Brazil's "independent" Central Bank: "Independent from whom?"

By Mark Weisbrot
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In recent days the press has reported that President Dilma Rouseff has denied having tried to influence the Brazilian central bank to lower short-term interest rates, as the bank did on August 31 from 12.5 to 12.0 percent. The fact that she would feel obligated to make such a statement shows that there is a problem with Brazilian democracy – although it is a problem that Brazil shares with the United States, the countries of Europe, and much of the world.

It is difficult to find a legitimate argument for the central bank to be independent of the will of the electorate, and of its elected leaders – whether in the executive or legislative branch. It is not like the judiciary, where the traditional argument is that an independent judiciary is needed to help guarantee the rule of law. Central bankers are not interpreting the law, but deciding on one of the most important macro-economic policy choices available to democratic governments – monetary policy. There is no obvious reason that monetary policy should be outside the realm of democratic governance, while fiscal policy – taxing and spending – is decided by democratically elected officials.

In other words, those who argue that the central bank should be "independent" are making a rather extreme, elitist argument – they are saying that monetary policy is too important to be influenced by the electorate. But this could be said about any economic policy, or other important policies as well – why not have a king make these decisions?

The Brazilian economy is slowing more rapidly than anticipated. The central bank's survey of economic forecasts has 2011 GDP growth coming in at 3.7 percent, less than half of last year's 7.5 percent growth, and down from prior projections of 4 percent. The recent lowering of forecasts stems from the current economic uncertainty and volatility resulting from actual and potential financial crises in the eurozone. Ironically, that is the result of the policies of one the most conservative central banks in the world – the European Central Bank. Compared to the European Central Bank, Ben Bernanke, the chair of the U.S. Federal Reserve, looks like a socialist.

Brazilian consumer price inflation over the last twelve months, including August, is 7.23 percent. However, seasonally adjusted inflation over the last three months, including August is 5 percent – indicating that inflation is falling.

A central bank may be independent of the needs of the electorate, but it is not really "independent" – instead, as in Brazil, it acts in the interests of the financial sector. That is why Brazil's interest rates are among the highest in the world, and why Brazil's currency is one of the most overvalued in the world – thus hurting Brazilian manufacturing and industry. Democratic accountability of the central bank – instead of its supposed "independence" – would help Brazil achieve its long-denied economic potential.