

The equation cannot be satisfied

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A policy that combines exchange rate appreciation with nominal wage increase is suicidal in the medium term

Brazilian government bets that the domestic market will save Brazilian economy: that the wage increase above productivity, apart from reducing inequality, will create demand for the industry, and will offset the overvalued exchange rate. In other words, the same recipe that produced good results in the Lula administration could be repeated in the Dilma administration. But this time I am afraid that the equation will not be satisfied. It will still be possible to increase actual wages without increasing inflation, because the international price of commodities reached a level and tends to go down, but this is precisely what leaves no room for the government's economic policy.

During the Lula administration the GDP growth rate doubled, whereas the decrease in economic inequality, that was already occurring, speeded up. But this was achieved without the government facing up the fundamental problem of Brazilian economy: the overvalued exchange rate. Instead, it took advantage of the continuous appreciation of this rate (which was R\$3.95 per dollar in January, 2003) to keep inflation low while wages increased. In this setting, the deindustrialization that had begun in 1990 continued, but the industry survived because it could rely on a doubly heated domestic market: by the increase in the minimum wage and by the increase in actual wages resulting from the reduction in the dollar price. The country, that should present a high surplus thanks to the huge increase in commodity prices, went back to the current account deficit.

In the medium term, a growth policy oriented to the domestic market is as unfeasible as the alternative of an export-oriented economy. Domestic market and exports need to grow concurrently. A policy that combines exchange rate appreciation with nominal wage increase is suicidal in the medium term, because industrial companies less efficient than ours will soon occupy our domestic market. This is what is happening today.

Brazil will grow less than 3% this year, and it is unlikely that it will have a better performance next year. Investors are not being stimulated to invest, neither by the domestic nor by the foreign market. The foreign market is plummeting, pulled by Europe, and followed by China and India, that have already reduced their growth rates. In this adverse international setting, and without internal room for the economic policy, it is most probable that Brazilian economy continues to present a poor growth. And there is always the risk of a significant drop in commodity prices, which will have a catastrophic effect on the economy.

For the moment, the single major gesture of the Dilma administration in the economic domain was the reduction in the interest rate decided by the Central Bank. This measure opened the way for the State to invest more in infrastructure. The large increase in the minimum wage already provided for by law will represent another stimulus. But they are not enough. Brazil will continue to grow slowly, and the orthodox economists and the indifferent middle classes guided by them will continue to attribute deindustrialization to the “inefficiency” of Brazilian enterprises. In much the same way as conservatives attribute to the poor the responsibility for poverty and exclusion, neoliberals are now attributing the responsibility for deindustrialization to entrepreneurs. It is a repetition of the reactionary process of putting the blame on the victim, even if applied to very different victims. And the government seems paralyzed by this situation.