Comments on “Monetary and fiscal history of Brazil: 1960-2016”

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Summary

• Great summary of Brazil’s monetary and fiscal history.
  • Focus on role of government budget constraint
• Recurrent episodes of high inflation and stabilization attempts.
  • 1980-1994: modest levels of fiscal deficits and high average rates of inflation.
    • High degree of indexation, non-dollarization and inflation inertia.
• Connection to growth experience.
Inflation tax 1980-1994

- Regulation and lack of competition among banks
- Banks collected inflation tax
- Joe Yoshino’s Chicago’s PhD thesis (1993) argues that inflation tax collected by banks on demand deposits in 80-88 was larger than BCB seigniorage.
- A percentage of demand deposits in private banks earmarked for rural credit, loans to exporters, and loans to small and medium enterprises at lower rates.
- 40% of inflation tax on demand deposits collected by Federal and State banks.
Inflation tax 1980-1994

- 3/4 of State banks loan to public sector, a large share to their own state and municipalities.
  - Regulation banned loans to controllers but exempted State banks.
  - “Empréstimos cruzados”
- CB seignorage underestimates resources appropriated and redistributed by governments through inflation.
- High inflation tax on demand deposits increases puzzle of non-dollarization.
Output per worker relative to US
Low per-capita growth in spite of demographic bonus.

Growth decomposition (since 1990) shows that labor and capital had small positive contribution to Brazil’s output/worker (relative to US).

TFP had large negative contribution. TFP in Brazil since 1990 grew 18 percentage points less than TFP in US.

Lack of integration in world markets, bad regulatory and legal frameworks...

Taxes

From 25% of GDP pre-Real to 33,6% in 2017.
Growth

- Tax system favors small less efficient firms.
- In Brazil, considering only firms with at least 30 employees, difference in PTF between a firm in the 90th and one in the 10th percentile is 3:1 (Busso, Madrigal and Pages, 2012)
- In US taking into account firms of all sizes this difference is 2:1 (Hsieh and Klenow, 2009)
- Brazil has long left tail of less efficient firms.
- “Value-added” taxes are not truly value added.
  - Several input costs are non-deductible.
  - Differences in rates across states create gains from “fiscal tours”.

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