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Hopes Dashed? Lula’s Brazil

JEFFREY CASON

Latin American voters have increasingly turned to the left in recent years, and the leaders whom they have elected have given their countries high hopes of change. Past political patterns and the constraints of government debt have made real change difficult, however. International financial markets are particularly unforgiving when it comes to what they perceive as “bad behavior” in developing countries. And Brazil is no exception in these respects. As a result, when Workers’ Party (PT) candidate Luiz Inácio Lula da Silva was elected president in 2002, in his fourth try for the presidency, there was bound to be some disappointment when he proved unable to live up to his promises.

Yet no one expected things would go as badly as they have near the end of his term in office. A corruption scandal and lackluster economic performance have put Lula’s hopes for reelection later this year in doubt. Most of the major challenges that faced Brazil when Lula was elected—slow economic growth, massive inequality, a set of political institutions that makes coherent policy making difficult—remain today. Lula likely will run on a reelection platform promising to tackle these issues, but the record of the past several years does not suggest that important new initiatives are on the horizon.

DREAMS AND DISAPPOINTMENTS

Although some in the business and international financial communities feared that a Lula government would significantly alter economic and social policy on coming to power, economic policy has remained relatively orthodox. Foreign policy has become somewhat more assertive, especially in reaching out to other developing countries, though it builds on a long history of relatively independent conduct of foreign relations. Also, like previous governments, President Lula’s Workers’ Party has found itself enveloped

in a corruption scandal. In the end, politics is not all that different now from what it was before Lula and the Workers’ Party came to power.

This was not what PT supporters had expected before Lula was elected. If nothing else, the PT was known as an “ethical” political party, and it was the only party that could claim that label. Some corruption issues had surfaced before 2005, but the scandal that broke in May 2005 was over the top. Combined with a lack of progress on social issues, the corruption scandal led to a significant political crisis for the Lula government, which had seen itself as both progressive and honest. If it could not manage to accomplish much in either the progressive or the honesty department, a number of people began to question why they had voted for the PT in the first place. Although many Latin American countries have been subjected to a kind of bait-and-switch in recent years when it comes to progressive politics, few expected Lula to be among the offenders.

At the same time, until 2005 Lula had managed to be Brazil’s version of a “Teflon” president—nothing bad seemed to stick to him. Although many PT goals remained unfulfilled, Lula retained personal popularity, consistently scoring high personal approval ratings in opinion surveys even as his government’s ratings continued to decline from the beginning of his presidency. A large portion of the population maintained faith that Lula was ethical and “one of them”—that he was a different kind of politician. His background as a metallurgical worker and union leader certainly played a role in this perception, and his charismatic common touch paid great dividends politically.

Lula remained popular even as the PT reversed some of its historical positions and supported many of the reforms initiated by the previous government of Fernando Henrique Cardoso of the Brazilian Social Democratic Party (PSDB). For example, the PT had strongly and consistently opposed any restructuring of the state pension system when the Cardoso gov-

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ernment proposed it. But once in power, it too backed reform that reduced and limited pension benefits, even though this prompted criticism from many constituents. Some PT members were expelled from the party when they did not vote in Congress with the PT leadership on this reform. And this was not an isolated case; the PT moved to the center on a host of issues, including relations with international financial institutions, minimum wage policy, and education reform. Indeed, this process had begun with the 2002 presidential campaign, when the PT signaled clearly that it would govern from the center. Among longtime PT supporters there was considerable disappointment with the government's direction. But it was nothing compared to the disappointment that grew as the corruption scandal of 2005 unfolded.

ET TU, PT?

The Lula government had been bitten by some small-scale scandals over the course of its early years in power, but nothing prepared the country for what would begin unraveling in May 2005. What has since become known as the *mensalão* scandal—referring to the payment of monthly bribes to members of Congress in exchange for their support of the government—first emerged when a director of the state postal system was caught on videotape accepting a kickback from some businessmen who had a procurement contract with the postal service. On the videotape, the director discussed his connections to Roberto Jefferson, who at the time was president of the Brazilian Labor Party (PTB). The videotape proved to be just the tip of the iceberg. In subsequent months Jefferson, after his initial denials of involvement in the corruption proved ineffectual, angrily denounced the Lula government in a series of blockbuster interviews with the media and in testimony before congressional committees.

Jefferson claimed there was widespread vote-buying, that dozens of representatives were paid both to switch parties (to parties allied with the PT) and to vote for important pieces of legislation. Jefferson said this scheme was run by José Dirceu, who was Lula's chief of staff and de facto prime minister. The PT, in turn, claimed that there were no *mensalão* payments at all, but admitted there had been some "hidden" accounting when it came to running election campaigns. Both Jefferson and Dirceu were expelled from Congress, and they had their right to run for political office stripped for eight years.

