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# Overall Economic Planning in Brazil

by Frieder Meyer-Krahmer, Hagen \*

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**In Brazil economic policy planning, with its beginning in the early fifties, has been undertaken for a relatively long period already. Just this fact makes it possible to analyse development, contents, significance, limitations, and chances of this planning and its realisation over a prolonged period.**

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For an analysis of Brazil's planning programmes and their realisation it is necessary to deal with the institutional prerequisites, the contents of the economic policy plans and their realisation mainly against the background of their limitations.

Today's most important planning institutions<sup>1</sup> are the Ministry of Planning and the Ministry of Finance. The Planning Ministry's tasks are mainly to be found in the field of global planning and coordination of sectoral planning which is mostly, and under their own responsibility, formulated and implemented by the competent ministries, the Ministries for Agriculture, Transport and Communications, Education, Labour and Social Order, Industries and Energy Supply. The Finance Ministry's task is the financial securing of planning programmes and the working-out of the national budget. Besides there are economic institutes as e.g. the Fundacao Getulio Vargas and banks, particularly the Banco Nacional de Desenvolvimento (BNDE) and the Banco do Brasil which are involved in the setting up of plans and individual projects and the current plan supervision.

Two other important institutions acting mainly at the stage of plan implementation are a Federal Audit Office and an interministerial Commission for Price Formation (CIP). This Commission does not only have the task of controlling prices but is also to examine thoroughly the calculation of costs in the industrial sectors involved and to base its price policy on these examinations<sup>2</sup>. This Commission is existing since the seizure of power by the military in 1964. At first the price control was implemented generally only, but in the mean-

time has been passed over to a detailed sectoral control. Finally there are also regional planning institutions, e.g. SUDENE for the north east of the country and planning departments of the 22 federal states and individual cities (e.g. Sao Paulo)<sup>3</sup>.

The planning competences on the federal level are distributed to the competent ministries because of their responsibility. With that the Ministry of Planning is on the same level as the other competent ministries and has not the authority to give directives. This has, as will be shown later, seriously impeding effects on global planning due to the missing compulsion to coordinate sectoral planning. In addition it has become evident that with that the effectiveness of the Planning Ministry's activities considerably depends on the political importance and authority of the minister in charge.

Important in this context is also that Article 170 of the constitution stipulates that the principle of the economic order should be the consideration of private initiative as the main factor of economic development – i.e. planning must therefore on principle be direction-planning through the operation of free market forces.

## Planning Process

The planning process shapes up in such a manner that the setting up and publication of plans is mostly undertaken at two stages: At the first stage a general skeleton plan is set up in which the most important targets, the most important structural measures and the most important macro-economic and sectoral data are determined provisionally. This general skeleton plan is being published together with the planning government's reasons for its economic policy in the form of a paper of 50–100 pages.

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<sup>1</sup> Cf. J. G. da Costa, *Planejamento Governamental, A Experiencia Brasileira*, Rio de Janeiro 1971; R. T. Daland, *Estrategia e Estilo do Planejamento Brasileiro*, Rio de Janeiro 1969; O. Ianni, *Estado e Planejamento Economico no Brasil*, Rio de Janeiro 1971.

<sup>2</sup> E. G. Lipkau, *Die deutschen Investitionen in Brasilien*, in: *Gegenwartsfragen der brasilianischen Wirtschaft*, Iberoamerika-verein (ed.), Hamburg 1970, p. 66.

<sup>3</sup> Cf. B. Lafer, *Planejamento no Brasil*, Sao Paulo 1970; N. Holanda, *The Brazilian Experience of Planning*, IPEA/IPLAN, 1972.

At the second directly following stage the skeleton plan, which is usually enacted as a decree with the force of law by the President, will be replaced by a very comprehensive and very detailed implementation plan. With that only at this stage the actual "programming of planning"<sup>4</sup> takes place.

The implementation of the stipulations of the plan and their control takes place mostly under the supervision of the Ministries of Planning, of Finance and the competent ministries. In Brazil it is however usual to conceive for major regional or sectoral projects an institution responsible for them. Most widely known are SUDENE, SUDAM, RADAM, INCRA, and PROVALE. It is the only task of these institutions to look after their project, to prepare its implementation, to introduce the corresponding measures, to control continuously the project with regard to its objective and possibly to initiate changes in the planning programme.

