Until the latest corruption scandal erupted last week, President Luiz Inácio Lula da Silva was on course to be reelected in the general elections scheduled for October 1st. Serious allegations of direct involvement of his campaign manager and close aides in the buying of information to smear opponents have changed what had been a very stable and predictable electoral picture. An IBOPE poll released on Sunday September 24th suggests that the hugely popular Brazilian leader may now have to face his main challenger, former São Paulo state governor Geraldo Alckmin, in a second round of runoff on October 29th.

A few days before the details of the new scandal emerged, ten leading Brazilian and American scholars and experts on Brazil and the Workers’ Party discussed Lula’s first four years in government and the prospects for his second term in office at an afternoon two-panel seminar at the Wilson Center. A few important consensus views emerged.

Lula’s still-likely reelection will be the result of not only his enormous personal charisma but also of the tangible economic benefits his government brought to the majority of poor Brazilians. By continuing and deepening two key policies of his predecessor—macroeconomic stability that reduced Brazil’s inflation to its lowest levels in decades and the expansion of the cash transfer programs that today reach about 40 million people or 70 percent of the persons eligible to receive benefits—Lula has built a solid base of support in the country’s poorest population. These two policies, combined with a significant increase in the real minimal wage, generated what Professor Maria Hermínia Tavares de Almeida from the University of São Paulo described as “an economic boom” for the poor in Brazil and “the largest decrease in inequality in 30 years, largely due to a decrease in poverty.”

Corruption scandals contributed to Lula’s loss of support of large sectors of the middle class voters, who helped elect him in 2002. They have also polarized society. The political consequences of Lula’s smaller base of support will remain as a threatening cloud over the
president in a second term. Complicating matters, the latest allegations of unlawful conduct by the PT, which targeted PSDB’s José Serra, the likely first round winner of elections for governor of São Paulo, are bound to frustrate efforts for an eventual Lula rapprochement with former President Cardoso’s party.

The projected shrinking of the Workers’ Party delegation in Congress and the desertions of many of its more ideological militants, who left disillusioned by the corruption scandals and the economic policy direction chosen by the petista administration, will lead to an important realignment of forces in Congress. If re-elected, Lula will be more dependent on the most traditional and conservative forces to form a viable governing coalition. In contrast with his first cabinet, the president will have to fill a significant number of ministerial positions with members of the PMDB and other parties. This will not improve the managerial capacity of the government, which critics viewed as one of the weakest aspects of the Lula first term. It is likely to pull the President and his party further apart, deepening an estrangement which was cause by Lula’s need to separate himself from the sources of alleged corruption in his party.

If re-elected, Lula will be more dependent on the most traditional and conservative forces to form a viable governing coalition.

LULA IN POWER: HOW HAS BRAZILIAN POLITICS CHANGES SINCE 2002?

Timothy Power, University of Oxford

Several key forces have dominated Brazilian party politics in the last four years. Following the municipal elections of 2004, four large national parties have consolidated their hold: PT, PSDB, PMDB and PFL. The PT picked up a number of cities, as parties linked to President Cardoso generally lost. After the emergence of major corruption allegations last year, President Luiz Inácio Lula da Silva appears to have rebounded quite well from the subsequent decline in popularity he suffered. Among the factors contributing to Lula’s turnaround are the strength of his personal political capital, his hands-off leadership style (disconnecting him from those that have been implicated), good timing coupled with an economic recovery, public fatigue with scandals, a weakening of his own party, and his successful use of incumbency benefits. The preeminence of the president has led Lula to transcend his party and led his vote base to diverge from that of the PT. This has occurred as Lula shed his reluctance to engage in populist measures, such as the conditional cash transfer program Bolsa Família, which now reaches nearly a quarter of Brazil’s population. Brazil’s political Left has largely abandoned the PT, bringing the party into the mainstream and leaving the PSOL to capture socialist and protest votes. At the same time, Lula has embraced the formation of important interclass alliances, relying on popular support as well as that of elites, and using a disconnected and oversized inter-party coalition to govern with the PMDB (the largest party in both houses of Congress) as a major partner.