The *mensalão* scandal cast a harsh light on some of the most problematic features of the Brazilian political and party system. As has been the case for

the entire postauthoritarian period, the party with the president in power did not have a majority in either house of Congress. This required the formation of a coalition government in the context of a highly fragmented party structure. In addition to a multiplicity of parties, very few parties have strong ideological or programmatic positions. Governing coalitions are thus frequently brought together on the basis of an exchange of favors—often cabinet positions and the concomitant patronage power that these imply. There were certainly rumors of deputies having been "bought" before, but no proof was offered. This time, however, there was a lot more smoke, and an assumption of fire.

Another problem laid bare by the scandal is the common use by political parties of an off-the-books accounting system—referred to as the *caixa dois*, or second cash till—to finance campaigns and other political activities. It is widely assumed that most political parties engage in this accounting practice to evade campaign finance laws. But the PT was supposed to be different. It advertised itself as the one "ethical" party, promising to clean up politics. Even PT opponents recognized this as one of the party's strengths.

Thus it was a sad moment for the PT and its supporters when Lula, on a state visit to France last July, said that the PT—in resorting to the *caixa dois*—was simply doing what other parties in Brazil had been doing for years. On the day that Delúbio Soares, the PT treasurer, admitted to having used a *caixa dois* to finance the 2002 presidential campaign, Lula said, in an interview on French television, that "What the PT did electorally is what is done in Brazil on a regular basis. I think that [those responsible for the illegal use of campaign funds] weren't thinking about what they were doing, since the PT makes ethics one of its main pillars." No one, of course, believed that those running the *caixa dois* did not know what they were doing. And the fact that Lula excused what the PT had previously condemned in no uncertain terms was a low point in the party's management of the scandal.

The media have helped the scandal take on a life of its own. In particular, *Veja*, the country's largest-circulation newsweekly, hyped the scandal from the beginning, and helped contribute to a sense of crisis in the country. *Veja's* strident tone and ominous pronouncements have been quite clearly aimed at undermining Lula's chances for reelection; the general approach is one of attacking the PT and Lula in a continuous assault, increasing the likelihood that a larger part of the electorate will be unwilling to trust

the PT in the next election. From all appearances, this tactic has been successful; the PT likely will do much worse in congressional elections scheduled to occur at the same time as the presidential election in October 2006. In fact, the PT's popular support has declined significantly. The party almost certainly will end up with less support in the 2006 elections than in either of the past two election cycles, and this is mostly attributable to the *mensalão* scandal.

MORE OF THE SAME

The scandal aside, there is governing to be done. Yet the domestic policy sphere has seen relatively few new initiatives in recent years. The Lula government began with a big bang, particularly with regard to the *Fome Zero* (Zero Hunger) campaign. This initiative, which provides financial resources directly to the poorest of the poor, has had some limited success. The Lula government also has won praise for its *Bolsa Família* (Family Purse) program. Operating under the auspices of *Fome Zero*, it provides stipends to families in exchange for assurances that children will stay in school, among other stipulations. These social programs have received considerable press attention and significant funding increases under the Lula government. But a tight fiscal environment has constrained the government and its ability to innovate in social policy.

Innovations in general have not been a part of the Brazilian political scene recently. Indeed, the most important achievements that the Lula government has pointed to over the past year have resulted from maintaining an orthodox economic policy and eschewing increased state intervention in markets. This has struck a sour note with many PT supporters, who expected a more aggressive approach to dealing with poverty and inequality.

That said, there is some recognition that policy orthodoxy has brought significant benefits, including a low and declining inflation rate. Inflation measured less than 6 percent in 2005—the lowest yearly rate so far during Lula's administration and one of the lowest since the mid-1990s. Brazil's stock market has also been on an upward trajectory for several years, and its international risk rating had declined to the country's lowest level ever by the end of 2005. The Brazilian currency (the real) rose substantially during 2005, reflecting foreign investors' increased willingness to move resources into Brazil and an impressive export performance. In 2005, Brazil exported \$45 billion more in goods and services than it imported; it has never had a trade surplus so large.

These positive economic indicators have not translated into political or economic euphoria. On

the contrary, there is increasing impatience in Brazil with its lack of rapid growth. Many large emerging economies are growing rapidly, and these countries are Brazil's main comparison group. In 2005, while China and India were growing in the 7 to 9 percent range, Brazil's economy grew by less than 3 percent. This performance disappoints longstanding hopes that Brazil can return to the rapid growth rates it experienced between the 1950s and 1970s; indeed, the Lula government pushed the idea of Brazil fulfilling its potential by growing much more rapidly.

