Who “will save the world”?

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The poor countries are being called to save the world. This is what Jean-Michel Severino and Olivier Ray tell us in the article “Can the poor save the world?” (*Valor,* March 16). According to the authors, rich countries are facing a huge financial problem – which is true – because their [neoliberal] growth model “widened inequalities and excluded a growing proportion of their populations from the labor market”. In order to “counter the effects of widening inequality and slowing growth, OECD countries have boosted consumption by rushing into debt” which led to the crisis.

Who were their creditors? The emerging Asian countries that achieved large trade and current account surpluses. While they were growing fast, these countries showed that they had no need of rich countries' capital; rather, they began to finance them. This fact astonished our two authors, as, in fact, the immense majority of rich countries' economists. They thought that it would be a temporary problem, but they eventually realized that it was not so. On the other hand, the leaders of rich countries were not able to persuade those countries to appreciate their currencies, thus increasing wages and consumption, and not to be in surplus against rich countries. As, by the way, European indebted countries are equally unable to persuade Germany to do it.

What to do then? Our two authors have, among others, a solution that is both curious and significant. “The implementation of new growth models in the developing world – the parts of South Asia, Latin America, and Africa that have not adopted export-led strategies – can provide at least part of the missing demand that the world economy urgently needs.” It is no accident that these are the world's least growing countries.

Not all of them are poor (Brazil is a middle-income country), but they are all foolish countries, that believe that in order to grow it is necessary to overcome the “external constraint” by pursuing foreign financing. They do not realize that it is not capital they lack; rather, they have enough of it. Besides education, technology and investments in infrastructure, they need a decent interest rate and a competitive exchange rate, allowing their competent enterprises to invest and export. Something that is only possible when the country neutralizes its Dutch disease and limits strongly any kind of capital inflow to their economy – the two causes of the chronic overvaluation of the exchange rate in developing countries.

The proposal made by the two authors means to keep the developing countries in the trap of high interests and overvalued exchange rate. But it coincides both with the view of the local neoliberal orthodoxy, that thinks it unnecessary or impossible to

manage the exchange rate, and with the developmentalists' view, who believe that it is possible to develop the domestic market without balancing the exchange rate and exporting.

As demonstrated by the structuralist development macroeconomics, developing countries that neutralize their Dutch disease and do not resort to foreign indebtedness grow faster, and at the same time reach current account surpluses. This was already understood by the fast-growing Asian countries. Sooner or later the other developing countries will understand it too, including Brazil. Soon, rich countries will have to find another way to develop. It is not reasonable nor realistic to expect that the poor countries will save the world.