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In Free-Market Slump, Brazil's Voters Look for Change

By LARRY ROHTER

In each of Brazil's last two presidential elections, Ana Paula Borges voted for the government's candidate, swayed by promises of growth and stability. But after an eight-year experiment with free-market capitalism, the Brazilian economy has stalled, unemployment is climbing, the value of the national currency is sliding, and she is fed up.

As a schoolteacher, mother of two and wife of a rancher, Mrs. Borges, 32, is the kind of middle-of-the-road voter whose support José Serra, candidate of the ruling coalition, must have if he is to win. But on Sunday, she said, she intends to cast her ballot for Luiz Inácio Lula da Silva of the left-wing Workers' Party.

"Enough is enough," she said as she waited to have her hair done at a salon in this tidy city of one million deep in Brazil's vast heartland. "Serra has the same vision as the crew running things now. We need a change, not four more years of the same thing, and Lula is the only one who can deliver that."

In fact, Mr. da Silva, a 56-year-old labor leader, has modified his Socialist rhetoric for this election. Largely because he casts the last decade of market reform into question, however, and because he is now the front-runner, the vote on Sunday is regarded as a bellwether, and not just for Brazil's 175 million people.

All over Latin America, candidates critical of the Washington Consensus, the name often used to describe the American-backed free-market model common in the region since the 1990's, are watching from the wings as governments committed to such reforms flounder. That sentiment has been fed by the collapse of the Argentine economy and by similar crises in countries ranging from Uruguay to Venezuela.

"There is a deeply sour mood and sensibility in the region right now, a real unhappiness about international financial institutions and the United States, and a Lula victory would both epitomize and encourage that," said Michael Shifter, vice president of Inter-American Dialogue, a Washington-based policy group. "It would give people a sense that there are different ways of doing politics and economic policies."

Mr. da Silva has never won more than a quarter of the first-round vote in three previous tries for the presidency of Latin America's largest country. But final opinion polls show him with 48 percent of the vote, just short of the majority he needs if he is to avoid a runoff on Oct. 27, most likely with Mr. Serra.

Mr. da Silva's surge from also-ran to odds-on favorite appears to be the result of a delicate and canny balancing act. His Socialist credentials enable him to capitalize on widespread resentment of the sacrifice and lack of economic growth that have accompanied the free-market reforms so warmly encouraged by the United States. But he has also moved to calm longstanding fears that he is too radical by nudging his party's program toward the center.

"This year's Lula has rejected the leftism that was totally impregnated in the Workers Party's earlier platforms in favor of a program that is not that different from Serra's," said Edmar Bacha, a leading economic consultant. Instead of talking about "a rupture or a new model," Mr. Bacha said, he has changed his terminology and has become palatable to the more conservative voter.

Brazilians have ample reason to be distressed with the market model. Between 1900 and 1980, the Brazilian economy expanded by 6 percent a year, regardless of whether the government was civilian or military, leftist or right-wing, or whether inflation was high or low.

Growth flagged in the 1980's, however, so when Fernando Henrique Cardoso ran for president in 1994 and argued that opening up Brazil's closed economy would bring investment and progress, Brazilians handed him a first round victory. The promise seemed credible because Mr. Cardoso was the author of the Real Plan, which had reduced Brazil's annual inflation rate from four digits to one. During his first term, the percentage of Brazilians living in poverty dropped from more than one-third to about one-quarter, infant mortality rates declined sharply, and school enrollments zoomed.

Amado Soares is a 35-year-old parking lot attendant who, like Mr. da Silva, was born in Pernambuco State, in the northeast, and migrated southward as a child. Mr. Soares was one of the millions of working class Brazilians who benefited from that new-found stability: he bought a television set and refrigerator, and after a decade paying rent, was even able to make a down payment on a small plot of land on which he built a house.

"I thought we really were entering a new era and I feared that if Lula were ever elected, we would surely go back to the days of high

inflation," Mr. Soares said.

