

## ELECTIONS IN BRAZIL: LULA ON HIS WAY TO A SECOND TERM (ARI)

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**Theme:** Brazil's incumbent President, Luis Inácio 'Lula' da Silva, is the front-running candidate in the upcoming elections on 1 October. Lula could obtain a new four-year mandate in the first round of the elections, though he would have to come to agreements with other political parties to form a parliamentary majority.

**Summary:** In this October's elections for Brazil's president, state governors, deputies and senators, the financial market will not be exerting the kind of pressures seen in the 2002 elections. The current government's corruption scandals have been assimilated by voters to such an extent by the electorate that President Luis Inácio 'Lula' da Silva could win his second term in the first round. However, his party will pay a price for the political crisis, forcing the President to reach agreements with organisations of different political stripes to ensure reasonable control over the next parliament. Lula's main victories are an acceptable economic situation, oil self-sufficiency and social programmes, while his economic policy will continue on the orthodox path followed these past four years. It is possible, however, that he might focus more on development in an attempt to spur the country's growth and reduce its huge social disparities.

**Analysis:** Nearly 126 million Brazilians will be called to vote on 1 October. The world's third-largest democracy by number of voters will elect a president to govern the country for the next four years. They will also choose 27 state governors and the governor of the Federal District (Brasilia), 513 federal deputies, 1,059 state deputies and a third of the 81 senators who make up the Upper Chamber.

Unlike four years ago, when the Brazilian economy was going through a period of serious instability –uncontrolled inflation, flight of capital and considerable depreciation of the national currency– the situation is very different today. Neither President Lula da Silva nor his Workers Party (PT) are seen as threatening to break with the established economic model. Brazil's economic underpinnings are also better than in 2002. For example, the São Paulo stock market has been bullish for several months and the real has remained steady and adequately valued versus the US dollar, despite the election campaign. Country risk, which stood at over 2,400 points before the 2002 elections, is now ten times lower.

What voters expect of these elections is more difficult to quantify. Some figures suggest that voter interest (or lack of interest) is similar to 2002 levels. According to a study by Instituto Datafolha, half the population would abstain from voting if it were not a legal obligation. This is the same figure registered four years ago and also during the 1994 and 1998 elections. Only in 1989, when the first direct presidential elections were held after more than two decades of military dictatorship, was a larger percentage of Brazilians (54%) more content with the idea of voting than of not voting.

The reasons for the evident tranquillity of the same financial agents who in 2002 were at the point of leaving Brazil in bankruptcy, have to do with the economic progress and orthodoxy of the Lula government. The promises made in the *Carta ao Povo Brasileiro* –a campaign document launched four years ago to try to calm those who feared the arrival in power of a government that would supposedly break radically with the past– have been met without exception, essentially as regards the contracts and agreements signed by Brazil with private investors and international lending institutions.

Far from promoting radical changes in the management of the Brazilian economy, the Lula government has exercised greater fiscal restraint than the government of his predecessor, Fernando Henrique Cardoso (1994-98 and 1998-02). On average, Brazil's three levels of government have stopped spending 4.25% of the country's annual gross domestic product to pay down the interest on the huge public debt –in the order of €365 billion, or 50.3% of GDP as of July 2006–. The result is

that the debt, despite growing in absolute terms, has decreased in terms of GDP from the 57.2% recorded in early 2003. It is worth noting that Brazil's debt is now internal: the federal government has managed to pay off its obligations to the IMF and has negotiated favourable conditions with its private creditors.

With inflation kept below 4% in 2006, 6 million jobs created in the formal sector, economic growth averaging above 3% over four years, increased international reserves, the virtual write-off of the external public debt and the end of the agreement with the IMF –which is of great symbolic value for a president who once cried ‘IMF go home!’ in the streets–, Lula's reasonable macroeconomic results stand as one of his main victories, this from the former trade union leader who said he had been left a ‘cursed legacy’, in reference to the difficult conditions he inherited from previous governments.

However, the fact that he achieved these results with an orthodox economic policy similar to the one followed by Cardoso has, at the same time, made his position appear contradictory and has exacted a certain political price. His attempt to reform the social security system in late 2003, based on what some sectors of his party considered neoliberal criteria, led to the expulsion of well-known PT representatives, such as senator Heloísa Helena, now leader of the Socialism and Freedom Party (PSOL) and candidate in the presidential election. Helena is presenting herself to voters on what is considered the traditional PT platform –direct government intervention in the economy, a drastic reduction in interest rates (by government decree) and a break with financial capitalism– which she believes Lula and his government have betrayed.

