Main Points:

1. Geisel's Second National Development Plan (PND II)
2. Figueiredo government and the new economic changes
3. Second oil crisis and change in policies
4. Mexican debt moratorium causing Brazil to get IMF assistance in 1982 and the effects
5. 1984-1985 recovery

The first oil shock caused Brazil to enter a new phase in development. The country opted to take a growth policy that required substantial economical changes, a resurgence of inflation, and a rapid expansion of international debt. The country also was in a political change going from the end of the military regime to the beginning of a democratic government.

The oil shock of 1973 which nearly quadrupled the price of petroleum. This effected Brazil especially since it was relying on imports for over 80 percent of the country's oil consumption. Brazil had two ways of reacting to this first oil shock. One way was to greatly reduce its nonoil import bill, or it could continue its relatively high growth rates. Brazil decided to continue its high growth rates.

The main reason to continue the high growth rates was because of the political changes that occurred soon after the oil crisis. President Médici who had been in charge during the "economical miracle" years was leaving power (his administration was talked about in the 5th chapter and included such things as low inflation and political repression). The new government was that of President Ernesto Geisel. Geisel made many changes for economic growth starting in 1975 with the introduction of the Second National Development Plan (PND II). This plan included a huge investment plan which included import substitution of basic industrial Outputs (including steel, aluminum, copper fertilizers, and petrochemicals) and capital goods. Also the rapid expansion of the economic infrastructure (hydro and nuclear power, alcohol production, transportation, and communications) was seen. Most of these investments were financed by state enterprises. However, capital goods were carried out by the private sector with financial support from the development bank. These programs were constructed with the intention of counter attacking the impact of the oil crisis while maintaining a constant rate of growth, level of employment and consumption. It was also done to change the economical structure to import substitution and export diversification. This in turn would help encourage lenders to finance the current-account deficit and postpone external adjustment.

The growth option in turn caused a dramatic increase in the country's foreign debt. This debt was justified by the idea that import substitution would eventually produce new export capacity and eventually trade surpluses large enough to repay the international debt. This debt increased easily due to petrodollars being flushed into the international banks after the first oil shock. This made international banks eager to make loans.

The Geisel administration continued with its plan to expand the economic infrastructure. This however caused a considerable amount of waste. The large reserves of hydroelectric power made the large investment in nuclear power a waste of time and money since most of the nuclear plants were not even completed until the late 1980's.

General Figueiredo, the last military president, took office in 1979. His main program was to restore Brazil to a democratic regime and to eventually hand over the administration to a civilian. This would make the military to democratic transition complete. First, however, Figueiredo was forced to confront Brazil's soaring inflation while dealing with a huge foreign debt and keeping the GDP growing. To add to this the second oil shock occurred in 1979. This new oil shock caused a large rise in world interest rates which had a huge effect on Brazil in both borrowing money and paying back the outstanding debt which had accumulated. To make matters worse, their trade deficit grew due to a 2 year drought on agricultural products in 1978 and 1979. This made Brazil import such common products as rice and beans.

The first few months (March –August 1979) of the Figueiredo government called for changes in current economic policies. The government pushed for devaluation in the cruzeiro (Brazilian currency at the time), also the gradual elimination of export incentive programs, and a slowdown in economic growth in order to cope with inflation. In Late 1979 the policies were tightened even more with the elimination of many tax incentives, a harder push for deflation of the cruzeiro, and substantial increases in the prices of public services. The idea behind this was that the devaluation and the increase in public service prices would have an immediate inflationary impact, this however, was hoped to be only a short-run phenomenon and that the elimination of tax incentives would increase government revenues and become a brake to monetary expansion.

The grim reality of 1980 showed that inflation would be higher than 100 percent and that the planned devaluation of the cruzeiro would actually lead to a rapid overvaluation. This would hurt the country's chances to become competitive with its exports.

1980-82 brought new wage policies to the forefront. Wages were readjusted twice a year to meet the high increase in inflation. Adjustments for productivity increases were to be negotiated annually between labor and management. Average real wages rose during this period but the average worker was not necessarily better off. The recessin took place in 1981 and there were many layoffs.

The end of 1980 showed a reversal of many policies introduced in 1979. Full indexation was reintroduced and the prefixed devaluation was abolished. However the Brazilian economy's rate of growth was surprisingly high. This was due in part to the recovery of the agricultural sector from its drought and frosts in the previous 2 years. Also it reacted to the incentives it received during that 2 year period. Industrial production increased as it was influenced by strong consumer demand for durables due to the increased inflation expectation and also from the decline of indexing. Exports and imports both increased during 1980 leaving the trade deficit barely touched.

However, during this time period the government radically changed macroeconomic policies and decided to control imports by decreasing internal absorption. Monetary policy also became very restrictive. The Figueiredo administration reduced aggregate demand while at the same time reallocating resources to priority sectors (agriculture and exports). The policies had a contradictory effect as GDP declined as well as the industrial sector. This recession affected durable goods mainly as well as some capital goods. Investment activity also began to decline.

With all the problems facing Brazil things couldn't get worse could they? They did. 1982 brought the Mexican debt moratorium which resulted in the virtual closing of international markets to finance the Latin American debt. However, in December of 1982 after months of stalling the Brazilian government finally turned to the IMF for financial assistance. The IMF implemented a supervising program to raise the real exchange rate, reduce domestic demand by reducing private consumption, investment, and public expenditures, and also increase tax rates.

In 1983 Brazil increased domestic production of petroleum as well as energy-substitution programs (such as Brazil's alcohol program) which helped with a decrease in foreign dependence on petroleum imports. The IMF assistance was seen by an impressive improvement in external accounts; however, internal stabilization and balanced growth, which were expected to occur, did not happen. Inflation more than doubled instead of declining. Interest rates increased which destimulated investment. As you can see the IMF did very little to help the sad condition of the Brazilian economy.

Then 1984 came around and the economy recovered. GDP grew and continued to grow in 1985. The recovery was due to a strong increase in exports in 1984. 1985's expansion was due to the growth in domestic sales which was the result of a stimulative wage policy adopted by the new civilian government of President Sarney.