### Contents and Methods of Global Planning

Apart from two attempted planning programmes during World War II<sup>5</sup>, the "Plano SALTE" (1950 to 1954) and the following "Plano de Metas" (1956 to 1961) under President Kubitschek represent the first comprehensive attempts at setting up and implementing economic policy plans in Brazil. These plans are, however, only sectoral plans. A global planning programme was for the first time initiated with the Goulart plan "Plano Trienal de Desenvolvimento Economico e Social" (three-year plan for the economic and social development) 1963–1965<sup>6</sup>. This plan was already marked by the beginning recession although the planners were not aware of its extent. The global objectives were the following:

- ☐ Continuation of the expansive economic growth in industry between 1956 and 1961 with an average GDP growth rate of annually 7 p.c. and the corresponding per-capita growth rate of annually 3.9 p.c. for the period from 1963 to 1965.
- ☐ A progressive reduction of the inflationary development to an inflation rate of 10 p.c. in 1965.
- ☐ Correction of the regionally as well as personally unequal distribution of incomes.
- ☐ Realisation of fundamental reforms, i.e. of administration, banks, finance, and agriculture.
- ☐ Reduction of foreign debts which increased strongly because of permanent balance of payments deficits.

With that the plan had the comparatively ambitious objective of realizing simultaneously growth,

stability and fundamental reforms. The basic idea in this connection was that these three partial objectives are closely interconnected and cannot be obtained individually, in particular since in the medium and the long term no growth worth mentioning could be realised without fundamental structural reforms (Theory of Stagnation of C. Furtado<sup>7</sup>).

The following first plan of the new military regime under Castello Branco, the "Plano de Acao Economica do Governo" (PAEG: Plan of Government Economic Activities) 1964–1966, had a striking similarity to the Plano Trienal, although the politically objectionable structural reforms no longer existed in this plan and it put even more emphasis on the struggle against inflation. The following global objectives were set up:

- ☐ Increase of economic growth to an annual GDP growth rate of 6 p.c. for 1964–1966.
- ☐ Progressive or gradual reduction of the inflation rate from 80 p.c. (1964) to 25 p.c. (1965) and to 10 p.c. in 1966, the last year of the planning period.
- ☐ Increase of the overall economic investment ratio to between 17 and 20 p.c.
- ☐ Considerable reduction of the hitherto traditional national budget deficits.
- ☐ Equilibrium in the balance of payments through the development of a system of export production incentives.

Primarily these targets are to be obtained through monetary measures, particularly by balancing future budgetary deficits not by an increase of the money supply any more, but by government bonds; secondly in that temporarily the expansion of the credit volume should increase at most at the same rate as the GDP at current prices does; and thirdly in that the increase of the minimum wages as fixed by the government, which influence considerably the entire domestic wage level, should at most correspond to the rate of inflation (i.e. in real terms stagnating or decreasing minimum wages).

These three planned fields of government action offered, mainly for the struggle against inflation, effective approaches and represented also a much more consequent concept than the partially contradictory list of aims of the Plano Trienal, but offered less chances for obtaining the GDP growth

<sup>5</sup> Cf. J. G. da Costa, op. cit., p. 55 ff. and 73 ff.; W. Baer, *Industrialization and Economic Development in Brazil*, Homewood, Illinois 1965.

<sup>6</sup> Presidencia da Republica, *Plano Trienal de Desenvolvimento Economico e Social 1963-1965*, Sintese, Brasilia 1962, in the following quoted as: *Plano Trienal*.

<sup>7</sup> Cf. C. Furtado, *Análise do "Modelo" Brasileiro*, Rio de Janeiro 1972; on the criticism of the rather generally formulated planning approaches and weaknesses see: Special Number of *Revista Brasileira de Economica*, Vol. 16 (1962), No. 4.

<sup>4</sup> Cf. B. Knall, *Grundsätze und Methoden der Entwicklungsprogrammierung*, Wiesbaden 1969, p. 26 ff.

rate target of 6 p.c. Thus the struggle against inflation became plainly the most important component of the target. Detailed measures were planned for the settlement of the balance of payments through the promotion of foreign trade — as e.g. a number of tax incentives for exports, the simplification of the exchange of currencies, realistic (i.e. lower) exchange rates and a revision of the highly restrictive Capital-Transfer-Control-Law<sup>8</sup> of 1963 in order to regain the foreign capital that to a large extent had flown off during the preceding years.

After a relatively successful reduction of the inflation rate, in the following plan under Costa e Silva, the "Plano Estrategico de Desenvolvimento" (PED: Strategic Development Plan)<sup>9</sup> for 1968 to 1970, the emphasis shifted from the stability to the growth target. The global objectives aimed at were:

- ☐ A GDP growth rate of at least 6 p.c. annually for the period from 1968–1970, which had not been reached so far.
- ☐ A further check of the inflationary development.
- ☐ A higher growth of employment from hitherto 2.7 p.c. to 3.3 p.c. (1970), mainly through a diversification of industrial production and large infrastructural investments.
- ☐ Reduction of the public authorities' share in the GDP and in the overall economic investments, which had grown rapidly in the meantime, because of the relative inefficiency of this sector.