Unorthodox coalitions (the alliance of ideologically dissimilar parties for strategic reasons) have become the norm with the PT-PL alliance, and are now understood as the way Brazilian politics work. Presidential elections now present a fairly consolidated two-party system, with the race now exclusive territory for the PT and the PSDB. Two other important changes that remain to be seen are possible renewed calls for political reform following the mensalão and sanguessuga scandals, which have implicated nearly a third of Congress, and whether the 2006 elections will be the last to be dominated by a verticalization of party alliances at the local and national levels. A change in this respect could be severely limiting to smaller parties in the future, further consolidating gains made by Brazil’s larger parties, and belieing the view of Brazilian politics as characterized by a weak party system.
Brazil Under Lula and Prospects for the 2006 Elections

Increasing support for Lula among the popular sectors is not the result of populism or irrationality, but because the poor are better off than they were before he took office.

SOCIAL POLICIES DURING LULA’S ADMINISTRATION

Maria Herminia Tavares de Almeida, University of São Paulo

Despite widespread belief that the election of the PT would produce a wave of leftist radicalism, social policy under Lula has been characterized by continuity of existing programs and embracing past experiences. An examination of social politics during Lula’s government demonstrates significant policy continuity from that of Fernando Henrique Cardoso’s government. The social reforms of the 1990s included a slow process of decentralization of resources and an expansion of government services, as well as the first attempt at social security reform, which met with considerable opposition. Upon assuming office in 2002, one of Lula’s first tasks was to change the benefits given to civil servants, an area where Cardoso’s attempts at reform had failed to produce significant change.

The first major original policy initiative of Lula’s government was Fome Zero, a program designed to combat hunger in Brazil (despite the fact that hunger was not a major problem according to most statistics). For several reasons, the program was considered a failure and gradually phased out in favor of Bolsa Família. This program has been extremely successful and widely regarded as one of the most comprehensive focused cash transfer initiatives worldwide. Overall, however, the Lula government has not assumed an innovative approach to social policy or reform in Brazil.

However, Lula’s term in office has accomplished several social achievements. There has been an expansion in educational attainment that has helped lower illiteracy rates, though the country still suffers from a relatively low quality of education overall. An important increase in the minimum wage has produced significant changes in income inequality. Recent changes have seen the largest decrease in inequality in the last 30 years, principally because of the decrease in poverty; more than five million people have emerged from impoverished conditions in the last three years alone. Increasing support for Lula among the popular sectors is not the result of populism or irrationality, but because the poor are better off than they were before he took office.

A longer version of this paper is available online http://www.wilsoncenter.org/news/docs/FromCardosotoLula.doc

CHANGING RELATIONSHIPS AMONG LULA, THE WORKERS’ PARTY, AND CIVIL SOCIETY

Kathryn Hochstetler, University of New Mexico

The past four years have seen many changing relationships among Lula, the PT and organized civil society. The latter include groups like the CUT trade union, the landless movement (MST), and a variety of other groups that work on social, political, and economic issues. While such groups have often joined with Lula and the PT in government and in past social mobilizations and protests, their relationship to him as president has been more complicated. The PT’s historic governing formula included a procedural commitment to incorporating popular participation in decision-making, a substantive commitment to pursue distributive policies that benefit the poor over the wealthy, and a reputation for clean government. Over Lula’s first term, organized civil society concluded that no part of this formula was adequately achieved.

At first, organized civil society groups welcomed Lula’s election, recognizing the pressures against the PT’s redistributive policies and vowing to support a new economic agenda. But after less than a year, these groups were already beginning to pull away,
dismayed by a pro-market orientation and by their extensive participation’s failure to influence policy repercussions. In response, a series of different movements made explicit breaks with the administration. With the widespread allegations and evidence of corruption in the PT in 2005, organized civil society groups began to express disaffection with representative democracy altogether. Meeting in civil-society-only gatherings, they proposed mechanisms of direct democracy. Yet they also declined outright rejection of Lula’s presidency, reticence that has helped him survive to the end of his first term. This reticence is a harbinger of the final stage of their relationship in Lula’s first term.

As the electorate asks if Lula should be re-elected, most organized civil society groups have declined formal support of Lula’s candidacy for a second term. The groups are internally divided between PT-supporters and those who support the breakaway PSOL candidate Heloísa Helena and other leftist parties. They are unwilling to give unconditional support to a government that has not delivered what they expected from it. But when push comes to shove, most of them will end up voting for Lula in the first round, and virtually all will support him in a possible second round against the PSDB.

