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The Central Bank of Brazil: Public or Private? Reflections on the Ambivalence of the Central Bank of Brazil and the Legal Safeguards for Currency Distribution

Banco Central de Brasil: ¿Público o privado? Reflexiones sobre la ambivalencia del Banco Central de Brasil y sobre el amparo legal de la emisión de moneda

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ABSTRACT The Central Bank of Brazil is an autarchy of the federal government that checks the monopoly on currency distribution. In the majority of developed countries, the central bank is privately owned. However, in Brazil and in other countries with slow development, the central bank is public. Nevertheless, public central banks operate in practically the same way that private banks do, especially in regards to currency distribution, which, by means of legal devices, is a private monopoly almost all over the world. The goal of this paper is to analyze the public-private dichotomy, starting with an analysis of the legal safeguards of currency distribution in Brazil. On that point, we conclude that the evidence indicates that the degree of independence that the Central Bank of Brazil has acquired is linked to lobbies won by economic elites, who benefit from public debt titles, over political elites.

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KEYWORDS Central Bank of Brazil; Legal Safeguards; Public Debt; Economic Policy.

RESUMEN El Banco Central de Brasil es una autarquía del gobierno federal que detiene el monopolio de la emisión de moneda. En la mayoría de los países desarrollados el banco central es de propiedad privada. Pero, en Brasil y en otros países con desarrollo tardío, el banco central es público. Ocurre sin embargo, que los bancos centrales públicos operan prácticamente del mismo modo que los privados, especialmente en relación a la emisión de moneda que, por medio de artificios legales, es un monopolio privado en casi todo el mundo. Ese trabajo tiene como objetivo analizar esa dicotomía público/ privado, a partir del análisis del amparo legal de la emisión de moneda en Brasil. En este punto concluimos que hay evidencias que apuntan que el grado de independencia que el Banco Central de Brasil ha adquirido guarda relación con presiones ganadas por elites económicas (que se benefician de los títulos de deuda pública), sobre elites políticas.

PALABRAS CLAVE Banco Central de Brasil, Amparo Legal, Deuda Pública, Política Monetaria.

Introduction

Central Banks function like pivots of political and economic relations in the democracies all over the world. Usually these are awarded the monopoly over the currency issuance, and also the right to establish and administer the interest rate. This gives the president of the central bank and other authorities of these institutions a great political power, especially regarding the possibility of individual bargaining within the financial market. We could say that the president of the central banks around the world have greater influence on people's lives than the president of most countries. Here, there is the ambivalence that political science and law have shown little interest in responding after all, if the central bank holds so much power why are the means of recruiting their posts not made in a democratic way through direct election, for example? This is a difficult question to answer, and also beyond the scope of this study, however through the Brazilian case we will get some useful insights.

The Brazilian case is peculiar because even that the central bank is public (which is different from developed countries where they are private), it functions as a private bank, it has a monopoly on currency issuance, and also a monopoly on the right to control economic policies, particularly regarding the establishment of the interest rate. As the Brazilian economic policy mainly aims at «fighting back against inflation», which uses the interest rate as the main instrument, authorities of the Central Bank of Brazil get enough bargaining power, after all, they have a monopoly on the interest rate control. Understanding that it is not only directly related to the gain on the public debt bonds, but also on the level of currency issuance, which is controlled by the government bonds holders.

This study is divided into four parts and this introduction. In the first part we discuss the role of central banks and the establishment of these institutions in Brazil and worldwide in historical perspective. In the second part of this study we analyze the legal support of the currency issuance in Brazil and the legal role of the Central Bank regarding this and the establishment of economic policy. In the third part of this study we discuss the economic policy in Brazil engineered by Central Bank of Brazil, focusing on public debt and the ineffectiveness of monetary policy. In the fourth part of this study we give some brief closing remarks.

1. The creation of central banks

Corazza[2] proposes an interesting theoretical version of the emergence of central banks, starting from two dichotomous assumptions. The first is that central banks were arbitrary creations of the State in favor of its interests. The second is that it was a decision geared to the market and taken by it as a natural result of the development of capitalism where the banking system currently faced severe crises. The purpose is to understand the root of the ambivalence of central banks, public versus private[3].

Historical experience shows that central banks did not arise in the same way as in the case of transformation of clearing houses. It was not only market forces that drove this metamorphosis. The reasons for the creation of central banks go beyond that. They are the result of the interaction between political action and the market, the convergence of political interest with the interest of the «market».