But the focal point of the plan is, owing to the importance of the growth target, sectoral planning because in the sense of the unbalanced growth in the infrastructural and industrial sector, similar to the Kubitschek-plan, typical growth industries and economic bottleneck sectors were chosen as the actual supporters ("Aereas Estrategicas"). The concept in the background is the attempt to reach a balanced growth path at a higher level by an unbalanced growth.

On the level of global planning however the plan contained two seriously conflicting targets owing to its aimed at check of inflation — increase of growth, and the reduction of the state's share in GDP as well as the extensive public investment programme.

The following plan under Emilio G. Medici, the "Primeiro Plano Nacional de Desenvolvimento"

<sup>8</sup> Cf. H. Welte, *Die Wirtschaftsbeziehungen zwischen Brasilien und der BRD*, Bonn 1971, p. 11.

<sup>9</sup> Ministerio do Planejamento e Cordenacao Geral, Programa Estrategico de Desenvolvimento (PED), 1968–1970, Vol. I and II, Brasilia 1968. In the following quoted as: PED.

<sup>10</sup> Ministerio do Planejamento e Cordenacao Geral, Primeiro Plano Nacional de Desenvolvimento, Brasilia 1971. In the following quoted as: PND.

(PND: First National Development Plan)<sup>10</sup> 1972 to 1974, in contrast to the preceding plans since 1964 is even more marked by the general aim of growth maximization:

- ☐ Growth maximization primarily again of the GDP at a rate of 8–10 p.c. annually by means of a further increased expansion of the industrial sector in connection with an equally strong expansion of the infrastructural sector.
- ☐ Increase of the present overall economic investment ratio of 17 p.c. (1970) to 19 p.c. (1974).
- ☐ Raising of the average growth rate of employed labour from up to now 2.7 p.c. (1970) to 3.2 p.c. (1974).
- ☐ Increased promotion and expansion of foreign trade, particularly of exports at a growth rate of at least 15 p.c. annually<sup>11</sup>.
- ☐ A continuing reduction of the inflation rate to 10 p.c. (1974), although this target is not proclaimed any more with an exaggerated urgency.

This plan exceeds in the sense of a comprehensive planning all these objectives — which essentially are a continuation of the aims of all the plans with global planning and differ mainly by shifts in their focal points only — by undertaking the planning of the regional equalisation<sup>12</sup> and a considerable extension of the sectoral planning, in particular of education, health and social planning. This reflects mainly the state's extended scope of action, which since 1968/70 finds its expression through the end of the recession continuing since 1962, high GDP growth rates and large government revenue.

After an analysis of the method of economic planning, particularly the implied economic system, the system of sectoral, regional and bottleneck planning, and the applied equation systems, one can summarize<sup>13</sup>:

The macro-economic equation system which has been developed for the first time in "Plano Decenal Desenvolvimento Economico e Social" (1967 to 1976) is a methodical focal point. Apart from the fact that it cannot simultaneously be solved completely<sup>14</sup>, it represents — if considering particularly the production, investment and price

<sup>11</sup> According to official information this is the minimum rate of increase in exports in order to be able to cover the planned expenditure on imports of machinery; cf. Deutsche Überseeische Bank, monthly reports, November 1972, p. 20; cf. also C. Doellinger, *Transformacao da Estrutura das Exportacoes Brasileiras* (IPEA), Rio de Janeiro 1973; M. Tavares, *Da Substituicao de Importacoes ao Capitalismo Financeiro*, 2. edition, Rio de Janeiro 1973.

<sup>12</sup> N. H. Leff, *Desenvolvimento Economico e Desigualdade Regional: Origens do Caso Brasileiro*, in: *Revista Brasileira de Economia*, Vol. 26 (1972), No. 1.

<sup>13</sup> Cf. the detailed analysis in F. Meyer-Krahmer, *Wirtschaftspolitische Planung unter besonderer Berücksichtigung der Agrarplanung*, Bonn 1974, p. 31 ff.

<sup>14</sup> Cf. T. Naylor and others, *Modelos Econometricos da Economia Brasileira: Um Sumario Critico*, in: *Revista Brasileira de Economia* (FGV), Vol. 25 (1971), No. 1, p. 66 f.

level functions — only a simple and undifferentiated equation system with all the resulting negative effects on the realization chances of such a macro- or global planning. Moreover, planning-methodical criteria such as completeness, consistency, compatibility, and flexibility are in most of the plans only partially met.

