

# **ECONOMIC GROWTH ARGENTINA & BRAZIL**

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November 17, 2006

# ARGENTINA

- I think I agree: Something is right, believe it or not
- But how good and sustainable will be future growth?
- Disagree to agree?

# Crying wolf?

- Argentina will revert to hyperinflation and crisis...
- Will collapse under an energy crisis...
- Will hit a wall once installed capacity reaches its limit and new investment is needed...
- ...and now, Will falter in the future due to bad quality of investment!

# Something fundamental is right, what is wrong is not fundamental?

- Domestic and external balance
- RER not overvalued
- Some success in making the case for excusable renegotiations
- Some unorthodox policies rationalizable as second-best or political economy shortcuts

# But how low is “sustainable at somewhat lower rates”; Brazil?

- Lasting policy distortions?
- Lasting contractual uncertainty discouraging investment?
- Is the technological innovation wave of the 1990s being sustained?
- Depressing effect of lack of bank lending to sustain investment in bad times
- Cost of default once external conditions normalized and access is needed

## And how sustainable?

- Yes, there is no need for a hard landing: lots of margins for adjustment
- But Argentina never needed a need, and “structural” virtues may go with the cycle:
  - Fiscal discipline not institutionalized
  - External balance may unravel with worse external conditions
  - Redistributive politics may raise ugly head

# BRAZIL

- The best of a limited methodology? I know the limitations of growth regressions!
- I agree with recommendations, but not much more than before
- Not clear to me that this gives an answer to the growth puzzle: we need more tools

# Picking on detailed points

- Sala-I-Martin would explain the “puzzle” of low modern growth (“too tropical”).
- It would not explain time dynamics, but neither does this dynamic panel after the debt crisis. Key test: would Brazil period dummies be significant?)
- Endogeneity of policy outcomes: difficult to infer policy recommendations; at most confirm priors



## More picking

- Specifications differ widely. Pick a preferred specification and consistently stick to it when showing effects throughout the paper
- Shouldn't BOP pressure be based on levels rather than volatility?
- Shouldn't you use period time dummies (F-A and Montiel, IMF Staff Papers)?

# Puzzles

- Why focus on reforms of last 10 years?; growth recovery starts 15 years ago.
- Explanation of growth during last 15 years fails (pg.10); which factor is driving the gap?
- New puzzles: Typically inflation dominates; not here apparently? Why growth in basic model drops in last period? And why external conditions are negligible for higher recent growth (pg 11)?

# More tools for growth diagnosis

- Combination of growth accounting with growth regressions (the puzzle appears to be investment, not TFP); why? (Blyde & F-A)
- Use of level accounting (Klenow & Rodríguez)
- Growth diagnosis methodology (Hausmann, Velasco, Rodrik): problem is low savings due to high taxation
- Microeconomic evidence (Castelar et al)