The question about the nature of the creation of central banks cannot be

2. Corazza (2001)
3. Corazza (2001) pp. 127-136.

summarized according to the first hypothesis, which was purely for political reasons that led to their arbitrary foundation by the State, or the second hypothesis, that central banks are the result of market forces. What can be given as a reason, which is closest to the reality is that central banks resulted from the interaction between the market and its needs, and the government's response through the intervention. Central banks were not created to perform what is understood today as the functions of the central banks, but the performance of these institutions led to this[4]. In a way, this relationship plays a greater or lesser extent according to the political and social individuality of different countries. In Brazil, the path that the powers of the Central Bank of Brazil have taken seems to converge with the interest of a very distinct social group, the financial elites.

Being the government bank, the issuing bank and the reserve bank, even though these are not vital functions of central banks, were the things that gave origin to them. However, central banks are considered unique when they start to play a role as providers of a last resort. In the modern context the monetary system was established on a group comprised of government, private banks and central banks. Thus, central banks cannot be seen as simple government agencies, they have to be seen as complex and ambivalent, semi-public and semi-private, because a part of their activities is included in the state structure and another part relates to the private credit in a double insertion, in the public-private ambivalence[5].

The first central banks in the world were in Sweden (1688), the United Kingdom (1694), France (1800) and the Netherlands (1814), and none of them took the monopoly on currency issuance from the beginning. In the case of Sweden, this monopoly was only implemented in 1904[6]. In Brazil, the 1988 Constitution states that the currency issuance is responsibility of the Union, but it transfers this power to the Central Bank of Brazil. What is observed in practice is that the Union does not interfere in the matter and the Central Bank acts as the general coordinator of a monopoly of currency issuance.

4. Corazza (2001) pp. 127-128.
5. Corazza (2001) pp. 138-141.
6. Chang (2004) pp. 166-168.

1.2. The currency issuance process by central banks

The currency can be seen as a value reserve, as a means of payment for the movement of goods and a measure of value. Through currency, all state and products are measured in money, and the access to these is also given through money, since the society in consensus accepts this method of payment. Also through money the prices are established, and ultimately money as a reserve of value keeps the tone of the possibility of accumulation. The currency may, according to the social, acquire other functions such as moral (when used by the church or charity), as institutional order (when used by the State) or domestic (when used for family purposes)[7].

Money has come a long way in history until it could play this role today in the political and social relations. Since ancient times it has been a trading instrument and various materials were used, such as shells, salt, etc. It is important to note that it seems currency has always had as endemic characteristic the influence of political power. The construction and maintenance of modern societies under the aegis of a political power also goes through the consensus of the establishment of a single currency in a given territory. With the consolidation of the modern State money is no longer just a means to make changes and also became a strong maintenance instrument of political power.

To some extent money can be seen as a State tool in order to impose the condition of debtors to the people, guaranteeing then their power through coercive means, the taxes. But money is itself a creation of the market, and soon political power had the task to ensure its own value. Money reveals a clear relationship of power, because only the State can impose the compulsory payment of taxes[8].

A serious problem facing society is the savings account to the extent that savers take money out of circulation. The prevalent neoclassical theory today denies this withdrawal of money by simply taking the assumption that all savings are immediately transformed into productive investment. However, the simple observation that credit is also used both by the government to pay interest as by individuals and companies for the purchase of consumer goods, used real estate, stocks, etc, shows that this neoclassical assumption is unfounded.

7. Búrigo (2000) pp. 4-6.

8. Metri (2010) pp. 4-6.

An interesting issue about money is the use of alternative currencies, arising from located shortage currency, which prevented and still prevents economic development in remote communities of the great centers. You can see along the recent history of the examples showed by Búrigo[9] that alternative or parallel currencies played a more important role in the economy of the localities where they were implemented than the official currency. Having a local currency issued by an authority recognized by society would make the demand of local products rise and consequently increase production and employment in the community, provided that the competent Central Bank does not interfere.

The emergence of parallel and alternatives currencies in many countries brings forth a new question: to what extent should currency issuance be restricted to the State? Or worse, in the case of Brazil, the shortage of currency in many places may have been imposed in the 1988 Constitution, when the Central Bank was prohibited to finance directly or indirectly the National Treasury. This way the Central Bank cannot issue money to pay expenses of the federal government to promote economic development. Another question remains: after all, if the Central Bank of Brazil does not issue money for the Treasury so it can promote economic development as some remote communities do, then who is it for?

2. The legal protection of currency issuance in Brazil. The legal basis for the action of the Central Bank of Brazil

There are three cases in which the Central Bank of Brazil issues money. The first is to cover the eventual primary fiscal deficit or the federal government, the second is due to the exchange rate policy when there is a current account surplus with the exterior, and the third is to pay interest on the public debt. In the first and second cases, the Central Bank is passive, that is, it only reacts in favor of the decision of the federal government. The third situation is where The Central Bank of Brazil is empowered not only to remunerate the bonds to finance capitalists, but also to save banks in a crisis and cover up embezzlement and possible fraud[10].