The other great betrayal by Lula and the PT, in the opinion of their critics on both the left and the right, is not only economic, but also ethical. Scandals involving the illegal financing of political parties, accusations of vote-buying in parliament and cases such as that in which a PT leader was found in São Paulo airport with large bundles of dollars hidden in his underwear, have led some observers to call this the most corrupt period in Brazilian history. Presidential Chief-of-staff José Dirceu and Finance Minister Antonio Palocci each lost their jobs in different scandals. Dirceu was punished with the loss of his seat in parliament and he will not be able to run for any elected office until 2016.

Regardless of whether or not the PT government and its allies are the most corrupt in Brazil's history, the scandals that have broken since mid-2005 have weakened both the Brazilian executive and Lula himself. The centre-right opposition flirted for months with the idea of threatening impeachment proceedings. This was not done due to a more than likely lack of votes in parliament, combined with a lack of popular support for such a drastic initiative –one that has been carried out only once in the country's recent history, in 1992, against then-President Fernando Collor de Mello, who was accused of corruption–. The worst moments in the political crisis are now over and the executive has managed to reach the election campaign with higher popularity ratings than ever before in this legislature. Polls show that more than half the population thinks the government is excellent or good. The same percentage say they will vote for Lula on 1 October, which would return him to the presidency in the first round.

#### *Candidates and Programmes*

Along with the Communist Party of Brazil (PC do B) and the Brazilian Republican Party (PRB), the PT forms the *A força do povo coalition*. The vice-presidential candidate is Lula's current second-in-command, the businessman José Alencar (PRB). The Lula government's programme for 2007-10 focuses on five main areas: (1) fighting social exclusion, poverty and inequality; (2) continuing to develop the new model of development based on growth with more equitable distribution of income and environmental sustainability; (3) good-quality universal education; (4) broadened democracy and political dialogue; and (5) a greater role for Brazil in world events.

There are no important new measures or spectacular promises. The programme is realistic and pragmatic, and continues on the road already taken, giving priority to social programmes and policies. However, in the area of political reform, Lula's programme does reveal the concerns

expressed in political debate. Reform would help fight corruption and would ensure 'the plurality of parties, party loyalty, public financing of election campaigns and proportional democracy –preferably in pre-established electoral lists–, as well as fomenting the construction of the majorities necessary for governability' (see *Lula presidente. Programa de Governo 2007/2010*, p. 12, at <http://www.pt.org.br>).

In the economic field, the programme pledges to maintain the lines of action that have made it possible to reduce Brazil's external vulnerability, contain inflation to levels that are historically low for the country and to create –in the opinion both of the government and of international risk classification agencies such as Standard and Poor's– the conditions for sustainable development. This is the current government's main election plank in the economic area. Brazil continues to have the world's highest interest rates, making the cost of money very high and hindering access to credit. A new Lula government, according to its election platform, would continue to promote gradual reductions in interest rates and would encourage measures to make lending cheaper.

The large public debt hinders the state's investment capacity, which means infrastructures that are generally poorly maintained or insufficient for the challenges facing the country's growth. During the past government, the PT passed a law by which the state could reach agreements with private companies on investment in highways, ports and the railway system. The first of these PPPs (*Parcerias Público Privadas*) –practically unheard of in Brazil but used in countries such as the UK– involves the construction of a subway line in São Paulo.

In general, Lula's programme does not give a clear indication that his government would follow a more orthodox line, but neither does it indicate the opposite. Projected spending in 2007 indicates that since the fall of Antonio Palocci the most monetarist sectors have lost influence in the government while, in contrast, those who favour development first have gained ground. An example of this is that the programme does not discuss central bank autonomy or greater efforts to increase tax collection than those already being made. The programme's developmentalist character is also reflected in its aim to increase investment in the energy sector and to develop alternative fuels such as biodiesel. During Lula's term in office, Brazil achieved oil self-sufficiency and significant discoveries of crude oil and gas have been made. An issue pending resolution is the conflict with Bolivia over that country's nationalisation of the oil and gas sector and its consequences on gas prices for Brazilian industry.

A new PT government, according to its platform, would continue to encourage equitable growth in the agribusiness sector –the fundamental part of the export sector– and family-owned farms. Agrarian reform and the redistribution of land to hundreds of thousands of families will continue to be a priority. Organisations such as the Movement of Landless Rural Workers (MST), a traditional ally of the PT, have criticised the government on this issue over the past four years, saying that only tentative steps have been taken and that the government is in fact split: one part of it only cares about profits for big agricultural producers, while another –weaker– part wants to move ahead with agrarian reform.

