



Governor Geraldo Alckmin of São Paulo on Brazil's Economic and Political Outlook in an Unpredictable Election Year

EXECUTIVE SUMMARY

On Wednesday, March 7, 2018, Governor Geraldo Alckmin of the State of São Paulo spoke at the Wilson Center shortly before officially announcing his campaign for the presidency of Brazil. Alckmin argued that his success as governor of São Paulo spoke to his capacity to serve as president. He noted that crime and violence levels in the state fell under his watch, and contended that his state had weathered the economic recession better than most. Looking towards the future, Alckmin said that while the Brazilian economy was returning to growth, reforms remain necessary to ensure that such growth is sustainable rather than cyclical. He suggested that the best opportunity to pursue reform will be at the beginning of 2019, with a new president and new Congress in office, with fresh mandates to govern.

The panelists agreed with Alckmin that the actions of the new government will prove critical, but underscored the challenges that remain in the months before the election. Mauricio Moura, CEO of IDEIA Big Data, noted that Brazilians are looking for an outsider candidate (who is untainted by the ongoing corruption scandals) and someone who is strong on public security. Monica de Bolle, a senior fellow at the Peterson Institute of International Economics and adjunct professor at Johns Hopkins University, argued that a pro-reform platform is unlikely to win over many voters, and the economic recovery is currently too tepid for most Brazilians to see any improvement in their daily life. She also cautioned that political fragmentation has contributed to Brazil's fiscal mess, and will need to be addressed. Ricardo Mendes, managing partner of Prospectiva Consulting, cautioned that observers should not discount the Brazilian political establishment. This may be a "change election," but the establishment remains influential and candidates will still need to build traditional alliances in order to win and eventually govern. Roberto Simon, director at FTI Consulting contended that this entire election cycle is unique, with extremists voices gaining greater power and populism on the rise. Murillo de Aragão, CEO of Arko Advice, called Lula's presidential bid more of a PR campaign than a true political campaign, but noted the difficulty in predicting which candidates will benefit from Lula's inevitable exit from the race.

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Wednesday, March 7, 2018, 9:00 am – 12:00 pm

6th Floor, Woodrow Wilson Center

KEYNOTE FROM GERALDO ALCKMIN, GOVERNOR OF THE STATE OF SÃO PAULO

In his introduction, **Ambassador Anthony S. Harrington**, chairman of the Brazil Institute Advisory Council, highlighted the frequent collaboration between the Wilson Center and organizations based in Governor Geraldo Alckmin's State of São Paulo, including the Brazil Institute's longstanding partnership with the São Paulo Research Foundation (FAPESP), which has encouraged research cooperation between Brazilian and U.S. scientists. He noted that Alckmin has been elected four times as governor of Brazil's richest, most populous, and influential state, and is widely expected to emerge as PSDB's candidate for the presidency of Brazil.

Governor Geraldo Alckmin began his keynote speech on an optimistic note, stating that Brazil has returned to a path of economic growth. After three consecutive years of recession, the Brazilian economy expanded by 1 percent in 2017, and this year GDP is expected to grow by more than 3 percent. He asserted that Brazilian agro-business remains competitive in global markets—producing record harvests last year—and industry, which was heavily affected by the recession, shows clear signs of recovery.

Yet Alckmin argued that reforms are needed to ensure that Brazil's economic rehabilitation is sustainable instead of cyclical. Some of these reforms, such as labor reform, have already taken place, but additional measures, including constitution amendments, are necessary to address the reality of the current moment faced by Brazil.

Given that three-fifths of Congress is required to amend the Constitution, Alckmin stated that the best opportunity to pursue drastic structural changes will be during the first year of the new administration. He suggested that the newly elected president should implement a reform agenda at the beginning of 2019, to include political, tax, and pension reforms. Alckmin noted

that his administration has already undertaken these reforms at the state level in São Paulo.

Alckmin attributed much of São Paulo's economic success to his privatization initiatives. His state has offered concessions for highway projects, the expansion of the metro system, and the construction of a convention center. He also emphasized the role of Public-Private Partnerships in the improvement of public sanitation systems and hospitals, and the expansion of water reservoirs. Due to the success of these initiatives, the State of São Paulo is pursuing further privatizations in other areas, such as parks and trains. He defended the idea of replicating such measures at the national level as a means of solving Brazil's fiscal problems.

Alckmin stressed Brazil's immediate need to address public security and emphasized his success at reducing violence and improving public security in a state with a population larger than that of Argentina. When he first became governor of São Paulo in 2001, the state averaged 35 homicides per 100,000 people. By 2017, that number had dropped to 8 homicides per 100,000 people. He noted that the World Health Organization considers a homicide rate above 10 per 100,000 residents to be an endemic problem; Brazil currently averages 28 homicides per 100,000 people.

Alckmin also discussed the issue of national security. He drew attention to Brazil's 17,000km land border—one of the longest in the world—which is plagued by drug and arms trafficking. He claimed that the only way to combat this issue is through the use of technology, local and national intelligence, information-sharing, and regional diplomacy. He defended the creation of a national intelligence agency and advocated for providing local governments greater autonomy to manage the police force and combat violence.