The Central Bank issues money for the payment of interest, but it does so in disguised form in open market operations, called «*open market*» by the ini-

9. Búrigo (2000)

10. Lima (2002) pp. 33-34.

tiates, where it buys and sells bonds issued by the National Treasury, claiming to be doing monetary policy to control the volume of money in circulation. In order to buy bonds of National Treasury of the hands of any holder, the Central Bank issues money, including the part corresponding to interest[11].

This way the State guarantees the payment of creditors of the public debt, either by coercion imposing the whole society to pay taxes, and when these are not enough, there is new currency issuance for the enjoyment of creditors.

Nowadays, the currency issuance by legal arrangement is a monopoly of the Union through the Central Bank of Brazil[12]. In the Federal Constitution of Brazil in 1946 and 1967, the forced currency issuance was linked to a possible deficit. That is, if the Treasury were in deficit, the currency issuance was possible via political decision to cover such deficit. In the 1988 Constitution, the Central Bank of Brazil still had the monopoly of currency issuance by delegation of competence of the Union. However, paragraph 1 of article 164 marks a break, which states that the Central Bank cannot print money to finance the National Treasury. According to the Federal Constitution:

Article 164. The competence of the Union for currency issuance must be exercised exclusively by the central bank.

Paragraph 1 It is forbidden for the central bank to grant, directly or indirectly loans to the National Treasury.

That is, if the federal government has a deficit, this deficit cannot be financed with the currency issuance by the Central Bank of Brazil, but by borrowing from financial capitalists. This means that the authority of the Union to issue money can never be exercised[13]. The paragraph 1 of article 164 of the 1988 Constitution undermined to paragraphs 1 and 2 of the Law of creation of the Central Bank of Brazil (Law 4595 of 12.31.1964), in which it was said that there could be currency issuance to cover the deficit of the National Treasury.

The power of the Central Bank of Brazil increased with the creation of the consolidation law of the Real Plan (Law 9069 of June 29, 1995) to establish that:

Article 6. The President of the Central Bank of Brazil must submit the monetary planning for the trimester to the National Monetary Council, at the beginning of each trimester, containing at least:

11. Lima (2002) pp. 51-52.

12. Kretzer (2011) p. 58.

13. Kretzer (2011)

I . estimates of the variation ranges of the main monetary aggregates consistent with the objective of ensuring the stability of the currency; and

II. analysis of the evolution of the national economy expected for the trimester, and justification of the monetary planning.

Paragraph 1 - After approval of the National Monetary Council, the monetary planning will be referred to the Economic Affairs Committee of the Senate.

Thereby all the guidelines laid down by the Central Bank of Brazil to fulfill the alleged stability of the currency become priority on the agenda. In this case, both the Ministry of Finance and the Presidency of the Republic, and also all political power are hostages of this stabilization policy of the Central Bank and may not hold another policy[14]. Nevertheless, the Act provides for the participation of the National Congress in the approval or disapproval of the plans of the Central Bank, but in a bizarre way, because at the end of article 6 of Law 4595 it is crystal clear the independence of the Central Bank, to establish that:

Paragraph 6 - If the Congress does not approve the monetary planning by the end of the first month of the trimester to which they relate to, the Central Bank of Brazil is authorized to run it until its approval.

This provision authorizes the President of the Central Bank of Brazil to operate with full freedom, regardless of how damaging it is. So, here is the answer to the question of to whom the Central Bank of Brazil issues money, found in Article 12 of Law 4595, which says that:

Article 12. The Central Bank of Brazil will operate exclusively with public and private financial institutions, prohibited from performing bank operations of any nature with other people from public or private, except the ones expressly authorized by law.

The Central Bank of Brazil is an autarky of the federal government that already has legal compliant with operational and property autonomy, but it still does not have the statute law of administrative independence, which would be the maximum insulation of its authorities, because the leaders would become unacceptable. The Central Bank of Brazil is fully free to formulate and implement monetary policy without legal interference of the Ministry of Finance and the Presidency[15].

According to Benayon (2011), in practice the Brazilian Central Bank al-

14. Kretzer (2011) p. 38.

15. Freitas (2006) p. 287.

ready has wide independence given that it does not have to make bids to indebt the country. In this sense it is free to establish high rates of interest, even if they are not efficient in fighting back against inflation and further extend the debt of the Federal Government. The debate on the independence of the Central Bank, according to Professor Castro[16] blocks the flow of an even more necessary dialogue in society regarding the management of economic policy that guarantees equal rights.