The growth of agribusiness also raises ecological issues and creates conflict with indigenous peoples. Deforestation of the Amazon, caused by the expansion of livestock operations and agricultural cultivation, has continued unchecked. Ecologist organisations and the Ministry of the Environment have questioned the lack of government capacity to slow down this often uncontrolled expansion. Indigenous organisations have criticised the federal government's lack of will to defend their rights against the eager expansion of ranchers and big agricultural producers.

Lula also brings to the election the promise of continuing the *Bolsa Família* programme –a financial aid package for the poorest families (in exchange for sending their children to school and keeping their vaccination schedule up to date)– which includes the *Fome Zero* programme. In August 2006, 11 million families received some kind of aid under this programme. This is the same number of families who suffer 'social vulnerability' according to the *Instituto Brasileiro de Geografia e Estatística*

(IBGE). The opposition claims that Lula is buying millions of votes with the programme, while the government and the PT consider it to be the main instruments for redistributing money in a country with one of the most disparate levels of wealth in the world.

The main opposition candidate, Geraldo Alckmin of the PSDB, has criticised Lula's programme, which he accuses of being 'empty, rhetorical, vague and hollow', an exercise in wishful thinking and a catalogue of good intentions, but with no explanation, for example, of where the revenue will come from for the sectoral funds promised for infrastructure or industry, or what measures will guarantee that the private investment rate reaches 25%, up from roughly 20% today.

Alckmin, former governor of the state of São Paulo, is running for this election on a platform that tries, on the one hand, to reveal the government's supposed administrative and managerial incompetence, promising 'managerial shock treatment' to solve it, while harping incessantly on the corruption scandals revealed in recent years. Alckmin also says the government is responsible for the public safety crisis, which is especially serious in the big cities. Attacks by the organised crime group that controls prison life in the state of São Paulo, the *Primeiro Comando da Capital* (PCC), left the state's most important city in panic at different times in May, June and July. The former governor, who promoted a hard-line policy against crime –which, his opponents say, is responsible for the equally tough response by organised crime groups– promises to follow the same path if he is elected president.

The coalition led by Alckmin, formed by the *Partido da Social Democracia Brasileira* (PSDB) and the *Partido da Frente Liberal* (PFL), was the same that governed Brazil for a large part of the 1990s and which implemented reforms and opened up the economy, privatising companies and public banks, and opening markets to foreign capital. Alckmin's economic platform, which emphasises the need to reduce the state's role and reduce public spending, also proposes to deal with foreign exchange fluctuations through greater central bank intervention in the market to prevent a loss of competitiveness in the export sector, which has been harmed somewhat in recent months as the real has traded higher against the dollar. Until the first weekend in September, a month before the elections, Alckmin had not formally presented his platform.

Direct state intervention in the economy through a central bank that is 'autonomous and independent of financial capital and subordinate to national interests' is the main plank in the economic platform of Heloísa Helena, the PSOL candidate. Helena proposes to use government decrees to drastically reduce interest rates and acquire millions of dollars in funds to be invested in social policies and infrastructure. Her programme also states the need to encourage accelerated growth so that the labour market can absorb surplus workers. She proposes giving land to more families than the Lula government and labels the agribusiness sector as unscrupulous capitalists who only pretend to cooperate in the country's development. Finally, Cristovam Buarque, the former Education Minister and former PT member, is running on a platform based almost entirely on the need to undertake major educational reforms. Buarque, of the *Partido Democrático Trabalhista* (PDT), proposes centralising primary education, which is now in the hands of the states and municipalities.

#### *The Challenge of Governability*

The Brazilian political system is commonly considered a 'coalition presidential system'. Its distinguishing feature is the difficulty of forming majorities in the Chamber of Deputies and the federal Senate. To receive sufficient support to pass its projects and reforms, the executive needs to negotiate with a great number of parties of different stripes, representing diverse interest groups whether corporate or regional in nature. Such negotiations often take on personal overtones and involve offering jobs, transferring federal resources to the electoral bastions of local leaders and financing political campaigns with secret funds, the so-called *caixa dois*. This kind of political engineering comes at a high cost and puts governability at great risk. This was clear in the episode involving the constitutional amendment that allowed Cardoso to be re-elected and, more recently, during the serious political crisis affecting the country. The inability of Lula and the PT to form a programme-based governing coalition, combined with the need to form alliances with politicians of

questionable reliability, was what engendered the main corruption scandals: the alleged buying of votes in Congress in exchange for money, and the illegal commissions charged by certain political allies who had been placed in government companies as part of agreements to form a government (for a more detailed report on these issues, see Bruno Ayllón, 'La crisis política en Brasil: la esperanza se transformó en decepción', ARI 112/2005, <http://www.realinstitutoelcano.org/analisis/804.asp>).