As as the electorate asks if Lula should be re-elected, most organized civil society groups have declined formal support of Lula’s candidacy for a second term.
Brazil Under Lula and Prospects for the 2006 Elections

Brazil Under Lula: an Economic Interpretation

Thomas Trebat, Columbia University

The economic experience in Brazil during Lula’s first term can be termed the “Brasília Consensus” on the basis of positive experience with a high fiscal surplus, low inflation, a stable and competitive exchange rate, and privatization and openness to foreign investment in an outward-oriented economy. In this experience, there have been only minor differences between the PSDB government of Fernando Henrique Cardoso and the PT under Lula. The latter has maintained a higher fiscal surplus while keeping inflation low, and though the real interest rate remains high, it is declining.

Furthermore, Brazil has become a global trader with heavy interest in Asia and other regions of the world as it moves away from a historical dependence on the United States and the European Union (proportionally, trade with the rest of Latin America is fairly low). Exports originally benefited from a lower exchange rate, but are today capitalizing on high commodity prices—and the current trade openness reflects a decreasing fear of competition in the global market. Overall, the economic indicators point to less vulnerability and a greater capacity for consumption.

Brazil has also paid off its debts to the IMF and is increasing international reserves. Among the electorate, many people perceive an improvement in their economic well-being.

But there are also a number of negative signs in the Brazilian economy. People remain unhappy with the tax regime, growth of per capita GDP has been mediocre, investment remains at low levels and there is no political consensus on economic reform. Internationally, growth is low by comparison partly because of lagging investment (especially public) but also because the tax burden is also too high to permit growth and the economy remains fairly protectionist. While it has opened, it continues to seek much higher levels of openness. The economy needs to deregulate, liberalize and increase public investment, given the growing social security deficit and severe deficiencies in infrastructure (such as railroad networks). These structural factors leave Brazil’s economy in transition.

Nevertheless, under Lula vulnerability has decreased, the process of transition has accelerated and there is steady growth of consensus and progress despite the distortions and inefficiencies.

Lula and the PT’s Changing Base of Support

Wendy Hunter, University of Texas at Austin

Both Lula and his Workers’ Party have undergone a series of changes in their base of electoral support. While these changes were set in motion before Lula became president in 2002, the holding of executive power—combined with changes in the party’s image that resulted from recent accusations of corruption (such as the caixa dois and mensalão scandals)—has accelerated and accentuated these changes. Voter intention polls for October’s presidential elections show that the PT’s reputation has been seriously damaged, but rather incredibly, that Lula has successfully distanced himself from the PT and the disillusionment surrounding it.

Historically, the PT’s solid base of electoral support lay in the large urban centers of Brazil’s South and Southeast. This concentration of support was largely due to the novo sindicalismo movement (New Labor movement) in the ABC district of São Paulo, and the concentration of paulista intellectuals who supported the formation of the party in 1980. Support for the PT as well as for Lula was weakest in the impoverished regions of the Northeast, historically the stronghold of conservative parties. Politicians from these parties relied on political patronage and other traditional tactics to keep themselves in power. It is instructive to remember that Lula lost to Fernando Collor de Mello in the heated and ultimately very close presidential election of 1989 precisely because he could not carry the poorest, least educated voters of the Northeast.

Between 1989 and 2002, the PT made headway into the interior of the country. Since 2006, this trend has gained even more momentum. Like all governing parties before it, the PT-led government has gained ground among constituents in the Northeast and lost (relative) support among educated voters in the more urban and industrial areas of the South. Polls suggest
that, in the current electoral campaign, Lula will enjoy a groundswell of support among poorer voters, especially in the Northeast, and secure a first round victory against PSDB opponent, Geraldo Alckmin. Two key factors help account for this dual outcome: revelations of government malfeasance, which has diminished the party’s support among middle class voters who had originally been attracted to the party for its banner of “clean government;” and the extension of Bolsa Família and forms of government patronage in the Northeast. This shift in the support base of both the party and Lula himself constitutes one more sign that the PT has entered Brazil’s political mainstream and become more like a typical Brazilian party.

