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Effects of Monetary Policy on Income Distribution: Evidence from Brazil based on a Bayesian Vector Auto Regressive (B-VAR)

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In one hand mainstream economists see monetary policy as neutral in the long run: monetary policy has no long-lasting impact on real variables, such as GDP. In fact, the mainstream neutrality hypothesis maybe generalized. Accordingly, major Central banks are not de facto concerned with income distribution. Mainstream economics pays little attention to the distributional effects of monetary policy. For instance, O'Farrel (2016) considers that the distributional effects of monetary policy are a simply a side effect of and, therefore, should be ignored. According to Domanski et al. (2016) "Redistribution decreases income inequality but does not affect trends". Mainstream economics is neither concerned with monetary policy effects on climate as well. In this sense we may say that in mainstream economics money is neutral in a multi-dimensional perspective. Accordingly, money affects nothing but inflation – and thus mainstream economics primary focus is price stability only. On the other hand, non-mainstream economists of many branches – Marxist, Srraffian, Kaleckian, Post Keynesians etc. – have been criticizing this reductionist view of monetary policy. Indeed, following the seminal work by Niggle (1988), many heterodox economists have been focusing on the effects of monetary policy on income and wealth distribution. For instance, Argitis and Pitelis, C. (2001) bring evidence of the link between monetary policy and the distribution of income for the US and the U.K. Kappes

(2021) review the empirical literature on the topic. Rochon and Seccareccia (2021) emphasizes that monetary policy "operates primarily through the revenue side, and more specifically, through income distribution". Although many other references are available, there is not enough empirical evidence on the distributional effects of monetary policy. Neither the income-distribution transmission channel is enough studied in an empirical way. In fact, more attention has been paid to the distributional effects of monetary policy, especially in the aftermath of the 2008 financial crisis. Indeed, orthodox economists are seeking for empirical evidence on this transmission channel. For instance, Hohberger et al. (2020) and Bonifacio et. al (2021) apply a DSGE model for several countries. Our goal is to bring more evidence on this subject. We will apply a Bayesian Vector Auto Regressive (B-VAR) model. More precisely, we aim to measure distributional effects of Brazilian Central Bank's (BCB) benchmark rate (SELIC) in personal income distribution. Our sample is relatively large, covering the inflation targeting regime period (2000-2021). We use monthly data, for SELIC rate, consumer price inflation (IPCA), and a distributional variable used as a proxy for personal income distribution. This variable is calculated using the "Relação Anual Informações Sociais" (RAIS) data on mean salaries. RAIS is a Brazilian microdata database that contains individual information for the workforce of a diverse set of economic activities. Data in RAIS can be segmented by race, gender, education, salary range, and occupation, among other variables. Doing so we pretend to measure the effect of monetary policy on income distribution based on different income strata and social characteristics. Accordingly, our contribution is twofold: to measure the distributional effect of SELIC; and to build a proxy for personal income distribution available in monthly frequency for Brazil.

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