

Low growth, ideology and thought

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The government is doing a competent industrial and monetary policy, which has already succeeded in lowering interest rates, depreciating the exchange rate and partly through the Growth Acceleration Plan search plan and increase investments in the non-competitive

Brazilian low GDP growth in the third quarter of the year excited conventional economists. They were now able to criticize president Dilma Rousseff's developmentalist administration. On what grounds? That the low investment rate (18% of GDP) is due to the industrial policy adopted by the government; that entrepreneurs would have been disoriented by the several fiscal and monetary stimulus measures that the government is taking, and would have become insecure, reducing their growth expectations, and, as a result, stopping from making investments.

Well, this is not an economic explanation; it does not imply thinking but rather a repetition of the neoclassical and neoliberal ideology, for which any industrial policy is always condemnable because it would distort the allocation of resources. It is a mistaken ideology because the countries' centuries-old experience shows that it is false: that an industrial policy is usually a factor in economic development.

But what is then the cause of the low growth? First of all, we must consider that IBGE [*Brazilian Institute of Geography and Statistics*] had probably made an error in not taking into account the stock variations in its GDP estimates. As Francisco L. Lopes states, with his usual competence, in *Macrométrica*, “as of 2010 the companies' managers and planners, as well as the public, inside and outside the country, decided to believe that Brazil had become an Asian tiger” and, therefore, increased production excessively. In 2012, despite the fact that their sales are still satisfactory, they reduced production because they decided to rationally reduce stocks.

But the growth is not adequate, in spite of the government's courage to reduce the real interest rate and to achieve some depreciation of the exchange rate. It is not adequate because the exchange rate is still far from the equilibrium (around R\$2.70 per dollar). Why would an entrepreneur invest beyond his needs in order to modernize his company, if he is unable to export, and, worst of all, if he faces in his own home the competition of exporters who are not necessarily more efficient than him?

Growth is also not adequate because an industrial policy, however good, is not able to remedy this fundamental imbalance of Brazilian economy. Many

developmentalists had not yet understood this issue and, based on the experience of Brazil's high growth (1930-1980), believe in the magical virtues of industrial policy. This is also an ideology with no basis in thought.

That period's "industrial policy" was not just a system of incentives to industry (industrial policy in the strict sense); it was also, or even mainly, a macroeconomic policy through which the government kept the real interest rate low and the exchange rate at the industrial equilibrium, thus neutralizing the Dutch disease. This was made by means of multiple exchange rates, and, in the 1970s, by means of import duties and export subsidies which were not mere protectionism, as is usually thought, but a way of imposing the export tax on commodities necessary to neutralize Brazilian Dutch disease.

Therefore, let's leave aside ideologies, and let's try to think. The government is doing that: a competent monetary and industrial policy, through which it was already able to lower the interest rates, to partially depreciate the exchange rate (two essential measures to promote investment in economy's competitive sectors), and through the PAC [*Growth Acceleration Plan*] tries to plan and increase investments in uncompetitive sectors. It is in the right path.