**PARTY IDENTIFICATION AMONG BRAZILIAN VOTERS**

*Barry Ames, University of Pittsburgh*

In most democratic countries party identification is an anchor in the political system. It provides voters with cues that they use to interpret issues, campaign propaganda, and new policy development. Party identification in Brazil has traditionally been weak and has not served these functions. In two Brazilian cities, Juiz de Fora and Caxias do Sul, citizens responded to questions about their voting behavior as part of an ongoing long-term study conducted by myself, Andy Baker of Northeastern University, and Lucio Renno of the University of Brasília. Respondents participated in three interviews in 2002, one in 2004, and two in 2006.

Using preliminary results from the 2006 Juiz de Fora 2006 study, participants’ vote intent in 2006 was examined against their voting history from 2002. The number of voters who intend to switch their vote from Lula and the PT in 2002 to PSDB candidate Geraldo Alckmin in 2006 is significantly smaller than the number of voters who expressed intent to vote for Lula after voting for José Serra and the PSDB in the previous election (a ratio of 5 to 3). This does not bode well for Alckmin, since Lula soundly defeated Serra in 2002. Voters who did switch from Serra to Lula do not necessarily identify with the left but are mostly poor and reported that the economy did fairly well. Contrary to popular belief, Brazilian elections do have a class element: properly analyzed, that is, when we look at neighborhood social status rather than merely individual social status. The 2002 elections reveal that poorer people voted for Lula more than wealthier people. Meanwhile, much of the support “lost” by Lula was voters with higher social status, more concerned with corruption than the economy. These voters shifted to Heloísa Helena and other candidates on the left rather than to Alckmin.

The change in the electorate’s perception of corruption is directly related to the relative levels of education completed by survey participants. Those with at least some university education think Lula has done a poor job of dealing with corruption through 2006, while many of the relatively uneducated poor think that other issues are equally or more important. The latter tended to look more closely at accomplishments from Lula’s first term (46 percent) over his personal characteristics (30), in contrast to a more even split (39 and 35 percent, respectively) found among those with higher education. These figures, combined with those expressing voters’ intentions for this October, indicate that Alckmin has been incapable of capitalizing on the mensalão corruption scandal or capturing votes that went to Lula in 2002. Lula has been able to remain relatively insulated from the corruption charges assailing his party, in part because Brazilians’ sense of partisan-ship is becoming increasingly loose.

Generally, party is a losing issue in this campaign, and the trend toward increasing partisan identification during the campaign season probably won’t be repeated this year. Rather than party identification, anti-party
mobilization has been a very important component, making the chances for political reform much weaker. If this leads to governing by plebiscite and referenda, it would be detrimental to the future of good governance and the deepening of democracy in Brazil.

AN ECONOMIC PERSPECTIVE OF THE BRAZILIAN ELECTIONS

Eliana Cardoso, Getúlio Vargas Foundation, São Paulo

Faced with a contrast between the bitterness of the 2002 presidential election and the benign economic climate of 2006, one must ask if the future president will be able to keep Brazil on a positive course. Brazil’s economy, similar to its politics, is driven largely by external events. The historical experience of an unstable, volatile exchange rate has coincided with periods of inflation, devaluation and dissatisfaction, while stability producing lower inflation and appreciation of the exchange rate has a direct relationship with general satisfaction. For this reason, the positive developments for the exchange rate have produced wide content with the economic climate of the past four years. In 2002, Lula, the opposition candidate, was elected during a period of turmoil and unrest coupled with a growing fear of instability and devaluation of the exchange rate. In 2006, the appreciating exchange rate leads to the prediction that Lula will be reelected.

Considering economic variables over the past five years, one can see that the exchange rate has fluctuated very much in line with the Brazil-risk, which again is determined primarily by events abroad. This coincidence has reflected a decline in risk to accompany the appreciation of the real versus the dollar. The “good winds from abroad” during Lula’s presidency are also demonstrated by several other economic factors. First, an exchange rate appreciation has allowed for the restructuring of public debt—net debt has been declining since 2003—and a declining rate of inflation. Second, a strong demand for Brazil’s exports and rise in commodity prices has produced a favorable current account balance. The growth rate, while modest for developing country standards, has improved from 2002 to 2006. Even if it is just good fortune, the country has done quite well economically, which should bode well for Lula in October.

