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Brazil's Temer poised for power as Rousseff ousted in impeachment vote

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Marathon session dragged on for 20 hours

Vice-President Michel Temer is poised to take over the leadership of Latin America's largest country after Brazil's senate voted 55 to 22 to put President Dilma Rousseff on trial for violating budgetary laws.

Mr. Temer will take office with a platform intended to revive market confidence in a deeply ailing economy. He has suggested he will make deep cuts to government spending including constitutionally earmarked commitments on health and education; reform social-security benefits; alter labour legislation; and privatize infrastructure and institutions.

After an often surreal session that dragged on for 20 hours, 55 senators voted in favour of the impeachment motion, and 22 against, forcing Ms. Rousseff to step aside for up to 180 days.

Impeachment in Brazil: What just happened and what comes next[1]

Ms. Rousseff's opponents – and they are many, with nearly two-thirds of people polled in recent surveys saying she should be impeached – were revelatory, with fireworks and cheering audible in the grey light of early morning, when the vote finally came.

But many Brazilians are worried Mr. Temer will scrap the pro-poor policies of Ms. Rousseff's Workers' Party, which have dramatically reduced inequality here in the past 12 years. And they fear that probes into government corruption – which Ms. Rousseff has allowed to proceed, although many senior figures in her administration were named – will be curtailed. Several of the figures on the rumoured Temer cabinet list are under investigation in the giant Lava Jato graft investigation, as is the soon-to-be-president himself.

Mr. Temer inherits a raft of troubles: Inflation and unemployment are both above 10 per cent. Socio-economic inequality is growing, while productivity is falling, and the economy is expected to shrink by nearly 4 per cent for the second year in a row. To tackle all this, he will have to deal with a polarized Congress, where the majority of members voted for the impeachment of Ms. Rousseff but will expect hefty concessions for supporting him.

Fabio Giambiagi, an economist specializing in the public sector with the National Social and Economic Development Bank, predicted Mr. Temer will not have trouble with the legislative branch.

"We had a peculiar situation with a president who didn't like politics," he said.

Ms. Rousseff's distaste, even scorn, for the transactional relationships of Congress paralyzed her ability to govern, he said, and he believes the new president will do much better.

"If there is a guy you can associate with talking in Brazil, it's Temer: He has been a congressman for 100 years. He's a politician par excellence, and he's in the best position to conduct this [reform] process."

In fact, Mr. Temer, who is 75, and from the Brazilian Democratic Movement Party (PMDB), which has no ideological platform, served in Congress from 1987 until he became vice-president in 2010. He is a quintessential Brasilia insider, but was little known to the general public until it became clear a few months ago that he was openly strategizing to replace Ms. Rousseff.

His choice for the key post of finance minister is Henrique Meirelles, an economist and politician who served as a popular central bank president from 2003-11.

Like him, everyone else on the rumoured cabinet list is male, and white, in a country that is 53-per-cent black and mixed race. Many come from the powerful agribusiness and rural landowner bloc in Congress, and are associated with a dramatically different legislative agenda than that of Ms. Rousseff's party.

Blairo Maggi, for example, is known as the "soybean king" – he is tipped for Minister of Agriculture, and in recent weeks has been advancing a constitutional amendment that would effectively extinguish the requirement for environmental approvals on public building work.

Mr. Giambiagi, the analyst, said there may be cabinet appointees who are under investigation, but they will not be able to shut down the Lava Jato investigation, which has huge public support.

"I have faith that Temer is not going to try to stop it," he said. "But even if he wanted to it would be impossible: That genie is out of the bottle."

Mr. Temer has said he will make a priority of reforming social security: There is no minimum retirement age in Brazil, and pensions are indexed to minimum wage, which increased 77 per cent in real terms in the last 13 years, creating a massive burden for government. Next year, the government's pension deficit will be the equivalent of $63-billion.

He has also said he plans to eliminate and consolidate government ministries (which have swelled to record numbers under the Workers' Party) from 31 to somewhere between 15 and 25. He has pledged to loosen some of Brazil's famously complex labour laws, which largely favour employees, making it easier for industry to outsource. In a PMDB planning document for his administration, the party said it would seek to "privatize everything possible in the area of infrastructure."

And Mr. Temer has talked about both protecting pro-poor policy, and of the need for a huge fiscal readjustment. Some of the policies he has mentioned were already under reluctant consideration by Ms. Rousseff, but she was unable to advance a reform agenda through the Congress where she was bitterly opposed.

Marcelo Cortes Neri, chief economist with the Centre for Social Policies in Rio, said the country is in desperate need of an end to the uncertainty of the past six months, noting that shrinking incomes hit the poor hardest. But Mr. Temer's policy plans for preserving the gains on inequality are still unclear, he said.

The Bolsa Familia program, which gives a conditional cash grant to poor families and costs 0.6 per cent of gross domestic product, must stay, he said; there is ample evidence of its huge impact on improving the health and education of the poor. The policy is loathed by the Brazilian political elite, however. Mr. Temer should use other policy instruments such as cutting the benefits of public servants, and reforming the regressive taxation system, to tighten the budget, Mr. Neri said.

Armando Castelar, an economist with the Getulio Vargas Foundation, said the new government will have a rosy honeymoon with the private sector and much of the public.

"Temer will get some improvement out of fact that very basic things are going to be done, so we will stop moving backward – how much we go forward, that's the huge question."

Social-security reform won't have a short-term impact on the budget but will have a positive effect on investor views of the economy, as will changing the current constitutional clause on earmarked revenue for health and education; Mr. Temer will likely also be able to reduce interest rates, which will boost confidence and activity levels, he said.

Maria Cristina Mendonca de Barros, an economist at the MB Associates investment analysis firm in Sao Paulo, said Mr. Temer will have to face more than the macro-economic challenges.

"There will also be the demonstrations from social movements, and we will have to see how big they will be. And there is Lava Jato, which will continue to contaminate the political world."

But if he delivers real signs of change in the first two months, she said, he will likely see a significant reward.

"The task is very tough, but there is a feeling a very narrow window has been opened for positive change."

References

1. www.theglobeandmail.com/news/world/impeachment-in-brazil-what-just-happened-and-what-comes-next/article29989135