed et al., 2010). A good example of this was the spike in the price of crude oil that happened in the

1970s.

Summary of Studies / Research

The results from this study suggest that inflation in Nigeria since the 1970s has been largely accounted for by monetary and structural factors. This is in accordance with the previous empirical. studies of inflation in the country.

Likewise, the view that inflation is significantly influenced by imports finds a sound basis in the findings of this study. The exchange rate is observed to affect domestic price levels. Since foreign exchange is needed to procure both intermediate and final goods and services, the depreciation and massive devaluation of the naira have resulted in higher prices of imports. This has been the case particularly in the SAP era. Also, since the GDP and CPI are not significantly related, it suggests that the import content of aggregate demand is very high. Thus, the openness of the economy has contributed to the inflationary pressure.

Expected inflation is also significant. Apart from consumers engaging in panic buying, sellers also hike prices, and both agents also Board of higher prices. These acts may have contributed to the observed inflationary trend.

To hold that public policy is needed to deal with certain contingencies like inflation and unemployment, does not preclude the fact ’that public policy, if poorly conducted may itself be a destabilizer. The levels of employment and prices in the economy depend on the level of aggregate demand relatives ‘capacity output, valued and prevailing prices. The level of demand is a function of consumers, producers and the government which are influenced by the level of money supply among other Fiscal policy may be used to restrict aggregate demand thereby combating inflation, but this will only work the underlying cause inflation is excess demand generated from the cost side, then demand restriction may cause unemployment rather than check the narrow view of monetary policy was taken as the impact of changes in the level of money supply was considered.

The interest rate, which links the monetary and real was not considered. The result is a false weak relationship between money supply and the GDP. However, money supply was quite in the analysis as a source of inflation. Money supply could have been growing faster than output, output may have been declining against rising money supply. Either way, inflation will result.

CONCLUSION

Based on the findings in this article, the following can be concluded:

After careful consideration of the concept of mod trends of inflation the fiscal, monetary, trade. and debt management policies of the government have contributed to the worsening of the problem. While some policies have tried to address the problem of others were not complementary. This calls for a coordinated policy package to tackle specific economic problems.

The danger is not so much in the policy instruments as in the one to which they are put.

The sensitivity, sincerity, and technical expertise of the governmentare equally very important in creating an enabling environment where good policies would thrive.

Further ‹research with respect to the impact of fiscal policy measures on the control of inflation could try an analytical investigation to determine the direction of causality between the fiscal policy tools and inflation.

This will help to give numerical estimates about the desirable policy mix that will a tolerable rate increase. Attempts should also bs made incorporate the rates of interest in the model without fiscal characteristics.

Some more key Conclusion points are:

- Inflation in Nigeria during the study period was because of increases in real exchange rates which probably had origins in either endogenous demand.
- shocks or exogenous foreign producer pricing shocks which caused the marginal costs of Nigerian producers to increase.
- Secondly, there existed inflation persistence in the economy that was not effectively curtailed by the monetary authorities. Thirdly, because of this persistence, Nigerian businessmen were able to pass the increases in marginal costs of production on to the Nigerian consumers in form of increases in the prices of consumer durables and non-durables produced in the country.

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