However, Brazil’s economic outlook is not completely positive. Fiscal vulnerabilities still persist: gross public debt to GDP is high; tax rate to GDP is more than twice as large as that for comparable developing countries and is arguably the major impediment to growth; the tax regime remains unnecessarily complex; and inefficient and spending rigidities have become more binding, stalling reforms. Nevertheless, despite such fiscal shortcomings, the economic situation remains favorable for the president. Support for Lula is especially strong (over 70 percent) in the North and Northeast regions, which have largely benefited from recent economic development.

POLITICAL SUPPORT FOR MACROECONOMIC STABILITY AND SUSTAINABLE GROWTH

Carlos Pio, University of Brasilia

Higher and sustainable growth for the period of 2007–2010 depends on several political factors. First, the President must appoint the “best” people to the top economic positions in the Executive branch. These will be officials who favor the most adequate economic strategy to deal with constraints and opportunities both domestically and abroad, as well as the most transparent, universalistic policy contents and processes. Second, the President needs to ensure internal consistency and guarantee sufficient autonomy for the economic team to implement its policies. And third, the administration should manage the government’s support base in Congress so as not to weaken its economic strategy.

Currently there is no consensus in Brazil on an economic agenda. Despite the sharp divisions of opinion, Brazil is faced with serious economic tasks to promote higher and sustainable growth: making drastic budget cuts in the federal government; instituting a tax reform to reduce and simplify the inefficient regime; making more flexible labor legislation; granting legal autonomy to the Central bank; increasing competition in the domestic economy; creating a pro-market regulatory framework; and increasing trade-to-GDP ratios.
With fewer than three weeks remaining before the election, it appears that Lula will be re-elected and that there will once again be a divided Congress without any drastic changes from the current distribution of seats among parties. The administration will likely lack a majority in either house of Congress, producing a need for coalition governance, which will again depend on votes in the legislature in exchange for cabinet positions given to other parties. The administration will face strong resistance to increasing the fiscal surplus, the deepening of pro-market microeconomic reforms and perfecting the floating exchange rate regime. Opposition members will continue to be very reluctant to shield regulatory agencies from patronage, as well as to securing the legal autonomy of the Central bank and restructuring the social budget. With such extensive limitations, nothing better can be expected from Brazil in terms of structural economic reforms over the course of the next four years.

THE (IN)SIGNIFICANCE OF FOREIGN POLICY ON BRAZIL’S PRESIDENTIAL ELECTIONS

Leticia Pinheiro, Pontifical Catholic University, Rio de Janeiro

Until very recently, talking about Brazil’s foreign policy was not the same as talking about politics. A public-opinion poll taken in June 2006 by the major daily newspaper O Globo prescribed several issues for respondents to choose as those they would most like to see debated in the presidential race. A mere 1.28 percent chose “Foreign relations.” Surprising enough, this poll came soon after the crisis produced by Bolivia’s decision to nationalize hydrocarbon reserves, which had produced an angry response in the Brazilian media. But this mobilization has not produced any spike in the electorate’s interest in foreign policy issues as a determining factor of their vote in the upcoming election. With the apparently low degree of interest, foreign policy issues will not affect the election, even though its results will greatly affect foreign policy.

The political and economic liberalization that has taken place in Brazil, as well as the end of the Cold War, have opened an environment for domestic actors concerned with a multitude of issues. However, space devoted to foreign policy is fairly limited in Brazil, producing an odd situation: while very visible, foreign policy has historically been formulated outside of politics and thus is still not nearly as visible on the campaign trail. Gerardo Alckmin has claimed to be more concerned with “real” Brazilian interests, criticizing Lula’s foreign policy as too ideological and too willing to pay the costs (both economic and political) of regional integration. These differences, while pronounced, are not expected to sway many votes one way or the other. The Brazilian electorate (and in particular, the informed public) are resistant to go against the tradition of delegating foreign policy to “specialists”, for the purpose of avoiding the contamination of foreign policy by domestic politics.

Therefore, one can state affirmatively that these issues will have little to no weight in the presidential election because they are not yet salient enough to voters to directly influence their vote. This remains the case, even though the outcome of the elections nonetheless influences the overall course of foreign policy. In other words, one can see signal shifts in the content of candidates’ foreign policy positions even if the overall issue remains weak among others influencing the outcome of the election. In Brazil, foreign policy has a disproportionate value for politicians in office when compared to its value as electoral currency.

A longer version of this paper is available online http://www.wilsoncenter.org/news/docs/BrazilianForeignPolicy.doc
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