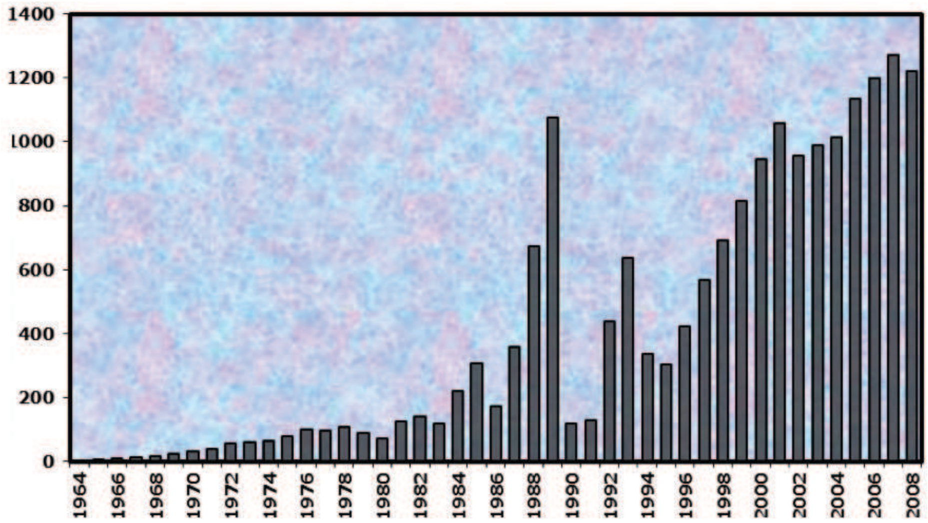
In order to do monetary policy in open market operations, the Central Bank violates the principles of public administration in the purchases and sales of government bonds by not offering operational and accounting transparency, and to a large extent it is a vector for the imbalance of public accounts. A little known detail is that in the open market the financial capitalists, not the Central Bank, decide when and how much for they buy and sell bonds of the National Treasury from / and to the Central Bank.

The finance capitalists are attracted to allocate their resources in government bonds mainly due to the liquidity offered, which is 100%, since the sale of government bonds on the Internet is done in seconds and safely. The government bond equals money, but earns interest for the period the investor wants. It gets even better when the interest rate that the Central Bank of Brazil determines to public debt is higher than the market interest rate, which is what has happened frequently.

In other words, the Central Bank of Brazil does not hold control over the volume of currency issuance, because the more government bonds are sold to the private sector, the greater the currency issuance is to pay with interest the private holders of government bonds. This is not a purely technical arrangement, but a clear instrument that on the one hand, provides the scarcity of money in society and on the other hand, benefits the financial capitalists.

The Union has no control over the debt generated by the Central Bank of Brazil under the anti-inflation argument. The federal government can even expand the primary surplus for this by increasing taxes and cutting expenses essential for the population. The primary surplus was invented, and legally became a government obligation in all three levels, with the specific purpose to take advantage of the resources saved for the payment of interest on public debt. However, such measures are only palliative, since the Central Bank acquires new debt every time the financial capitalist decides to purchase a

16. Castro (2005)



Graph 1. Federal Security Debt Held By The Public.
(Source: Central Bank of Brazil, Time Series.)

government bond, regardless if the federal government needs the money borrowed this way or not.

Moreover, as shown in Lima[17], the primary surplus is able to change the level of existing debt, but it does not have the power to change its mathematically explosive path. This explosive process happens because the government is a social institution and not a company that has to be profitable. This way when getting a loan the government starts to spend more than it collects in taxes on behalf of the interest. And one who should and continues to spend more than he makes, can see their debt grow more and more without limits. Therefore, as illustrated in the graph below, the public debt always follows a mathematically explosive process until a crisis befalls.

The public debt of the federal government in the form of bonds of National Treasury held by the financial market began to grow strongly in 1980. The debt explosive growth is interrupted only by defaults that received the names Plano Cruzado, in 1986, Planos Collor I and II, in 1990 and 1991 and Plano Real, in 1994[18].

The money that the legislation allows the Central Bank to borrow on behalf of the Union is the money that the Central Bank of the Union itself issued. In addition to the legal order confusion, there is a paradox very difficult to understand here, which leads to another intriguing question: what is the rea-

17. Lima (2008) p. 248-249.

18. Lima (2008) p. 258-260.

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son why the political power and society accept this kind of practice? In other words, this situation is similar, for example, to a hypothetical story where a small winemaker who, instead of taking to his family Sunday dinner a bottle of wine directly from his own stock, sells the same bottle of wine to the supermarket and then buys the very same wine he produced, accepting to pay the price set by the supermarket, even if it is a much higher price than the other bottles of wine of the same quality. It is illogical, but that is exactly what the Federal Government does.