Lula, however, has been highly constrained by international financial markets and multilateral financial institutions, even though the country's balance-of-payments position in 2005 gave it greater flexibility. The Brazilian Central Bank has also maintained an extraordinarily tight monetary policy in recent years. During 2005, real interest rates were in double digits (averaging more than 12 percent), and were the highest in the world. Tight monetary policy has kept inflation in check, but it has also done the same to growth.

In many ways, the high interest rates are one of the most salient topics in the current Brazilian political economy. The cost of capital is clearly inhibiting economic growth. Industrialist organizations are complaining bitterly. In addition, the Lula government has done very little to promote a more aggressive industrial policy that might shape economic development.

INNOVATIONS ABROAD

Given the limitations in domestic policy, it is not surprising that foreign policy has been a focus of the Lula government. Innovations in domestic policy are costly, and Brazil is struggling to contain government spending to please international financial markets and to keep inflation in check. Innovation in foreign policy, however, costs very little. Building on a longstanding Brazilian tradition of an independent, nonaligned foreign policy, the Lula government has aggressively pursued a "third worldist" agenda, and has managed to make an impact in the broader world that is commensurate with Brazil's self-image as an emerging power.

One way in which the country has played an increasingly assertive role on the world stage is through international organizations—particularly the World Trade Organization. In April 2004, a WTO panel supported Brazil's case against US cotton subsidies, and it was subsequently reaffirmed. As this case has played itself out, Brazil has assumed an increasingly assertive role as a defender of developing nations that are negatively affected by huge subsidies

in more developed countries. It has used this new assertiveness to cultivate allies among other developing nations, and has emerged as a leader of the Group of 20 (G-20) that formed after the failure of the WTO's ministerial meetings in Cancún in 2003. The Brazilians view the G-20 as a vehicle for applying developing world pressure on the wealthier nations that have, to date, achieved most of the gains from global trade liberalization. They have also used this leadership role to garner support for their bid to secure a permanent seat on the UN Security Council.

Lula's government has promoted a "big emerging markets" alliance to balance the economic weight of more developed countries. Brazil sees itself as a natural partner of India, China, Russia, and South Africa, and has pushed the idea that these countries have numerous common interests around which they should unite in negotiations with developed countries, particularly in such venues as the WTO. Brazil, which is competitive internationally in the agricultural sector, has taken the leading role in pushing the United States and the European Union to reduce agricultural subsidies. It has had some success in putting these agricultural issues on the front burner, though it failed in its attempt at the WTO ministerial conference in December 2005 to persuade the developed countries to commit to eliminating agricultural subsidies by 2010. Instead, because of EU resistance to an earlier date, agreement was reached on a 2013 deadline.

Brazil also views itself as a leader of Latin America. It has cast itself in this role since the start of the 1990s, when it began an economic integration project with its neighbors under the auspices of the Southern Common Market (Mercosul). Brazil has viewed its leadership of this organization as a way of balancing the power of the United States in the Western Hemisphere, and in particular when it comes to negotiations to establish a Free Trade Area of the Americas (FTAA). For example, when the Summit of the Americas convened in Mar del Plata, Argentina, in November 2005, the Mercosul nations (as well as Venezuela) opposed US plans to set a concrete date in 2006 for restarting the stalled FTAA talks. Brazil has consistently been skeptical of US trade designs in the region, and because of Brazil's opposition, hopes for a robust FTAA are not likely to be realized.

Even so, Brazil is not simply opposed to all US initiatives in the hemisphere, and the United States has cultivated Brazil as an ally in South America.

This is especially important from Washington's point of view, as more of Latin America votes in a leftist direction and the ranks of America's friends in the region are thinning. Given President George Bush's unpopularity in Latin America (for a variety of sins, including the Iraq War, US unilateralism, and a perception that Washington is ignoring the region), the relatively positive relationship between Bush and Lula is something that both sides have cultivated. The United States has been happy to see Brazil take a leading role with peacekeeping troops in Haiti, and hopes that Brazil can serve as a buffer when it comes to the troubled US relationship with Venezuela. Lula has wanted to be seen as "serious," as the leader in Latin America that Bush can turn to. At the same time, Brazil does not want to be seen as doing US bidding in the hemisphere, so it keeps a studied distance from the United States.

It is telling that the one area where Lula's government has shown aggressive leadership is in foreign policy. Lula has been on the road constantly, and wants to be viewed as a true leader of the developing world. In this sense, Brazil's "progressive" approach to the rest of the world is rem-

iniscent of Mexico's conservative economic policy at home and progressive policy abroad during the reign of the Institutional Revolutionary Party; it is a relatively inexpensive way to shore up domestic support, even when news on the home front is not encouraging. A leadership role in the developing world plays well at home, and Lula has used every opportunity to work the world stage.

