# Policy revealed preference for immediate consumption

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# After the Fed announced in May

- that it would tail off quantitative easing currencies depreciated against the dollars

- But some currencies depreciated more.

- Depreciations ended in September when Ben Bernanke postponed the tailing off of the issuing of money by the Fed.

# Why some currencies depreciated more?

- Specifically, why
  Brazil’s real,
  South Africa's rand,
  India's rupee,
  Indonesia’s rupiah
  and Turkey’s lira

depreciated more than the others?

# I suppose that it was because:

- their exchange rate were getting overvalued,
- their current accounts were turning high,
- and the foreign debt ratios were beginning to worry foreign creditors.

- And because, giving these facts, financial markets mounted a mild speculative attack on them.

# Today I am not interested in demonstrating such assumptions

- I just note that in early August, Morgan Stanley's strategists called Brazil, India, South Africa, Turkey, and Indonesia "the five fragile countries"

- And I offer a table .

## Exchange rate depreciation between May 1 and July 31, and current account deficit

| | Depreciation | Current account/GDP (average 2011-12) |
|---|---|---|
| BRAZIL | 14% | -2,3 |
| INDIA | 12% | -5,0 |
| SOUTH AFRICA | 9% | -6,3 |
| TURKEY | 8% | -6,4 |
| PERU | 6% | -3,5 |
| RUSSIA | 5% | 3,3 |
| MEXICO | 4% | -0,9 |
| COLOMBIA | 4% | -3,4 |
| VIETNAM | 1% | 7,7 |

# I am just profiting this opportunity to say something that the facts have demonstrated a hundred times before:

that, for developing countries, turning financially is not

- a necessary risk if they want to grow;
- a fate;

But a major economic policy error

# A major economic policy error because implies ignorance of

- First, that there is in developing countries a tendency to the chronic and cyclical overvaluation of the exchange rate.
- Second, that to decide to grow with current account deficits means to have an overvalued currency;
- Third, that ignoring the Dutch disease means to have an overvalued currency
- Fourth, using the exchange rate as an anchor against inflation means to have an overvalued currency

# And that an overvalued currency,

- first, disconnects competent business enterprises from demand, and, so reduce investment opportunities and investments.

(Keynes asked for a sustained demand; besides, developing countries need a sustained access to demand)

- second, create financial instability and eventually, currency crisis.
- third, increases in the short term wages and consumption (making people happy in the short-term at the cost of growth and financial stability).

# Why economist don't neutralize the overvaluation?

independently of being orthodox or Keynesian, liberal or developmental economists?

- Due to the six fold ignorance listed above?

or

Because they don't act as rein to the exchange rate populism of politicians, as it would be their role, but, on the contrary,

they reveal preference for immediate consumption?

I believe (1) that the two answers are complementary, and (2) that this policy determined preference is clear, because all know that an overvalued currency means higher consumption, and, nevertheless, accept is as "natural".

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