

## **DEINDUSTRIALIZATION BEGAN IN 1992**

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**Even finding economists who deny, the participation of the industry in the GDP is much lower than it was 25 years ago.**

In the late 1940s industry represented 20% of Brazilian GDP, in 1985 it reached 36%, in 2008 it had dropped to 16%! Even so, we still find economists who deny that this country is going through deindustrialization. They argue that deindustrialization is not just a Brazilian issue, but something that affects all countries. With economic development, the contribution of sophisticated services increases, and, as a result, the contribution of the manufacturing industry declines. In 1970 the part of industry in the GWP (gross world product) was 25%, and it dropped to 17% in 2007. But this happens to rich countries which, from a certain stage, transfer their industry workforce to services with higher value-added per capita. This is not the case with Brazil. We are deindustrializing in order to produce more commodities.

Brazil is deindustrializing since 1992. In December of the previous year, pursuant to an agreement with the IMF, Brazil made the financial opening and, as a result, lost the possibility of neutralizing the structural tendency to the cyclic overvaluation of the exchange rate. Consequently, the domestic currency appreciated, the opportunities of lucrative export-oriented investments declined, savings dropped, the domestic market was flooded with imported goods, and, thus, many efficient Brazilian enterprises ceased to grow or even went bankrupt. This unleashed the premature deindustrialization of Brazilian economy.

If deindustrialization is obvious, why do Brazilian economists insist on searching

for arguments to deny it? Because they are orthodox, because they think in accordance with the Washington Consensus, and, hence, support the macroeconomic policy established since 1992. Despite the fact that they criticize the public deficit (as I also do), they propose high interests (to fight inflation and to attract capital), high current account deficits (to “grow with foreign savings”), a public deficit compatible with the current account deficit, and an appreciated exchange rate. In other words, in the name of orthodoxy, they defend exchange rate irresponsibility, and, despite rhetoric, fiscal irresponsibility (taking into account the twin deficits hypothesis). And they condemn the country to low rates of savings and investment.

When orthodoxy realizes that the rate resulting from the market is overvalued, it defends itself by saying that it is “impossible” to manage the exchange rate. This is not what history shows. In order to manage it, it is necessary (1) to impose a tax on the export of goods giving rise to the Dutch disease; (2) to use the resulting fiscal resources to eliminate the public deficit, (3) to lower the real interest rate to international level, and (4) to set up barriers to undesired capital inflows. In this setting, the income of the exporters of primary goods will be sustained, because the tax may and should be offset, cent by cent, by the devaluation. Brazil has already adopted this policy in the past. Other countries are applying it nowadays. If we adopt it, Brazil may be back to growth rates at least two times higher than those that prevailed since 1992.