### Limits to the Relization of Macro-economic Planning

This final part is devoted to an analysis of the realization of global planning in Brazil with regard to its limitations, since the latter are particularly crucial for global planning.

In addition to the afore-mentioned restrictions to the realization of the planning due to methodical-theoretical deficiencies, there are numerous competence struggles, mainly between the Central Government and the individual federal states, which also affect the global planning. An obvious example for this is the realization of the "Plano de Metas"<sup>15</sup>. At that time the federal states had a strong autonomous position vis-à-vis the Central Government; besides, the coordination of the individual bodies which were entrusted with the plan realization was insignificant<sup>16</sup>. This federative cleavage of the administration, which hampered a consistent and quick plan realization, was after a transitory phase partially abolished by the military government in 1967; in 1969 it was tightened in this direction by another change of the constitution. The narrow sphere of competency of the Planning Ministry, however continued to exist.

A further limitation of plan realization can be shown if using the PAEG (1964–1966) as an example. In the PAEG-period the inflation rate could — relative to the disastrous initial situation — be lowered substantially, confidence abroad could be restored, and the balance of payments could be brought back to equilibrium. The GDP grew at real rates of only 2.9 p.c. in 1964, 2.7 p.c. in 1965, and 5.1 p.c. in 1966, but the inflation rate could be brought down in the same period from 87.8 p.c. (1964) to 55.4 p.c. (1965) and to 38.8 p.c. in 1966 (planned rates: 1964: 80 p.c., 1965: 25 p.c., 1966: 10 p.c.).

This had been achieved mainly through the realization of the following measures: reduction of the federal budget deficit from 4.3 p.c. of the GDP (1963) to 1.1 p.c. (1966); decrease of the share in the budget deficit which is financed by the monetary authorities from 85.7 p.c. (1963) to 13.6 p.c. (1966); neutralization of inflationary distortions

through currency adjustments<sup>17</sup>; improvement of the taxation system with an extension of the system of fiscal incentives; wider opportunities for investment and consumer credits and introduction of a housing finance system; fixing of minimum wages and a general price control<sup>18</sup>.

It is important to note that a number of these measures — particularly short-term and partially medium-term ones — were not contained in the plan. Thus economic planning — and this concerns the whole range of Brazilian economic planning — was often restricted to the following activities: enunciation of global and sectoral targets, their systematic coordination on the basis of an economic development concept, and determination of the most essential measures or only fields of measures. Numerous medium and particularly short-term market control measures were not included in the plans and were — due to the statical management of the plan — not introduced into them subsequently. A further important restriction was imposed by the far-reaching lack of information material for a control of the plan realization. Taken as a whole, the government's plan evaluations are insufficient, particularly outside of the industrial sector<sup>19</sup>.

To sum up, it can be stated empirically that the global planning in Brazil is insufficient and suffers from large margins of error; this is shown by the numerous miscastings. The analysis delivered the following reasons for this: undifferentiated methodical-theoretical foundations, lacking flexibility and adjustment of the plans to changing overall economic conditions, insufficient information material for the evaluation, the restrictions on the planning ministry — institutionally and with regard to its competences —, and the fact that the importance of the Planning Ministry has even further declined for the plan period of the PND (1972–1974) due to the political weight and the ability of the Finance Minister to carry his point<sup>20</sup>. An additional analysis of the sectoral planning<sup>21</sup> confirms these results, since it becomes obvious that the global planning in Brazil, in spite of the relatively large expenses involved, holds only a secondary rank compared with the sectoral planning. This is valid with regard to its importance, efficiency, and successful realization.

<sup>17</sup> Cf. M. H. Simonson, *O Modelo Brasileiro do Desenvolvimento*, mimeographed manuscript, Sao Paulo 1973, p. 6 f.

<sup>18</sup> D. Nogueira, C. Pelaez, *Introducao: Ensaio sobre a Economia Brasileira*, in: *Revista Brasileira de Economia* (FGV), Vol. 26 (1972), No. 3, p. 65 f.

<sup>19</sup> Cf. F. da Silva, *Avaliacao do Sector Publico na Economia Brasileira* (IPEA), Rio de Janeiro 1972.

<sup>20</sup> This was the subject of particularly heavy complaints by representatives of the Planning Ministry; interviews made by author in Brasilia in September 16-21, 1973.

<sup>21</sup> Cf. Meyer-Krahmer, *op. cit.*, p. 21 ff.

<sup>15</sup> B. Lafer, *op. cit.*, pp. 43-49.

<sup>16</sup> R. T. Daland, *op. cit.*, p. 52.