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The Road to 2018: Looking Ahead to Next Year's Presidential Elections in Brazil

EXECUTIVE SUMMARY

With just one year to go until the crucial presidential elections of October 2018, Brazil's political and economic outlook remains highly unpredictable. Public opinion remains divided over potential candidates in Brazil's presidential elections in 2018. Most economic analysts seem to be betting that a centrist candidate (such as the current mayor of São Paulo João Doria or São Paulo State Governor Geraldo Alckmin) will be elected and reap the benefits of Brazil's anticipated economic recovery. Among political analysts, however, this optimism of the markets is unconvincing; they argue that political outcomes cannot be divined from the state of economy, because market trends do not reflect the mood of the population. Instead, they contend that there is no clear front-runner, but there are four potential blocks of voters: 1.) those who will not vote, 2.) the populist vote, 3.) the center-right vote, and 4.) those who will vote for a nontraditional candidate. The difference is unlikely to be settled anytime soon. Due to congressional delays in addressing structural reforms, ongoing criminal investigations into widespread corruption, and the urgent need for political reform, there are many facts and circumstances that will remain unknown and will continue to divide predictions about the outcome of Brazil's presidential elections in 2018.

Panelists: Persio Arida, Board Member, International Advisory Board, Blavatnik School of Government at Oxford University
Sérgio Fausto, Executive Director, Fundação Fernando Henrique Cardoso
Carlos Eduardo Lins da Silva, Global Fellow, Brazil Institute; Senior Advisor, São Paulo Science Foundation (FAPESP)

Moderator: Paulo Sotero, Director, Brazil Institute

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5th Floor, Woodrow Wilson Center

In his opening remarks, **Paulo Sotero**, director of the Brazil Institute, stated that Brazil is facing what has been described as the most serious political, economic, and moral crisis in its history. To discuss the challenges that are confronting Brazil, he invited three public intellectuals, all with long ties to the Wilson Center and the Brazil Institute, to provide more insight into the projected outcomes of Brazil's 2018 presidential elections.

Persio Arida, Board Member of the International Advisory Board at the Blavatnik School of Government at Oxford University, began with an optimistic analysis of the current state of Brazil's economy and the prospects for the 2018 presidential elections. According to Arida, every time there is an economic collapse, new trends simultaneously emerge. He contended that this outlook is an accurate description of Brazil's ongoing political and economic transition.

Arida reflected that Brazil's current political situation is both standard and unusual when viewed through a historical lens of political trends in Latin America. On one hand, Brazil's political climate under former President Luiz Inácio Lula da Silva was predictable when compared to populist governments in Latin America, which are remarkably similar in nature. Similar to Chávez, Allende, and Perón, Lula was a charismatic leader who appealed directly to the masses of the poor with the rhetoric of establishing a new era. Arida explained that all populist regimes begin with a "glorious

paradise phase," where governments tend to expand fiscal expenditures, including increases in salaries regardless of productivity gains, and the population enjoys a new role in the commodities market. However, after this initial phase, the economy loses efficiency and the government increasingly intervenes in the market, eventually leading to the collapse of the populist regime. Arida argued that the structures created by populist regimes are worse than wars.

Although the reign of the Workers' Party (PT) was characteristic of populist governments, Arida insisted that the impeachment of former President Dilma Rousseff was an exception in the history of populism in Latin America. In Latin America's history, military coups or elections have traditionally brought about the dramatic reversal of populist policies. The abolishment of such policies as a result of an impeachment has no historic equal in Latin America.

Upon assuming power, President Michel Temer decided to take a 180 degree turn in the economy. Arida called it a smart decision: instead of escalating the populist regime, the only way to stay in power and be successful was to implement liberal economic policies. Temer implemented constitutional reforms that established a ceiling on government fiscal expenditure, restructured the Cabinet, changed the management of state companies, created labor reforms, increased foreign investment, and changed the governor of the Central Bank. As a result of his policies, annual inflation fell from more than 10 percent to just 3 percent.

Arida contended that, from an economic viewpoint, one can only applaud what Temer has accomplished in such a short period of time. In only one year, Temer implemented a radical change in economic policy that dramatically reversed the economic crisis. Arida expressed confidence that the next elected president will continue these reforms, which are favored by international markets. He anticipates that the economy will grow more than 1.5 percent in 2018, and that Brazil may see a slight reduction in unemployment levels.

Arida also noted that the markets expect a centrist candidate like the Mayor of São Paulo João Doria or São Paulo State

Left-right: Paulo Sotero, Sergio Fausto, Persio Arida, and Carlos Eduardo Lins da Silva



Left-right:
Sergio Fausto
and Persio Arida



Governor Geraldo Alckmin will be elected, both of whom have committed to continuing these reforms. Despite being relatively new to politics, Doria is popular due to his effective use of social media and his anti-PT rhetoric. Alckmin, known for his more reserved personality, has an admirable track record in managing São Paulo. Overall, in predicting the outcomes, Arida alluded to Gilberto Gil's expression *geléia geral*, meaning that Brazil is and will continue to be a country that avoids extremes, and will do so by voting for a centrist candidate that will reap the benefits of the cyclical economic recovery expected to prevail.

Sérgio Fausto, the Executive Director of the Fundação Fernando Henrique Cardoso, presented a less optimistic vision. From the standpoint of a political analyst, Fausto was not convinced by the “over-optimism” of the market, which is based on a very mechanistic reading of Brazil's political dynamics. Fausto insisted that it is naïve to believe that the next president will either be Doria or Alckmin because the markets do not understand Brazilian society.

