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**ECONOMIC POLICY: 50 YEARS OF PAEG**

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The fundamentals of economic policy established in Brazil in 1964 were established in Government Castello Branco (1964-1967), by Mr. Roberto de Oliveira Campos and Mr. Octávio Gouveia de Bulhões, respectively Ministers of Planning and General Coordination, and the Treasury. The Government's Economic Action Plan (PAEG) was prepared by Mr. Mario Henrique Simonsen, an informal adviser to two Ministers.

The PAEG was not only a stabilization plan to combat inflation. Had the aim to interpret the recent development of the country and formulate a policy able to eliminate the internal sources of strangulation that had blocked economic growth since 1962. However, for formulators of the plan, the fundamental cause of the economic downturn was in the inflationary process by passing the Brazil since the beginning of 1960.

The diagnosis identified two sources of the inflationary process: cost inflation and demand inflation. The first was about the process of import substitution, encouraged by customs barriers. This protectionism would have allowed an increase in various costs spiral substitute sectors and, therefore, a general price rise. Inflation would demand from the inadequacy of income distribution. On the one hand the Government injected into the economy a greater volume of resources than their purchasing power, causing chronic deficits in the federal budget. At the same time, the set of employees held hands in a power higher than the quantity of goods produced. Thus, both the public deficit excess workers demand would generate inflationary process. At the time, the first few months of 1964 projected an annual inflation rate of 140%, stood at 91.8%, and reached the final of 1968 in 22 percent, but the growth

targets have not been achieved, and were only occur from 1969, while the "economic miracle" with growth rates ranging between 7% and 13% a year until 1973.

The stabilizing measures used the classic instruments, based on monetary and fiscal policy instruments: 1) cut in public spending; 2) increase in tax burden; 3) containment of credit; 4) wage restraint. The economic growth model was that of Harrod-Domar, based mainly on saving and productivity of capital. After some time it was verified that such measures were not giving the desired results, then was diagnosed the inertial component of inflation, theme ignored by economic literature of the time.

The inflationary inertia occurs because prices, especially salaries, are reordered based on past inflation. The wage adjustment formula adopted was based on the average salary and on expected inflation. With the new wage adjustment formula the inertia has been reduced and the inflation rate began to decrease rapidly without causing recession.

In addition, the PAEG deployed several reforms in the Brazilian economy. The Tax Reform introduced the value added tax (ICM and IPI) ending with the cascading tax (IVC) and created taxes forced savings linked to investment in roads, electricity and telecommunications. The reforms of the financial system and the capital market allowed the creation of mechanisms to finance consumers and businesses. The creation of the Housing Finance System has enabled the development of the mortgage market. The Severance Fund Service (FGTS) killed two birds with one stone: created a mechanism of forced savings to finance buildings and urban infrastructure; solved a problem by eliminating labor to guarantee jobs after ten years of work in a company. In practice, workers were dismissed before completing ten years of home. Pension reform unified the various social security institutes. Completing the reforms was created the Central Bank of Brazil, which began operating in the spring of 1965. To finance the budget deficit in a non-inflationary Mortgages Operations Created National Treasury (ORTN), long-term bonds with monetary correction clause.

But the PAEG committed error? Yes, economic theory in the decade of 1960 did not include education as variable in growth models, as was the case of the Harrod-Domar model. Thereby, the PAEG in was able to include in its reforms, the reform of the educational system of elementary and secondary education.

However, you cannot deduct the entire account to the model employee. The South Korea, at the same time gave emphasis to education. Korean educational policy in the second half of the last century focused on three periods of different characteristics: one that corresponded to national reconstruction phase, to the times of war and postwar period; another 60 years reached the 80; and finally a third party who, in the early 80 's.

In the first sentence the guidelines of education turned to the reorganization of the system that was ravaged by forty years of Japanese colonial domination. This reorganization was prioritized the following actions: distribution of school texts; teacher training; adult literacy; expansion of opportunities of access to secondary education and to higher education. Also during this period defined the time of schooling for all three levels of education, and created schools for teacher training, technical schools and national public universities.

Thus, in 1959, 96% of school-age children were in school, and already in the years 60 it was possible to offer six years of school for all children, although the number of students per class be raised, approximately 60. In 1998 this number went to 35 per class.

In the decade of 70, broadened access to the medium level and the university. At the same time, initiated programs of continuing education for adults and gained strength the university courses of short duration.

In the decade of 80, opened the third period in which the challenges of industrial development were thought too in terms of education. Access to the university was expanded, enhancing the performance of high school students. At that time was instituted an educational rate to finance education. Provisional in 1982 became permanent starting in 1991.

As you can see the error of PAEG was not small, are investing in education solves two problems: the economic growth and income distribution. But here comes a very important variable to promote or retard development. It is the collective cultural consciousness of the population regarding certain problems or how to design its development. In the case of Brazil at that time the society had no knowledge and willingness to put education as important and indispensable to the variable transformations that the country needed.

Moving to the current moment of Brazilian society found that education came to be understood as an important factor for development, but it is necessary to invest properly for that education will be a profitable economical and socially.

Turning to the PAEG, now in its positive points noted that were structuring actions and medium and long term that led to the "economic miracle" of the early 70.

The study and understanding of history is essential to avoid the repetition of errors and enable the search for paths that work out and lead to safe havens. Brazilian society still seems not to have grasped that lesson! Without ideological bias is fine analyzing what good did the PAEG for 50 years, especially at a time when it has a framework of exchange, inflation pressure, and low growth.