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SEPTEMBER 27, 2006

INTERNATIONAL

Brazil Stands Poised to Reelect Lula

The President is riding high on cuts he made in poverty and inflation, but corruption issues and weak growth could sabotage his second term

Despite corruption scandals that have plagued his government and campaign, President Luiz Inácio Lula da Silva, 60, looks set to cruise to reelection victory when Brazilian voters head to the polls on Oct. 1. Most pundits say the only question is whether he wins in the first round with more than 50% of the vote—or has to face off with his leading challenger, Geraldo Alckmin, the centrist former governor of Sao Paulo, in a second round on Oct. 29.

With less than a week to go until votes are cast, the President—known simply as Lula—is leading Alckmin by up to 25 points in public opinion polls. "What this election tells us is that people think the government is on the right track even though there are still lots of problems," says Carlos Ranulfo de Melo, a political scientist at Minas Gerais Federal University in Brazil. "People are not enthusiastic about their decision [to back Lula] but no one wants to risk changing the government while it is doing OK."

Lula's lead can be attributed to his well-honed political skills and his ability to appeal to both the very rich and the very poor. When the leftist former labor leader took office in 2002, after four attempts at the presidency, investors feared he would open up the spending taps and destroy the economy.

LULA'S TRIUMPH. It didn't happen. Instead, Lula adopted many of the shrewd and successful economic policies of his neoliberal predecessor, Fernando Henrique Cardoso. He balanced the books, targeted inflation, maintained a fiscal surplus, and refused to tamper with the floating exchange rate of the Brazilian currency, the real.

As a result, inflation fell from 12.5% in 2002 to about 4% now. Exports of iron ore, steel, and other goods have soared—particularly to China—and the steady rise in global commodity prices has helped push the country's trade surplus to an impressive \$45 billion. Meanwhile, the real is strong and interest rates, while still high at 14.25%, are down from 25% when Lula took office. The Bovespa stock index has risen 310% over the same period.

While pleasing investors with orthodox economic policies, Lula has also courted the poor. A former shoeshine boy who quit school to work in a factory, he vowed when he became President to ensure "that every Brazilian has the opportunity to eat breakfast, lunch, and dinner."

He has done so thanks to a wide-ranging social program called Bolsa Familia (Family Fund), which among other things pays Brazilian mothers subsidies to keep their children in school. Mothers whose children attend 85% of their classes and have all required vaccinations receive between \$6 and \$60 a month, depending on the family's income and the number of children.

PLUNGE IN POVERTY. Overall, 11.1 million families, or around 45 million people, now get direct assistance through Bolsa Familia. That, along with a 24% rise in the minimum wage after inflation over the last two years, has helped to produce the biggest reduction in Brazil's rich-poor divide since 1970, says Marcelo Neri, director of the Center for Social Policies at the Fundação Getulio Vargas, a business school in Rio de Janeiro and author of a recent report on poverty. "Poverty has fallen by 19% since 2001," says Neri. "That is a historic change. The decade that began in 2001 will be marked by the reduction of inequality."

But Brazil still faces numerous economic problems. One of the biggest is sluggish growth. Gross domestic product rose an average of 2.6% per annum during Lula's first three years and most economists are forecasting around 3% growth for 2006. That's a fraction of the growth of emerging-market rivals like China and India and less than many of its neighbors.

"Average growth was very poor, worse than the other nine biggest markets in Latin America," says Ricardo Amorim, the head of Latin American Research & Strategy at New York-based WestLB bank. "The big problem is that I don't see that changing."

DIFFICULT AGENDA. High interest rates remain a drag on investment, reform of Brazil's burdensome tax system is needed, and Lula will have to rein in some of his big spending programs to keep the country's public finances on an even keel. "The government needs to spend less and tax less," says Marcelo Salomon, chief economist at Unibanco ([UBB](#)) in Sao Paulo. Business also wants Lula to invest in infrastructure and boost the efficiency of the public sector.

On the campaign trail, Lula says he would enact a host of measures in his second term—including tax and labor reforms he failed to push through in his first four years. But that will be difficult. His Workers' Party lacked a majority in Brazil's House and Senate during his first term, and voters may punish the party this time around because of corruption scandals. (Besides the presidential election, voters will also be choosing governors and members of the state and federal legislatures on Oct. 1 and Oct. 29.)

"The positive side is that everyone knows [what has] to be done. The negative side is that to do it the government needs to negotiate politically, and that isn't always easy in our system," says Hélio Magalhães, chairman of the board at the American Chamber of Commerce in Brazil.

Lula's critics say his reform agenda will suffer because he lacks the patience to build long-lasting coalitions needed to win approval of controversial measures. "Lula will struggle to push through the big reforms on his agenda—labor, tax, social security—because his government will be weak and unstable," predicts João Augusto de Castro Neves, a political scientist at the Brazilian Institute of Political Studies.

ISSUES OF CORRUPTION. Another reason for pessimism is corruption. Last year, the Workers' Party president, secretary-general, and

treasurer resigned from office following allegations that the Lula administration paid opposition deputies to vote with it in parliament. In June, government allies were named in another scandal involving allegedly inflated contracts for the the sale of ambulances to local authorities.

A congressional investigation in both cases is underway. More recently, on Sept. 20, Lula's campaign manager resigned after aides were implicated in the production of a dossier drawn up apparently to smear the Workers' Party's rivals. Brazil's electoral authorities are investigating. The campaign manager and aides have denied wrongdoing.

Lula has not been personally implicated in any of the scandals, and he has always denied knowing what was going on in the offices around him. But many opponents say they plan to pursue congressional inquiries into the cases and perhaps even push for impeachment.

"As soon as they are installed, some members of the [opposition] are going to try and open impeachment proceedings and [inquiries]," says David Fleischer, a professor of politics at the University of Brasilia and author of a weekly political report. "I don't think it will work but it will erode Lula's prestige and image and wear the government down."

By Andrew Downie
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