According to Fausto, one cannot divine the political outcome from current economic trends because the mood of the market does not reflect the mood of the population. In citing a recent poll conducted jointly by Ipsos and the Eurasia Group, the mood of the population is very anti-establishment, with close to 80 percent of the population expressing either anger or concern with the current government, despite the economic recovery.

Fausto contrasted this reality to the elections in Argentina. In Argentina, the current President Mauricio Macri consolidated support and defined his candidacy in opposition to leftist former President Cristina Fernández de Kirchner without being tainted by scandals that led to the collapse of *kichnerismo*. In Brazil, however, the centrist parties are connected to the current government and have been badly hit by both Temer's unpopularity and the ongoing corruption scandals. Fausto predicted that popular perceptions may change, but will change slowly, with the labor market being the last to be affected by economic recovery.

Ultimately, Fausto insisted that there are many facts and circumstances that remain unknown. In regards to the *Lava Jato* corruption investigations, for example, there is no good news in the pipeline for centrist parties in Brazil. The Brazilian Social Democratic Party (PSDB) and Brazilian Democratic Movement Party (PMDB) are likely to face additional shock waves stemming from the investigations, as new evidence and allegations are made public.

Furthermore, former President Luiz Inácio Lula da Silva—currently leading in the (extremely preliminary) polls—may not be allowed to run, due to his recent conviction on corruption charges. If Lula does not run, it is uncertain where Lula's votes will go, and which candidate is best positioned to benefit. Fausto argued that centrist candidates are not well-positioned to obtain votes from the lower socio-economic classes in the Northeast. Instead, he predicted that Doria and Alckmin will get most of their votes from higher income voters.

Fausto ultimately argued that the election is wide open. He expressed concern about the possible emergence of an alt-right candidate like Federal Deputy Jair Bolsonaro, who is starting to be normalized by the middle class. Fausto said a candidate like Bolsonaro would likely not prove competitive in the second round of voting, provided there is a solid centrist candidate still in the race. On the other hand, with the absence of Lula on the left, Fausto suggested that the centrist parties could tap a nontraditional candidate, such as someone from the entertainment industry.

Carlos Eduardo Lins da Silva, senior advisor at the São Paulo Research Foundation and a Brazil Institute global fellow, offered a middle-ground analysis of Brazil's prospective political and economic outcomes in 2018.

Lins da Silva began by expressing his admiration for the economic analysis offered by Persio, once again pointing out how remarkable President Temer accomplishments are—despite the fact that his approval rating is 3 percent and he has been twice indicted on corruption and tried once by the electoral court. In addition, he applauded Fausto's realistic perspective of public opinion.

Lins da Silva avoided making predictions about who would win Brazil's 2018 presidential election, but he identified four blocks of voters and their political leanings.

First of all, Lins da Silva predicted that the largest block will likely be those who refuse to vote: he estimated that this group will be 35-40 percent of the voting-age population. He cited a recent election for the governorship of the state of Amazonas as good illustration of this trend. Amazonas traditionally has a high voter turnout, yet 40 percent of the state's residents did not vote in the recent election.

The second block of voters consists of the populist vote. If Lula runs, Lins da Silva predicted that he could win up to 35 percent of vote in the first round. If Lula does not run—and Lins da Silva suggested this was the more likely scenario—the Workers' Party candidate could win 15-20 percent of the vote.

Lins da Silva characterized the third block of voters as those who are loyal to the center-right. Doria and Alckmin (both PSDB) are the favored center-right candidates. Since they belong to the same party, Lins da Silva predicted that either Doria will betray Alckmin, his political godfather—which will cost him votes and popularity—or one of them will withdraw from the race. It is unlikely that either candidate will change parties. Lins da Silva argued that media-savvy Doria is currently the most appealing candidate for this bloc of voters, although Henrique Meirelles—current finance minister and former president of the Central Bank during the Lula administration—shows some promise if the economy continues to recover.

Lins da Silva defined the fourth and final block of voters as those who will vote for a nontraditional candidate, which is the most unpredictable aspect of this election. Brazilians, he argued, may want someone who has never been in politics, comparing this sentiment to the rise of President Donald Trump in the United States. Lins da Silva floated the possibility of former Chief Justice Joaquim Barbosa, a Brazilian of African descent who presided over the *Mensalão* scandal trials, but noted that Barbosa has limited political experience and is a real danger due to his authoritarian personality. Lins da Silva also mentioned the possibility of a candidate emerging from the entertainment industry and predicted that Luciano Grostein Huck, the popular TV host, is one option who could



Carlos Eduardo Lins da Silva

generate impressive returns in all regions and social classes. Similar to Fausto's perspective, Lins da Silva downplayed Bolsonaro's chances, given that Brazil has never been a country that has voted for extremists.

In closing, **Sotero** noted that the panelists had agreed on two key issues: first, that the economy is recovering and could grow by as much as 3 percent next year; and second, Lula is unlikely to be a candidate in 2018 (which could reduce the level of polarization in the campaign). Sotero argued that a reinterpretation of the second conviction's implications could spare Lula from imprisonment, but he will still be ineligible to run under the Ficha Limpa law. Moreover, Lula is unlikely to want to risk ending his political career with a defeat.

Sotero concluded the debate with the well-known phrase by Antônio Carlos Jobim: "Brazil is not for beginners." Although predicting the winner of the 2018 presidential elections is near impossible at this point, Sotero did predict that, with a recovering economy, a functional judicial system, and a free press, Brazil's negotiating soul will move voters towards the center of the political spectrum.



One Woodrow Wilson Plaza
1300 Pennsylvania Avenue, N.W.
Washington, DC 20004-3027

 www.wilsoncenter.org/program/brazil-institute

 brazil@wilsoncenter.org

 facebook.com/brazilinstitute

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 202.691.4147