THE CAMPAIGN AHEAD

Lula's reelection is in doubt nonetheless. Before 2005, most Brazilians assumed that Lula would coast to a reelection victory since it would be extremely difficult to defeat him. Those predictions came before the *mensalão* scandal broke, however, and Lula saw a more or less continuous decline in his popularity over the course of 2005. Lula's approval rating in public surveys dropped in 2005 from 58 percent in March to 42 percent in December. Given such a precipitous decline, opinion polls by the end of 2005 had Lula losing the presidential election in 2006 to the most prominent candidate from the opposition, José Serra of the PSDB, who lost to Lula in the 2002 election.

Most significantly for the race, polls indicate a serious case of buyer's remorse among Lula voters: in

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a December survey, only 54 percent of those who voted for Lula in 2002 said they would vote for him again, whereas 32 percent of these voters said they would vote for Serra. Although Lula won by a large margin in 2002 (with over 61 percent of the votes cast in a second-round runoff), the polls suggest Serra today enjoys a sizeable advantage over Lula.

The presidential race will not necessarily devolve into a contest between Lula and Serra, although that is the most likely scenario. Lula may not seek reelection, and Serra may not win the PSDB presidential nomination. But there are no other obvious presidential candidates in the PT, with the possible exception of Finance Minister Antônio Palocci. Palocci, however, has himself been tainted with corruption allegations. In the opposition, things may get more interesting. Serra will face a strong challenge from São Paulo's governor, Geraldo Alckmin, who is a favorite of business interests and does not have negative ratings as high as Serra's, in part because he is less well known by the national electorate. In this sense, Alckmin has more room to grow in popularity, and the PSDB may decide to push his candidacy.

There is also a chance that a more traditional populist will strike a chord with the electorate, given the corruption scandal and the country's anemic economic growth. The candidate most likely to raise the populist flag is Anthony Garotinho, the former governor of Rio de Janeiro state and a member of the Party of the Brazilian Democratic Movement (PMDB). Garotinho ran in 2002 and received almost 18 percent of the vote in the first round of the presidential election, and he is laying the groundwork for a run in 2006, even though many of his colleagues in the PMDB would prefer that he not run. Garotinho is the candidate most likely to cause fear in financial markets if his candidacy were to catch fire since he is a charismatic populist whose policies would be somewhat unpredictable.

Finally, because Lula has more or less abandoned the left, there is now a "new left" that will play a role in the presidential race: Heloisa Helena, of the Party of Socialism and Liberty, will be the standard bearer for the left in the upcoming election. She was expelled from the PT when she refused to vote with the party when it pushed social security reform, and now she is one of the government's most strident critics.

Ultimately, the upcoming presidential election is likely to show a more simplified and "normal" Brazil. There is clearly a government and an opposition, which is represented by an alliance between the PSDB and the Liberal Front Party (PFL). A sur-

prise candidate could conceivably come to play an important role in the election campaign, but most political analysts expect the contest to be between the PT and the opposition PSDB-PFL alliance.

This normalization of politics is related to the fact that everyone has been given a chance to govern, as it were, since the return to democracy in the mid-1980s. More conservative forces had their chance in the administrations of Presidents José Sarney (1985–1990) and Fernando Collor de Mello (1990–1992); the center governed with the PSDB in power during Cardoso's two terms in office (1995–2002); and the left has had its chance with the Lula government. Although these governments have come from various points on the ideological spectrum, in governing they have not behaved all that differently, and none has been "adventurous." And since there is no longer concern about what the PT might do if it were to win, there is less likelihood that a candidate might appear out of nowhere late in the election campaign.

A REFERENDUM ON LULA

Because all the major players are known quantities, the campaign likely will be a referendum on the Lula government, as opposed to a contest featuring new proposals and positions. Clearly, the weak point of the PT government is the corruption scandal, and the opposition will attempt to keep it in the news. The PT will say that it needs more time to implement its ambitious social agenda. Its leaders will argue that they have been good stewards of the economy, which they will claim is poised for much higher growth rates. This will involve an explicit comparison to the prior PSDB government, which also featured relatively low growth rates. In this regard, the PT will be hoping for a strong pickup in economic growth during 2006; the government is already doing what it can to prime the pump during the election year.

As Brazil heads into the campaign season, the stage seems set for a different kind of presidential election—by Brazil's standards—with a relatively clearly defined government and opposition. Brazil is nowhere near a two-party system, of course, but it has evolved toward a somewhat more stable multiparty system. The recent corruption scandal has altered the calculations of most observers, who had expected Lula to coast to reelection. In any event, the campaign will be a struggle over economic management and corruption—not big, ambitious ideas. In this sense, Brazil is becoming quite normal indeed. ■