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Gov. Geraldo Alckmin

Paulo Sotero

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Left-right: Ambassador Anthony S. Harrington and Governor Geraldo Alckmin at the Wilson Center, March 7, 2018



Left-right: Paulo Sotero, Cassia Carvalho, Ambassador Anthony S. Harrington, and Governor Geraldo Alckmin

Alckmin concluded with the Latin phrase *sublata causa tollitur effectus*: suppress the cause, and the effect will cease. He argued it is necessary to address the root causes of Brazil's problems in order to devise more effective policy responses. He believes Brazil requires a positive agenda that will lead to growth, inclusion, and sustainability.

Following his speech, Alckmin answered several questions from the audience.

When asked what he would do as president to stabilize Brazil, Alckmin emphasized the need for political and fiscal reforms. He argued that the current political system has failed, requiring a new institutional model for Brazil. Alckmin also highlighted the role of new monetary and fiscal policies to stimulate the economy, facilitate investments, and remove unnecessary regulations. However, Alckmin reminded the audience that Brazil will elect not only a new president in October, but also governors, two-thirds of the Federal Senate, the entire Chamber of Deputies, and numerous mayors and city council members. All of these are important for the reconstruction and renewal of Brazil.

Alckmin also responded to questions about political fragmentation and the demise of political parties. He acknowledged that parties are weakened, and the high number represented in Congress (twenty-eight separate parties) reflects this decline. He argued that the recent corruption scandals have harmed all of the parties, and

expressed confidence that although his own party, PSDB, has been implicated in the Lava Jato investigations, he will not be adversely affected at the polls. Alckmin believes Brazilians will vote for candidates who reflect their policy preferences, and pay less attention to party affiliation. He noted that he won his fourth term in the State of São Paulo during Brazil's worst economic crisis and during a drought that led to a huge water shortage. Despite these obstacles, he won in 644 of the 645 municipalities in the first round of elections. Alckmin stated he would be able to overcome his party's shortcomings at the national level as well.

When asked about new political movements in Brazil, Alckmin argued that political renewal does not require a candidate who is young and lacking political experience. The political renewal that Brazilians desire is a change of culture. They desire politicians who will create policies that benefit society as a whole, instead of benefiting just a few.

Alckmin concluded that he has a proven track record of putting his words into actions, and looks forward to advancing to the second round of the presidential elections in October with a message of hope for the Brazilian people.

PANEL DISCUSSION

Following Governor Alckmin’s keynote address, five panelists reflected on his remarks and discussed potential political and economic scenarios for Brazil during this election year and beyond.

In his opening remarks, **Mauricio Moura**, CEO and founder of IDEIA Big Data, agreed that Brazilians are looking for an outsider this election cycle. In February 2018, IDEIA Big Data conducted a national survey: 56 percent of respondents said they were willing to vote for a political outsider in October.

Moura’s research found that the key characteristic defining a political outsider, at least in voters’ minds, is a lack of involvement in corruption scandals. Among participants in the February 2018 poll, 42 percent stated that honesty, transparency, and lack of involvement in corruption were central to their willingness to vote for a candidate; only 5 percent responded that previous experience was a key factor. According to Moura, these voter preferences are the legacy of the Lava Jato Operation, and will play a significant role in this year’s elections.

Moura also reflected on the differences he expects between the presidential election and congressional elections this year. The presidential race will be far more unpredictable than in previous elections. Moura noted that Brazilian politics is at its most polarized moment since 1994, and the major parties that have dominated local, state, and federal elections in recent years may find themselves shut out of the second round. Similarly, well-known, career politicians may find this year’s political environment particularly challenging. IDEIA Big Data found that 65 percent of respondents considered the major parties in Brazil (PT, PSDB, PMDB) to be essentially the same and all corrupt.

In congressional elections, Moura argued that there is more space for emerging political movements compared to previous elections; however, senior party figures will continue to play a significant role, and they could make it more difficult for newcomers to break in.

Evangelical parties and conservative movements have also been gaining ground in recent years. Moura noted that there will be both politicians and “regular folks” elected from these parties in October, but it remains unclear whether their share of seats in Congress will grow significantly.

Moura concluded that this election will center on three main pillars: public security, corruption, and the economy. Public security will play a significant role in both state and federal campaigns. Corruption will also be a significant factor, with voters seeking a more accurate understanding of candidates’ involvement with and reaction to recent corruption scandals. Lastly, the economy will continue to have significant weight this election cycle—but it is far from the only factor to consider.

Monica de Bolle, senior fellow at the Peterson Institute of International Economics and adjunct professor at the School of Advanced International Studies at Johns Hopkins University, agreed with a recent statement by former President Fernando Henrique Cardoso that the “market candidate” will probably not win this year’s election, citing two reasons.

The first reason stems from a new and ongoing debate in Brazil over the size of the state. She mentioned that some are arguing in favor of an *estado minimo*, where the state is restricted as much as possible and everything is privatized. However, de Bolle noted that this argument will not resonate with the Brazilian public at large; Brazilians would interpret this position as advocating for an end to all social programs.