The Constitution prevents the Central Bank of Brazil to send money to finance the National Treasury. Consequently, whenever the federal government has deficit it must borrow money from financial capitalists, who then lend the federal government money that was issued by the Central Bank. Of course there is a theoretical construct made by monetarist economists, incessantly delivered to common sense by economics journalism, which to some extent can justify the formation of a consensus on the mission of the Central Bank to control inflation. However, it is obvious that this «consensus» of society and of political power concerning the currency issuance is at least illogical because of the explosive process not only of the public debt, but also the public deficit, the few people benefited from the interest income, the currency issuance, unemployment, etc.

Finally, the mission stated by the Central Bank of Brazil would be to ensure the stability of the currency, but as it does not have control over the issuance of currency, the level of public debt, or on the exchange, the *modus operandi* adopted by the Bank Central to do monetary policy with high interests undermines any possibility of currency stability, so the Central Bank is acting against the mission it declares on its website.

2.1. The independence of the Central Bank of Brazil

The analysis of the power of the Central Bank makes it clear that it already has wide independence, guaranteed on a political pact with the financial power[19]. The main arguments that seek to legitimize an independent Central Bank are two: the first one is to facilitate the entry of productive capital in the country; and the second one is that independence provides the confidence necessary to manage economic policy. Thus, there would be relatively low levels of infla-

19. Araujo (2005) pp. 389-396.

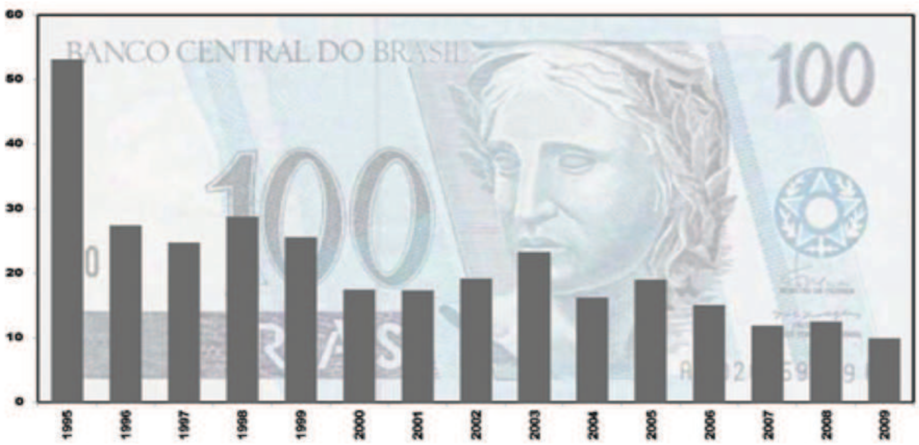
tion and consequently lower interest rates. Both arguments are not confirmed in Brazil, given the high inflation by international standards, ditto for the interest rate set by the Central Bank and called Selic rate, and also the type of foreign capital that has been driven to enter Brazil, that is not productive but financial, mainly placed in bonds of the public debt[20].

Another common argument for independence is possibly the little responsible behavior of a politician concerned with his reelection. The argument says that politicians in periods of re-election tend to adopt an expansionary behavior in relation to economic policy. But as the neoclassical theory states that the economy is already at its maximum operating, this behavior of the government would actually be very undesirable because it does not increase employment, and on top of that it would cause inflation.

Therefore, the defense of the independent Central Bank misuses the concepts of political science by arguing that it is a non-political body which should be isolated from political power, that has clear rules, and above all, that is committed to fight back against inflation. What happens here is a strange political discourse to complete the isolation of a group of technocrats on top of a Sacred Hill, but if that were the case, the technocrats could not make decisions that affected society. The logic points to the opposite of independence harangue, which seems that the more independent the Central Bank is, the more subject it will be to co-optation by political means, by financial capitalists, and the financial market operators who derive their income from brokerage on buying and selling financial assets.

It is evident in the texts of Benayon and Rezende[21], Militão[22] and Sayad[23], that since the 1988 Constituent some maneuvers led to legal action in the interest of major hubs of capital, which are those who buy most of the bonds of the public debt. Among these measures are: 1) the constitutional impediment of Central Bank to issue currency to finance the National Treasury; 2) the imposition of the government by conducting systematic primary surplus and the simultaneous determination of the priority of payment of interest on the public debt, both consolidated in the Fiscal Responsibility Law; and 3) the Inflation Targeting Plan, which ensures a high rate of interest. That guarantees to finan-

20. Araujo (2005) pp. 396-397.
21. Benayon and Rezende (2006)
22. Militão (2007)
23. Sayad (1999)



Graph 2. Selic. (Source: Central Bank of Brazil, time series.)

cial capitalists during the periods in which they do not find a better alternative to apply their money, the Central Bank will always borrow it for as long as they want, paying high interest rates as shown in the chart below.

