

## President Lula and Anthony Giddens

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Considering on one side the applause to Argentina's President Carlos Menem economic policies in the 1990s and the same praise that receives President Lula today from the North, and, on the other hand, the absence of comparable tribute to the economic policies adopted by the Asian economic authorities, it occurred to me some time ago as simple as paradoxal a measure of the quality of economic policies adopted by medium income developing countries: the higher the applause they receive from the North authorities, the worse they will be in promoting economic growth and international competitiveness.

The logic behind is simple. Using their agencies in Washington, the rich countries put together a series of diagnostics and standard policies to orient the economic policies of medium income developing countries. This 'conventional orthodoxy' is supposed to promote economic growth, but, in fact, checks it: they neutralize the competitive capacity of such countries, that, theoretically, should profit from their cheap labor and capacity to import technology to grow faster than developed countries and gradually converge to their levels of development.

Given the assumption that economic growth is a competition between developing countries to obtain foreign savings, the central growth oriented recommendation is that they fight for them. According to conventional orthodoxy, the countries that more strictly follow the recommendations will win the contest and will become entitled to direct investments and foreign finance. Yet, considering that foreign savings is synonym of current account deficits, international experience show exactly the opposite: the countries that grow are the ones that do not follow such advice and achieve regular balance or current account surpluses. This, however, is irrelevant to conventional orthodoxy whose logic closes with the fact that, once accepted the recommendation, the countries will become dependent of their creditor to roll over their debts and, thus, constrained to the practice of 'confidence building' – i.e. to be still more devoted dot the advices and pressures coming from the North.

The praises to Lula administration coming from the rich countries do not bother me anymore: they just confirm my measure. Yet, when a major intellectual as it is Anthony Giddens joins, I cannot stay in silence. I share with him a moderate left perspective, and a moderate nationalist approach, in so far as he, as a British citizen, and I, as a Brazilian, notwithstanding committed to international solidarity, see our

countries and the world on the perspectives and interests of respectively Britain and Brazil.

Giddens praised the Lula administration in an interview to *Folha de S. Paulo* (5.3.2006). He says: "In any centre-left administration there will be the ones that will say that it is not sufficiently left, that it should expend more in the social sector. I understand that most of Lula's strategies are correct. He must be cautious on the fiscal standpoint, given the enormous Brazilian public debt, which must be faced. If it is not, the country will spend still more with interests".

Dear Giddens, first, Lula's administration is not centre-left. His interest rate policy is transferring around 6% of GDP from the poor to the rich (specifically the rentiers) through the payment of absurd interests on the public debt (I am supposing that 2% of the total 8% total interest payments would be necessary to pay, given the public debt). Second, Lula did not get under control public expenditures: the primary surplus increased because taxes were increased. Third, Lula did not limit social expenditures: he restricted outlays to education and health care, but increases the assistencialist expenditures.

The present economic policies in Brazil are keeping the Brazilian economy unstable and quasi-stagnant. The real basic interest rate decided by the Central Bank is around 12%, much higher than Brazil's country risk (2,3%) plus the real interest rate on Treasury bonds (2%). Immobilized by this incredible interest rate, the economic authorities are unable to stop a strong appreciation of the real, which, in two or three years, will push the country again into balance of payment problems. Yet, since this strong real policy increases real wages, the 'exchange rate populism' involved will help Lula in the next October presidential elections.

In the two times I was in Oxford, I became impressed by British nationalism: a civilized, social-liberal nationalism naturally adopted by a nation which was the first in history to achieve its national revolution, and, so, knows what is and what is not convenient to its national interests. In Brazil this is not the case: our elites are dependent, our nation lacks the necessary solidarity and determination, and Lula's administration is uncritical adoption of conventional orthodoxy is a sad expression of these facts. In order to achieve reasonable rates of growth, Brazil needs a much stronger control of state expenditures, and a strategy to escape from the long term trap of high interest rates and overvalued currency.