Her second reason was based on the centrality of the economy in this campaign cycle. Although Brazil’s GDP growth of 1 percent in 2017 was enough to technically end the recession, such tepid economic expansion is not enough to change voter sentiment on the ground. Millions of Brazilians continue to face job and economic



Mauricio Moura



Ricardo Mendes



Roberto Simon



Murillo de Aragão



Monica de Bolle

insecurity, and unemployment remains high. She argued that candidates focused solely on the size of the state and fiscal reform issues will be perceived as out of touch, and are unlikely to perform well in the election.

Looking beyond 2018, de Bolle stated that her primary concern is Brazil's leadership among Latin American countries with regards to political fragmentation and debt-to-GDP ratio. She argued that the debt ratio is high because of political fragmentation, and if political fragmentation is not reduced, the chances of reducing debt and implementing the needed fiscal reforms necessary appear low. De Bolle concluded by stating that we must continue to pay attention to political fragmentation in Brazil after 2018, and consider whether it will prove to be a substantial obstacle to reform.

Ricardo Mendes, managing partner of Prospectiva Consultoria, stated that the political establishment remains influential in Brazil: a factor that should not be ignored, despite the current pressure for something new in Brazilian politics. Although newcomers are emerging as important candidates and pre-candidates, Brazil has a well-established electoral machine. He predicted that the

Brazilian political establishment will withstand popular demands for renewal this year, although that could shift in the long-term.

According to Mendes, there are four factors that influence elections in Brazil: campaign resources, voters' behavior, attributes of the candidates, and the economy. On the first factor, he pointed out that will be the first time presidential and general elections do not have access to private campaign funding. Candidates in Brazil must also build coalitions and forge alliances in order to be competitive—accumulating valuable air time and other resources. Mendes remarked that Alckmin started this process even before he was re-elected as governor; no other candidate currently campaigning has built these critical alliances. Second, Brazilians tend to view themselves as centrists, either center-right or center-left. Given this context, extreme candidates, despite high initial polling numbers, will plateau rather than continue to build support as the election year progresses. Third, the likeability of each candidate has an obvious role to play. However, candidates could remain competitive even without high personal likeability numbers. The fourth and final factor is the economy. With the economy

growing, as little and as slowly as it is, Mendes argued anti-establishment candidates face greater challenges.

Roberto Simon, director of FTI Consulting, began by reflecting on the rise of populism throughout the world and specifically in Brazil. Simon stated that Jair Bolsonaro is unlikely to win, but his candidacy should still be taken very seriously, as a Bolsonaro presidency would have significant ramifications for the entire country.

However, Simon believes the most important question this election year is how it will be different compared to previous elections. The current electoral environment is unique, given the pressures arising from the Lava Jato investigations, the lengthy economic recession, and the desire for new political actors. However, in Brazil, despite the plethora of political parties in Congress, political disputes remain stable. Disputes may appear chaotic and volatile in the beginning, but they always converge towards the established opposition between the center-left and center-right. He also argued that television time and media exposure are much more relevant now than they were before, which could shape the campaigns in new ways.

Taking all these aspects into account, Simon stated that conventional political parties in Brazil remain in limbo, while more extremist parties and politicians are gaining ground, but it is not yet clear if they will have staying power.

Murillo de Aragão, CEO of Arko Advice, began by analyzing the feasibility of former President Luiz Inácio Lula da Silva's campaign for president, in light of the recent charges, guilty verdicts, and rejected appeals. He drew attention to statements by the chief justice of the Brazilian Electoral Court in favor of the strict implementation of the Clean Record Law, which would ultimately make it impossible for the former president to run [editor's note: former President Lula became ineligible to run for office under the law after his conviction was upheld by an appellate court].

However, de Aragão also stated that the former president will try to extend his campaign, despite knowing that he will not be on the ballot in October, on two grounds. First, Lula seeks to promulgate his narrative of victimhood; and second, Lula seeks to garner votes in the hopes of transferring them to another candidate. According to de Aragão, Lula is running a PR campaign rather than an electoral campaign. Lula currently has a plurality of the votes (roughly 30 percent), which poses a significant problem given the current environment of fragmentation and division, but aids Lula's goals.


De Aragão also argued that the federal intervention in Rio de Janeiro will play a significant role in this election year. The success or failure of the intervention will influence the direction of the race, given the centrality of public security in voters' minds.

In concluding, de Aragão remained skeptical of current polling numbers, given the unpredictability of the voting base in Brazil. Although conventional wisdom is that votes accumulated by Lula will likely transfer to Alckmin, it is wise to be cautious in such a volatile environment. He also noted that it is essential to understand that this campaign will be completely different than any before, due to new regulations specifically on campaign spending and on private donations.

Cassia Carvalho, executive director of the Brazil-U.S. Business Council, closed the event by underscoring the uncertainty of the electoral outcomes, but reiterated the need for ongoing, informed debate.



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