The 1988 Constitution, despite being good in some aspects such as coerced monopoly of the media, is quite tolerant of economic power and needs to be reviewed[24]. The leaders of the central banks, given the importance of this institution, exert more influence on people's lives than any other politician democratically elected. However, these leaders are not chosen by the people directly anywhere in the world. So, it has been a powerful institution that is totally out of democratic control[25].

2.2. Fraud in the 1988 Constitution?

The research of Benayon and Rezende[26] on some events related to the 1988 constituent supports the suspicion that there was the inclusion of provisions in the constitution visibly illegal. The provisions failed to meet the three-step procedure of the constituent and were not approved by the Parliament, which the authors characterized as a swindle. The authors note that those responsible for the inclusion of these devices were the constituents Nelson Jobim and Gastone Righi. The provisions in question here are the letters «a», «b» and «c» of Article 172[27]. According to the authors:

24. Ferraz Junior et al (2009) p. 51-52.
25. Cooper (2008); Prado (2011).
26. Benayon y Rezende (2006) p. 18.
27.Current article 166 (Benayon y Rezende (2006) p. 29.

«This addition to the Greater Text created, in an illegal and illegitimate way, exceptions to the rule in section II of the current article 166 that include, in addition to debt service (paragraph b), also personnel costs (paragraph a) and constitutional transfers to states and municipalities (paragraph c). However, unlike debt service, these two types of expenses are not depressed to the economy. Quite the contrary, they are for the activities essential to the operation of the federal and local governments[28]».

The authors raise several issues that were published in the press with Nelson Jobim refusing to clarify what were the provisions that entered the constitution in a dubious way, but also assuming participation in such acts[29]. In an interview, Gastone Righi assumed that in fact there was such inclusion, however he said that the initiative came from Nelson Jobim. When Nelson Jobim was asked about the allegations contained in the academic paper of Benayon and Rezende, rather than defend himself, he declined to comment on the survey. The narrative of Benayon and Rezende[30] suggests that the illegal addition of paragraphs was made in a sneaky way. However, an interesting hypothesis for future studies, and that is not taken into account in the research of the authors, is that the other deputies may have been bribed, which would make this addition a little more consensual and facilitate the process.

As if that were not enough, apparently the Central Bank frequently conducts «secret» meetings with the financial market. According to an article in the magazine *Carta Capital*, every trimester the directors of the Central Bank of Brazil hold meetings with the financial market. These meetings involve only select representatives of financial groups and the content is not available to the public or other political authorities. These meetings are not even provided in the agenda of the Central Bank, that is, they do not exist in a formal way. Also, there are not any minutes from those meetings or any material to give clarity on what is being discussed[31].

According to the Central Bank, these meetings are not disclosed, because supposedly that would generate unwanted speculation in financial markets. That is, there is no transparency in this process, which puts them totally out of democratic control. The information given is that in this meeting is gathe-

28. Benayon y Rezende (2006) p. 14.
29. Benayon y Rezende (2006) p. 11-12.
30. Benayon y Rezende (2006).
31. Lirio and Pinheiro (2007) p. 1.

red concrete data for the Central Bank so it can make the trimester report on inflation. However, the Central Bank already has wide communication with the market that is made through the Investor Relations Executive Management (Gerin), which puts together all the information arising from bank economists about the various prices of the economy weekly[32]. With these secret meetings there is no doubt that the transparency of the Central Bank is in check, and even those who advocate for a more «independent» Central Bank agree that full openness and clarity of its procedures is required to society and to the market[33].

It is risky to say something regarding the secret meetings, because as its contents are not disclosed and it is complex to obtain the list of participants, it is difficult to judge what has been done. However, as the central bank itself says, these meetings are for gathering data to make the report on inflation. In this sense there is a hypothesis that requires further studies to be confirmed or not, but in any case it must be taken into account in order to maximize the principles of transparency of the Central Bank[34]. Since these meetings take place behind closed doors, and no possibility of control by any of the three branches of government (executive, legislative and judicial) and not by civil society, nothing prevents that private interests are being discussed there. For example, it could be brutally over-estimating the value of inflation targeting to justify higher rates of Selic interest. Undoubtedly, what interests to the representatives of financial market who participate in these meetings are high interest rates to ensure their profits.

