

The Political Economy of Fiscal and Monetary Interactions in Brazil

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Abstract : This study discusses the idea of 'dominance' in economic policy and its practical influence over monetary decisions. The discretionary use of repurchase agreements in Brazil over the period 2006-2016 and its effects on the overall price level are the specific issues we will be focusing on. The set of in-depth interviews carried out with public servants at the Brazilian central bank and national treasury, alongside data collected from the National Institution of Statistics (IBGE), suggest that monetary and fiscal dominance do not differ in nature once the assumption of depoliticized central bankers is relaxed. In both regimes, the pursuit of private gains via public institutions affects price stability. While short-sighted politicians in the latter are at the origin of poor monetary decisions, the action of short-sighted financial interest groups is likely to generate a similar outcome in the former. This study then contributes to rethinking monetary policy theory as well as the nature of public borrowing.

Keywords : fiscal and monetary interactions, interest groups, monetary capture, public borrowing

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