In the last four years, though, crises in East Asia, Russia and neighboring Argentina have eroded the value of the currency, the real, and led to a sharp drop in foreign investment, forcing the government to seek help from the International Monetary Fund and other lenders, who have demanded austerity.

"This is the first time in Brazilian history that a government has spent an entire term under an I.M.F. program," noted Gustavo Franco, a former Central Bank president who now writes a column on the economy and is an investment adviser. The reaction of the man on the street, he added, is that "we did everything right, and the compensation from the outside world is a crisis."

Particularly outraged are the millions of civil servants, most of whom have not received a raise in eight years. They now form a pillar of support for Mr. da Silva, who has promised to ease their plight.

A recent study published by the Brazilian Economic Institute of the Getúlio Vargas Foundation, the country's principal research institution, shows most other urban residents have also been hurt, with incomes plunging 3 percent a year in real terms since the late 1990's.

Pressed for funds for popular social programs, Mr. Cardoso's government has chosen to invest in food plans for children and in extending the social welfare system to the countryside. While that benefits long-term development, it has proven politically costly.

"Children don't vote and rural areas don't have big concentrations of voters like the cities do," said Marcelo Neri, author of the study.

Despite the discontent, a substantial constituency still favors the free-market approach. Recent polls show that about 40 percent of Brazilians believe that Mr. Cardoso is doing a good or acceptable job.

"People say the population is tired of reforms," said Bolívar Lamounier, of the Institute of Economic, Social and Political Studies in São Paulo. "Which reforms? Is there anyone who wants to go back to the days when a telephone cost \$3,000 and you had to wait two years for it to be installed?"

Apparently recognizing that, Mr. da Silva has toned down his criticisms of Brazil's \$100 billion privatization program. Instead, he has promised that "if we win, we will fight tirelessly from Day 1 to fight to increase production" to create 10 million jobs, an argument that, with unemployment having risen to 8 percent, resonates strongly with voters.

"People still want economic stability, but they also want the job situation to improve, and if they are forced to choose between one and the other, they would rather have a job with a bit of inflation because that is their more immediate need," said Márcia Cavallari, executive director of the Brazilian Institute of Public Opinion.

Mr. da Silva has also been strengthened by the weak field running against him. Mr. Serra in particular has been criticized, even by many within his own party, as a stiff figure who has alienated voters.

"What you are seeing in the vote for Lula is not so much an outright preference for him so much as a rejection of everyone else," said Albert Fishlow, director of the Brazilian Studies program at Columbia University.

In fact, Mr. Serra is the governing coalition's candidate only because the charismatic politician who was viewed as Mr. Cardoso's natural successor died of cancer two years ago, and Roseana Sarney, governor of Maranhão, was forced to withdraw because of a corruption scandal.

Hoping to make up ground, Mr. Serra this week accused Mr. da Silva and the Workers' Party of fomenting invasions of private property and political violence. The accusations do not seem to have convinced voters.

"We've got a Constitution and a Congress in this country, and I don't believe that anything is going to change in 24 hours even if Lula wanted to do something like that," said Edu Farias, a 62-year-old teacher and evangelical Protestant minister.

A generation ago, the prospect of a Socialist admirer of Fidel Castro coming to power here would have provoked American support for a military coup. But the current American ambassador here, Donna Hrinak, the daughter of a Pittsburgh steelworker, has called Mr. da Silva the personification of the American dream.

For their part, the Brazilian Armed Forces, which left power in 1985, have shown no appetite for a coup. The military has suffered along with the rest of the population, and has responded sympathetically to Mr. da Silva's nationalistic call for incentives to Brazilian industry and a more protective state role.

"Lula and the Workers' Party are shrewd, and they have gotten the message," Dr. Neri said. "They know that while Brazilians worry about inequality and unemployment, they do not want radical change. The result that we are seeing is Lula Lite."