3. Monetary policy, a fiction. Public deficit financing

It is the political power that strengths currency because it is an accounting fiction subject to the strength of political power. An example of this power is the Dollar, which is only accepted as universal reserve, as the main exchange unit, due to the considerable political and military power which the US enjoy.

32. Lirio and Pinheiro (2007) p. 2.

33. Lirio and Pinheiro (2007) p. 4.

34. It is important to maximize the participation of civil society in decision-making processes of the Institution. The Central Bank has accumulated many functions, so it is a very powerful institution to stay out of the most rigid democratic control. Jetin (2009).

So, if either of these two powers, or both unsettle, the value of the Dollar will be in check[35].

What predominates in the academy of economists and the real world is a set of rules and assumptions that are not scientifically proven and known as «monetarism», adopted by the monetarists in the construction of monetary theory and practical implementation of monetary policy with the supposed aim of ensuring stability of the currency value. The basic principle adopted by monetarists is that the economy tends to always be in full employment, which means that domestic production is at its maximum level. In this sense, according to them, if the government issues money to expand their purchases of goods and community services, the prices will only increase. Even if the government stops issuing money after a purchase, the monetarists say that prices will continue to increase generating inflation, and later, a hyperinflation. This process, they conclude, causes many negative effects on the economy and society, as the fall of business investment and unemployment, and should be avoided at all costs.

Therefore, in the monetarist party is known that the ideal solution for any deficit of the government is financing by the financial capitalists, including national and international bankers. Thus, despite the fact that the Central Bank of Brazil is an autarky of the federal government that has the power to issue money, it was established that the federal government should borrow money and pay interest, even if the deficit is associated with spending on existing debt interest.

3.1. Inflation targeting plan

In addition, the Central Bank extended its concerns about inflation, ranging from «control» to «fight back». That is, it does not matter whether there is or not public deficit, it is the mission of the central bank to fight back against inflation. If it were possible to reduce prices without reducing jobs and wages that would be great, but there is not such a thing. Prices go up and are expected to increase when people have a higher income, because when people have more money they want to buy more expensive things that they could not afford before. The monetarist paradigm led Brazil to take a single position relative to the management of economic policy, where first it is said that the only problem is inflation, then it is recommended that monetary policy is the only way to combat this «evil».

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35. Araujo (1998) p. 34-35.

This leads to the inflation targeting plan[36], which uses high interest rates in an attempt to slow down the consumption. The plan is based on a mathematical monetarist model that was not subject to the test of real life. Moreover, this model cannot be scientifically tested because it is logically inconsistent assuming that the debt by the government does not pay interest and that unemployment observed at one point in time is required to reduce the price rate of change in all periods of time to come in the future[37].

The monetary policy of inflation targeting basically can be defined in two stages. In the first, a goal is established, a certain target for the inflation, and then aligned with the Selic interest rate to supposedly reach that goal. The Central Bank uses this Selic rate to hold all its operations of buying and selling of Treasury bonds in the open market in order to control inflation. In practice, however, what happens when the central bank announces the Selic rate is that it commits the government to sell government bonds, or borrow all the money that the financial market is willing to lend to it, which then must return the same money plus the amount of interest accrued to the Selic rate[38]. This is an investment fund, not inventory control of money, which could be called Selic Fund. It is very doubtful that inflation can be controlled by issuing more money. In fact, this practice goes against the monetarist principle that currency issuance equals inflation.

The process by which the Committee (Monetary Policy Committee of the Central Bank of Brazil) establishes interest rates, which has visible consequences throughout society, is influenced by leaders of the economy and the government, but only by manifestations of unpleasantness in the press. The Copom «meeting» is closed and the only social group consulted systematically is the one assembled with the components of the financial market. The «technicians» of the financial market can go to the Sacred Hill, but the «politicians» cannot. This financial capitalists liking path leads to an induced recession and sacrifices the market economy and the financial capitalists. Even assuming that such inflation targets are successful, that is, which can limit inflation to a previously

36. From the 1990s it has become increasingly common in developed and developing countries the adoption of inflation targeting plan. That means that these countries today are devoid of important instruments that could lead to increased aggregate demand and hence employment. Freitas (2006) p. 204.

37. Lima (2008) p. 211.

38. Lima (2008) p. 221-222.

established level, the country and the market economy do not add any benefit out of it[39]. Therefore, it is valid to ask: what does the government demand such an effort to achieve a purpose of dubious usefulness for?

If the goal of paradigms imposed by the fiscal responsibility is the adjustment of accounts and a search for balance of accounts, monetary policy overrides any proposed effect. That is, on one side there is a campaign to minimize public spending through tax adjustments, on the other hand monetary policy imposes an immeasurable debt, hindering any attempt to balance the accounts. Every public budget becomes dependent on the public debt, the imbalance becomes rule despite any possibility of balance of accounts and makes the opportunities for productive public spending decline[40].