Achieving governability based on a cohesive coalition is the great challenge facing Brazilian governments and the absence of such coalitions is a permanent threat to the country's political system. Cardoso managed to firmly bring together the PSDB, PFL and PMDB (*Partido do Movimento Democrático Brasileiro*) in his first term (1995-98), but had much more difficulty in his second term (1999-02). In 2003, Lula had the support of the Communist Party of Brazil (PCdoB) and the Brazilian Socialist Party (PSB) from the start. Once elected president, he broadened his coalition to include small parties such as the *Partido Trabalhista Brasileiro* (PTB), the *Partido Liberal* (PL) and the *Partido Progressista* (PP).

The executive's parliamentary base remained relatively cohesive until 2005, when the news broke that corruption charges had been laid against PTB deputy Roberto Jefferson. Deputies of practically all the parties in the alliance were involved in various corruption scandals investigated by parliamentary commissions, affairs that monopolised the attention of Congress. Unable to govern, Lula made a strategic move with a double objective: to attract the sectors of the PMDB (the party with the largest representation in Congress) that most favoured an alliance with the government, offering a few ministries in exchange –thereby also focusing attention on that party's internal divisions and the implosion of its candidacy for the presidency– and to reconstruct his political backing in order to contain the opposition's thrusts in the investigation of the charges. Lula's tactics were successful. In late 2005, the executive managed to choose allies to preside the Chamber of Deputies and the Senate, and reorganised its political support base. It was able to start 2006 with a Congress that, while still somewhat unpredictable, is no longer entirely hostile.

The bad experience of depending exclusively on small parties and the whims of their leaders could incline Lula to negotiate with a big party if he wins a second term. That party would be the PMDB, in particular its pro-government sector, led by the current President of the Senate, Renan Calheiros, and former President of the Republic, José Sarney. Calheiros, a skilled and rising politician, was a key figure in minimising the negative effects of Lula's political crisis. He also helped neutralise a move for the PMDB to run its own candidate. In any case, everything will depend on the results of the parliamentary elections. This time around there is a 'barrier clause' that will disallow parliamentary representation to parties that do not win at least 5% of votes (of which 2% must be obtained in at least nine states) in the Chamber of Deputies.

This new regulations mean it is reasonable to imagine that the 17 parties now represented will be reduced to half that number. On the left, some parties run the risk of being absorbed by the PSB and by the PT. The Socialist People's Party (PPS), a break-away from the old Communist Party, is already on its way to integrating with the PSDB. On the right, there could be a flight of PL, PP and PTB members to the PMDB, which would tend to make it even more of a political 'hodgepodge', as well as an indicator of the direction of Brazilian politics.

Although there are no polls on voter intention for the Congress and Senate, some estimates suggest that the PT will lose 20% of its seats, dropping from 91 members in 2002 to about 70 in 2006. The PSDB and PFL opposition parties could see between 120 and 130 deputies elected, while the PMDB could win between 90 and 100 seats. The PDT and the PSB will likely win about 30 seats each. This would result in a split Congress in which no one party would have the majority. As for the Senate, everything suggests that the opposition will gain ground, although the PT –allied with the PMDB– may be able to take control of it.

The question is what price Lula is willing to pay in exchange for the support of the PMDB. There is

speculation on an agreement that would give the PMDB the presidencies of the Chamber of Deputies and the Senate, a significant number of ministries –between four and six– and a large percentage of posts in administrative bodies and public companies. The possible fragmentation of the PT, the risk of failed political coordination and the fear of over-dependence on the PMDB –a party whose internal disputes make it unpredictable, not to mention its voracious appetite for government posts and ministries– could be behind certain recent proposals, such as the grand national political coalition suggested by Lula at a recent meeting of the Economic and Social Development Council. This coalition agreement, not actually formalised, suggests some kind of understanding with the most development-oriented and least radical sectors of the opposition, especially José Serra and Aécio Neves, who will also run in the 2010 presidential elections. The terms of this agreement would focus on achieving ‘mature governability’, which would include attempting to re-elect the president, governors and mayors to five-year terms, and taking steps to ensure party loyalty and the public financing of campaigns. Reform of the social security system, the public administration and labour and trade union legislation, as well as extensive tax reform to unify the dozens of taxes levied in the country, are also among the priorities of this agreement, which has been promoted by Tarso Genro, the current Minister of Institutional Relations.

