

THE ECONOMY IS A GRAPEFRUIT¹

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What in the world can this article be talking about with that title? Perhaps it would help if we called it “Dr. Atkins’ economy”. If this also sounds like nothing, it is because you have not succumbed yet to one of the diets that have been so much the trend in recent years. The South Beach diet, the apple, the Atkins and of course, the grapefruit, are already part of the urban lexicon of all those who are looking persistently for some miracle solution in order to lose weight. The truth is that the obsession that many have with losing weight in a “spontaneous” way, is in reality, very much like the Ecuadorian economy is managed.

We always look for the most evident way, master way and apparently more effective in the short term, without thinking of the consequences in the long term. With the miracle diets one loses weight, but later gains it back double, or ends up with some serious health problem. In the economy, there are proposals that sound good, bring about applause, they keep us alive for a few more years, but when we look back we realize that we have not advanced or that we are worse off than when we began. And at this precise moment there are various “diet economics” that we would have to have present.

The Government is moving in decided way toward the renovation of the ATPDEA (Andean Trade Preference and Drug Eradication Agreement), that unilateral agreement that gave tariff preferences to various countries. The business community of the Country has followed closely the process in order to give it support, and it seems that there is an opening among the congressmen of the United States. So, all remain content. The President, for a time, was able to eliminate what was bothering him that would signify not having an agreement with the United States, and, the businessmen will be able to continue enjoying the reduction / elimination of exportation tariffs.

All well and good. The problem is that the ATPDEA is our miracle diet, that gives us the illusion of having gained something, when in reality, what we are losing is the FTA. The former type of agreement is only temporary and reduces exclusively the topic of tariff barriers, but just as every businessman knows, the real jams for the growth of Ecuador’s exportations are the non-tariff barriers, that continue to be aggravated by internal barriers(institutions that are not very professional, lack of infrastructure, expensive services, etc...). The latter type of agreement, the FTA, is much more capacious and its potential benefits were equitably established on the side of the internal reforms that would be required.

¹ Translated by: Dr Marcus Hunter Champion

Another economic diet, would involve the banks. With respect to this, there are general topics in which almost all are in agreement; first the rates of effective interest are still elevated and second, there is a great lack of credit. In spite of the improvements that we have seen in recent years, these are the clear challenges for banking. How can interest rates be lowered and how can more credit be extended?

The risk of this rapid solution is that it sounds logical *a priori*, but it can generate serious problems for the financial system. For example, lines of important credit could be lost such as micro credit (if a segment is no longer profitable for the banks they simply eliminate it). In addition, depending on the percentage of funds that the banks must repatriate, uncertainty can be generated, since the deposits would not have protection (think what has happened with the recent rumors of a banking holiday, without the proper liquidity of banking...which we lived through in 99).

Always we will have the temptation to buy a magic exercise machine that will enable us to lose weight while we sleep or while we watch TV, or the most recent diet that will change our lives in 30 days. Deep within we know that the only thing that works is to maintain a more healthy and equilibrated style of life. In the economy, just as in personal health, there are things that function and other that do not function. In Ecuador it seems that we are becoming accustomed to the fast life. We take as a fact that the dollarization is protective shield for the economy and we will be able to endure the reiterated political crisis, but already certain negative effects are beginning to be seen (there is an amount of lost opportunities that are not visible, but are very costly for the country). The only thing that is talked about in the Country is the Assembly... meanwhile the economy is becoming overweight.