Why protect inefficiency?

There's an old saying that insanity is doing the same thing over and over and each time expecting different results. And isn't that what the new industrial policy is doing with its protectionist measures?

As our cover story points out, between 1998 and 2008 Brazil had a policy of protecting the information technology industry. How successful was it? Well, for the individual companies that benefited, productivity went up significantly and so did their investment in R&D. Yet at the end of a whole decade, 26 countries still outranked Brazil in IT competitiveness—our position in the global market hadn't budged from 27th.

One of the interesting aspects of the cover story is that not one of the independent experts consulted thought protectionism was a good idea. Only those affiliated with the government came to the defense of the concept. And even they recognized that Brazilian industry has serious structural problems that protectionism won't solve. That's not even taking into account the essential unfairness of favoring some industry segments with incentives and not others.

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What no one seems to be considering either is the extent to which protectionism could encourage corruption. President Rousseff has already made the fight against corruption a hallmark of her administration. Yet in expanding grants and granting tax breaks for certain industries—so that in essence the taxpayer is subsidizing those industries—isn't the administration also creating incentives for corruption? It isn't hard to see the lobbyists converging on our representatives, many of whom already have a somewhat grubby reputation for regularly having their hands out. To find the fruits of corruption, we simply need to follow the money—and there's a lot of money at stake in these protectionism measures.

The bigger problem of the new industrial policy, though, may simply be that protectionism encourages inefficiency, and discourages company investment. As Pedro Cavalcanti asks in the article, "How many years are necessary to protect certain industries? 20? 30? And who pays for the loss of productivity during all this time?" We know the answer to that question: again, taxpayers. Or maybe more precisely, domestic consumers, who in addition to supporting badly run businesses as taxpayers must also pay twice as much for what they need because Brazilian products cost so much more to make than the imports to which the government has barred the door.

Another question is whether protectionist policies are simply a way to keep dying businesses on life support when the kindest thing to do for all of us would be to pull the plug. Does anyone remember the Merchant Marine Fund in the late 1970s and early 1980s? The fund financed an aggressive policy to protect shipbuilding? And how well did that work? In the 1970s, Brazil was second in the world rankings behind Japan. Then the fund ran out of money. Today, South Korea and China are the world's top shipbuilders with Japan coming in third. Brazil's shipbuilding industry has simply disappeared.

In certain carefully constructed scenarios, with time limits and benefits phased out over time, protectionism can achieve its objectives. Unfortunately, Brazil has once again failed to construct its industrial policy carefully.