As the economy is all interconnected, monetary policy of inflation targeting causes three immediate economic problems with very serious consequences for society: first, the legal rule of the primary surplus is deployed, which means taking money from those who earn little and spend buying domestic products, thus, more unemployment and less demand for Brazilian manufactured products; secondly, the high interest and globalization bring to Brazil many dollars to be invested in government bonds. As always, when supply increases the price drops, this way the dollar becomes cheap and Brazil starts to import more and export less manufactured products; but the third problem is the worst because the debt made by the Central Bank on behalf of the government and the people follows in explosive pace towards infinity, destabilizing the entire economy and society. Meanwhile, the worker and the businessman make less and less money, and many of them make nothing.

In fact, there is not any evidence indicating that workers, industrialists and traders affected by this economic policy have exerted significant pressure on political power to obtain an economic policy that actually guaranteed the maintenance and growth of aggregate demand. Apparently, the sectors of the industry have not undertaken such effort on account because their wealth was financed by the income linked to the Selic rate[41]. According to Pochmann, the challenge for Brazil is to form a political convergence for development. Only in this scenario 20,000 families that nowadays concentrate the bulk of public debt bonds would have incentives to migrate this money from the unproducti-

39. Araujo (2005) p. 464.
40. Gonçalvez (2005) p. 9-13.
41. Pochmann et al (2009) p. 59-61.

ve field to production, creating more jobs[42].

Monetary policy causes concentration of income in three ways: one of them is this concentration of government bonds in the hands of a few, which means that there are few who receive the income of the public interest; the other is the primary surplus, which causes wages to fall and unemployment and underemployment to increase; the last one is that the inflow of dollars accelerates the fall of wages and employment. Monetary policy not only enriches some, but still impoverishes many. But apparently the concentration of income is unlikely to cause widespread of popular uprisings in countries like Brazil, where unemployment and underemployment have always been chronic phenomena. Moreover, these uprisings tend to be taken by populist charismatic leaders with low propensity to democracy.

Finally, but without ending the list of negative effects of monetary policy, it is necessary to understand how the foreign capitalist is inserted in this context. This monetarist movement created rigidity regarding the Brazilian export capacity, in a scenario where apparently Brazil established itself as an exporter of commodities and importer, financed with foreign capital, of industrialized products that have higher added value and guarantee jobs out there. The financialization policy can trigger a process of denationalization of almost inexorable economy, which puts the country in an unfavorable condition in the international scenario, because soon it imposes beforehand an unfavorable trade balance and still significantly can increase the democratization deficit of production means, which become increasingly controlled by not groups smaller each time, and in some cases they do not even reside in the country[43].

As a result of this monetary policy of the Brazilian government, foreign debt grows slowly and steadily, following an explosive process, according to mathematical demonstration in Lima[44]. Thus, the remittance of foreign currency for the payment of interest is also expanded, obtained with the export of our mineral wealth, for example, and increases the subordination of the country to foreign interests. The high-interest policy emphasizes the international role of Brazil as a passive agent in globalization[45].

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42. Pochmann (2001).
43. Gonçalvez (1999) p. 14-17; Benayon (2011).
44. Lima (2008) p. 326-329.
45. Gonçalvez (2002) p. 131-162.

4. Final considerations

The lack of democratic openness by the Central Bank of Brazil has favored few, especially families mentioned by Pochmann as holders of public bonds in default of the great mass of society, which is excluded from this debate in a direct way. In times of economic crisis in globalized level, we need to rethink the role of institutions in economic fiduciary, and also the degree of openness and participation.

As shown in Brazil the economic policy adopted, besides being ineffective in its original propose (fighting back against inflation), induces to a compelling government spending, and also transference of money from society to the holders of government bonds. It is clear that on one hand this policy can benefit bond holders, but on the other hand it increases unemployment because most of the producers that generate employment feel discouraged to export their goods, due to overvalued currency exchange rate that is a disadvantage; in the same way he does not feel encouraged to participate in the local competition, because due to currency exchange rate the foreign products enter the country at a lower cost. All that added to the guarantee of bonds make most of the industrialists finance their wealth, reducing jobs in the real world.

A greater distribution of wealth in the country, an increase in job openings, a consistent reduction of the public debt must go through constitutional changes regarding the bureaucratic insulation of the authorities of the Central Bank of Brazil, and also concerning the legal protection of currency issuance. Apart from just ensuring the profits of the holders of government bonds, the government must also grant the minimum requirements of equity and justice among Brazilians.

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