There is another key factor adding to the complications inherent in negotiating, managing and maintaining a support base for four years: the weight that individual states and their governors carry in national politics. If the 2002 elections were not good for the PT at the regional level –since they were able to form a government in only three states with little political or economic importance– neither is the outlook for 2006 great for Lula’s party. Once again, the key will be the PMDB, which the polls say will have excellent results in the southern states, an easy win in Rio Janeiro and victories in other less important states. São Paulo and Minas Gerais will most likely go to the opposition social democrats. The PFL, the opposition party most clearly to the right, will be the biggest force in some north-eastern states, especially Bahia, and the northern Amazon states. Given this situation, the challenge facing the next president will be to implement a policy that can reduce the tensions caused by the tax war among the states and between the states and the federal government. This will determine not only the possibility of peaceful coexistence among institutions, but also of a tax reform project that will have to include the unification of several taxes and tax collection mechanisms, as well as ways of redistributing the funds later on.

**Conclusions:** Less than 30 days from the elections, all polls carried out in Brazil suggest that about 50% of voters intend to cast their ballot for the incumbent President, while his closest rival, Geraldo Alckmin, will receive at most 28% of the vote. Leftist candidate Heloísa Helena will likely receive about 10%. This would make Lula the winner in on 1 October, with no need for a second round. For the moment, the campaign has been characterised by the lack of passion shown by the candidates and a certain apathy among voters. The crisis that began in 2005 brought with it an avalanche of political information quite unusual in Brazil. Analysts say this may have saturated the great majority of voters who, far from being scandalised by the reports of corruption, have accepted it as something inherent to the system. Neither could the opposition prove that Lula was directly involved in any of the reported wrongdoing. The President enjoys great popularity, similar to levels at the start of his term.

The reasons for Lula’s probable victory, apart from his apparent invulnerability to scandal, have to do with his charisma and his ability to communicate with the people, especially with the poorest classes. It is also a result of the daily benefits that this segment of the population are receiving: the basic shopping basket is cheaper today than four years ago, prices are under control, the minimum wage has risen considerably, lending is expanding and social programmes now cover more than 40 million Brazilians. The middle class –initially the most resistant to what Lula and, above all, the red star of the PT represent to them– have also seen the benefits of controlled inflation, expanded credit and a stronger real, which has increased middle class purchasing power. Major banks and big companies in the export sector have obtained extraordinary returns in these four years. Although the shareholders of these companies and financial institutions do not and never will vote for Lula, neither

do they have any reason to complain.

Meanwhile, Geraldo Alckmin is approaching the Brazilian electorate from his platform as governor of São Paulo. His first challenge was to make himself known nationally, especially in the north-east, where his São Paulo origins could be a handicap, and where seven out of 10 citizens are ready to vote for Lula (who lives in São Paulo but was born in Pernambuco). However, after weeks of media attention, Alckmin's popularity rating continues flat; and worse still for his aspirations, the number of people who would not vote for him under any circumstances has grown. His proposals remain unknown and he is considered significantly lacking in charisma. The choice of Alckmin as PSDB candidate instead of José Serra—who at the time (early 2006) was actually ahead of Lula in the polls—was a process carried out by top party leaders without grassroots support, as a nod to the party's most conservative sectors and its main ally, the PFL. The resulting shift of the PSDB to the right has alienated the middle class.

Given a more than likely second term for Lula, what is now being debated in Brazil is the outlook for 2010. The incumbent president will not run again but will support the candidacy of someone close to him to continue his work. For now, the front runners appear to be the former mayor of São Paulo, Marta Suplicy, the head of the Chief-of-staff's office (*Casa Civil*), Dilma Roussef, Senator Aloizio Mercadante, the Minister of Institutional Relations, Tarso Genro, and the former Minister of National Integration and candidate in 2002, Ciro Gomes.

If Alckmin is finally defeated, this would also pave the way for the likely governor of São Paulo, José Serra, and the governor of Minas Gerais, Aécio Neves. Both could win in the first round, which would strengthen them both politically and lead them toward an inevitable conflict of ambitions within the party. Without doubt, the discussions on who will succeed Lula in 2010 will be a major issue in his second term. Beyond this particular debate, the background to any political discussion will be the challenges of achieving sustainable development in the country, redistributing wealth and working for the social inclusion of millions of citizens.

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