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Conversation with Dani Rodrik

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Since he first criticized the globalization process in *Has Globalization Gone Too Far?* (1997), the scholarly work of Turkish economist Dani Rodrik is among the studies most cited when issues like economic integration, trade, and development are discussed. In June, IBRE researchers[1] talked with Prof. Rodrik about such issues as productivity, industrial competitiveness, and trade. These are some extracts from the conversation.

In your opinion, which policies to improve productivity would be more effective in economies like Brazil, where the service sector accounts for two-thirds of employment and 70% of GDP, but education and the quality of institutions are still low?

I wish I knew of a magic recipe for this. But unlike in manufacturing, where promoting a few successful industries can propel the economy forward even if the rest of the economy is lagging in productivity, in services there is really no option other than a broad-based accumulation of fundamental capabilities. This is because most services are generally non-traded across the borders (no foreign competition) and cannot greatly expand without an increase in domestic incomes, which in turn requires productivity growth in other services. So the recipe for services is the boring, orthodox recipe of investment in education, institutions, and infrastructure—and these all take time to deliver returns.

There may be some traded services that are not particularly skilled and have the capacity to absorb lots of labor. Tourism is the classic example, and it is one that requires the tools of industrial policy, coordination and support. But there are not many others that I can think of.

Considering that improving education and institutional quality is a long process, what can be done to raise productivity in the short and medium term? Are there any institutional changes that could increase services activity and productivity faster?

The general tools of growth diagnostics can be helpful in identifying priorities: First, which services have the capacity to increase productivity without shedding too many workers? Second, regulatory or other reforms are likely to make the biggest bang in terms of growing those sectors. In some countries, the tax burden on formal labor is very high, which may deter the growth of more productive, formal-sector firms. In those cases, shifting the burden of taxation elsewhere would be important. In other places, services productivity may be hindered by restrictions on foreign investment (e.g. retail). Again, I don't think there is a general recipe here.

[1]Fernando Veloso, Maurício Canêdo Pinheiro, Silvia Matos, Braulio Borges, and Lia Valls.

Every country has to do its own work to identify the binding constraints.

You have pointed to the importance of structural change, and the growth of industry's role, in improving the competitiveness of emerging economies. Brazil has some diversity in its industry but with huge difficulties in becoming more productive. What do you think about Brazil's industrial policy initiatives and which kind of policies could be most efficient in countries like ours?

Brazil has a long history of industrial policy and, unlike many other countries in Latin America, never really abandoned it. Some of it has been successful, some less so. I believe experimentation and trying new things is crucial. So it is monitoring and evaluation to figure out what is not working so programs can be reformed. Probably the greatest weakness in Brazil is that I am not sure there is much of this kind of monitoring and evaluation.

It is important to understand that the success of industrial policy depends on the success of a portfolio of activities. There is no need for every single project to succeed. But there is also no need to continue with programs that are not working. The only way to know the difference is to build evaluation into program design.

In general, the exchange rate is a major factor in the competitiveness of industry. In countries like Brazil, which has a low level of savings, how is it possible to ensure that the exchange rate is competitive without interventions?

The real exchange rate is determined in macroeconomic equilibrium. A more competitive real exchange rate, with everything else the same, requires more saving, less investment, or both. The government can always take the lead by reducing its deficit and also by encouraging private-sector savings.

Which reforms do you think really work and which ones do you think are overrated by markets and economists?

I tend not to make broad generalizations. But financial globalization was probably the most over-rated policy of the last quarter century. The most under-rated is probably public investment in infrastructure—which, however, is coming back.

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What role do you envisage for the World Trade Organization (WTO), given the difficulties of advancing negotiations in the multilateral arena?

Which WTO? Does it still exist? (Just kidding.) I think a serious rethink is needed to move international trade negotiations back on to the multilateral WTO fora. As I have argued, that requires that we move trade negotiations from a "market-exchange" mindset to an "exchange of policy space" mindset. In other words, the WTO has to come to grips with the idea that the primary problem in world trade today is not lack of openness but the political backlash against the openness that already exists. We cannot safeguard the latter without carving out space for both developed and developing countries to pursue their own social and developmental agendas.

What do you think are the chances that the US Congress will approve the Trans-Pacific Partnership this year?

This year, virtually nil. It won't happen in an election year.

What are the main US domestic sectors that support the Transatlantic Trade and Investment Partnership?

I would say the business sector in general and the policy elites are mostly in favor.