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Scandal Takes Down Brazilian Party Heads

by LADB Staff
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The prolonged scandal involving an investigation into bribery allegations against the government of Brazilian President Luiz Inacio Lula da Silva has dealt significant damage to the strength of Lula's presidency. There have been street protests against apparently rampant government corruption and a drop in Lula's opinion-poll ratings. Additionally, the heads of the Partido Liberal (PL) and the Partido da Frente Liberal (PFL), legislative allies of Lula's Partido dos Trabalhadores (PT), have been forced to resign, while preparations to elect a new head of the PT have gone through severe turbulence.

Accusations, accused, and accusers proliferate

Testimony before a parliamentary investigation commission (Comissao Parlamentar Inquerito, CPI) has forced officials and businesspeople linked to bribery schemes to name names and admit differing levels of culpability. Key in the corruption revelations this summer was the testimony of Marcos Valerio, the head of a publicity company that supposedly maintained illegal accounts for the PT's congressional bribery schemes and campaign coffers. Delubio Soares, PT treasurer, allegedly maintained the "parallel treasury" along with Valerio in the tax haven of the Bahamas. Valerio has admitted to delivering 55 million reais (almost US$24 million) to political leaders.

Roberto Jefferson, a deputy for the right-wing Partido Trabalhista Brasileiro (PTB) and the party's president until he resigned over investigations into his handling of the national postal service, leveled accusations that the PT had paid monthly bribes to deputies to win parliamentary votes (NotiSur, June 24, 2005).

The scandal regarding the "mensalaos" (monthlies), as the payments came to be known, sullied the image of the PT and led news headlines in Brazil all summer. Daily testimony from PT business associates and officials eroded the reputation of the Lula government, which had previously built an image for the PT as being above the corruption endemic to other parties.

Earlier this year, Jefferson's corruption allegations forced Jose Dirceu, Lula's chief of staff, to resign. Dirceu, who ran the PT from 1995-2002, kept his seat as a deputy and is now fighting efforts to remove him. The first lawmaker to voluntarily remove himself from power came from one of the PT's parliamentary allies, the conservative PL. Waldemaro Costa Neto stepped down as head of the PL on Aug. 1 after saying that he had negotiated a payment of US$4.2 million with PT officials during the 2002 presidential campaign, while Lula and his running-mate Jose Alencar sat in an adjacent room.
In an interview with weekly magazine Epoca, Costa Neto said that Lula was aware of payoff schemes, something Lula has denied. New revelations have emerged that the PT maintained secret accounts in the Bahamas during its 2002 campaign to win the presidency. Ex-campaign chief Duda Mendonca has said that Lula was unaware of the illicit, untaxed money used to elect him and to secure passage of legislation in Congress. He has said he received bundles of cash from Valerio that was not reported to electoral or tax officials. "I'm no fool," Mendonca said. "We knew it was undeclared money, but we had no choice. Either we took it or we didn't get paid."

Brazil's biggest bank, the state-owned Banco do Brasil, determined that it would no longer lend to political groups, bank president Rossano Maranhao said on Aug. 15, amid revelations the bank had large advertising contracts with Valerio. "We have problems regarding advertising actions, and we are taking some measures to deal with that," Maranhao said, adding that Banco do Brasil would no longer lend to religious institutions, sports clubs, or political parties.

The bank, which loaned about 27 million reais (US$11.6 million) to the PT, said it has canceled the contracts with an advertising agency owned by Valerio. Valerio and the PT deny paying bribes to gain support in Congress, but admit to using undeclared funds to pay for some of the party's campaigns. Maranhao said that, since it became public that Banco do Brasil had the contracts with Valerio's company, the bank has fired 10 executives. The bank is also investigating irregularities in its marketing division, he said.

Lula's Finance Minister Antonio Palocci came under accusations in August that he accepted US $20,000 per month from trash-collection companies, accusations Palocci denied. The claim came from Palocci's former advisor, Rogerio Tadeu Buratti, in a report he gave to a unit of the Public Ministry of Sao Paulo in charge of fighting organized crime. Buratti, who worked as an advisor for Dirceu in the 1980s, faces Public Ministry charges that he helped launder more than US$1 million and attempted to destroy documents.

A series of arrests of politicians both allies and opponents of the PT leaving or arriving in Brazil with bags and even underwear stuffed with cash in one instance US$4.3 million in seven suitcases, made the Brazilian political class look little better than a sloppy mafia.

**Lula's popularity somewhat affected**

Lula has tried to stay above the fray, saying he was "betrayed" by the operatives who organized the bribery scheme and apologizing for it in a nationally televised address on Aug. 12. He promised to crack down on anyone implicated in wrongdoing. "I am fully aware of the seriousness of the political crisis," Lula said in the address, which came before the start of a Cabinet meeting. "I feel betrayed by the unacceptable practices that I never knew about." At the end of his 10-minute speech, Lula said, "I feel no shame in apologizing to the Brazilian people. The PT must apologize and the government has to apologize for whatever errors it may have committed."
Analysts said that Lula had little choice but to speak out if he wanted to salvage his re-election chances next year or even to avoid impeachment. While opposition lawmakers are not yet calling for impeachment, they say they are examining the possibility. Lula has not yet announced whether he will run for re-election in 2006. Prior opinion surveys had shown that Lula's approval rating was holding steady, but the continued revelations of PT corruption appear to have weakened his standing with survey respondents.

A poll published Aug. 12 by the daily Folha de Sao Paulo showed the president would lose a re-election bid to Sao Paulo Mayor Jose Serra his main opponent in 2002 by a margin of 48% to 39%. But the poll, conducted by the newspaper's polling division before Mendonca's testimony about offshore money funding the 2002 campaign, also showed that Lula would win against other possible candidates, including his immediate predecessor, former President Fernando Henrique Cardoso (1995-2002). It surveyed 2,551 Brazilian voters and had a margin of error of 2%.

Other polls showed similar declines for Lula's approval numbers and chances at the ballot box. Growing street protests, like a Sept. 5 march by thousands through the streets of Sao Paulo, have been evidence of popular resentment toward corrupt government practices. Police estimated that the march gathered 6,000 protestors while organizers put the number at 15,000. Brazilians want "all these crimes uncovered and the criminals tried and severely punished," Luiz Flavio D'Urso, president of Brazil's Associao Brasiliera de Advogados Criminalistas, said to cheers as he addressed the crowd. In a jab at Lula's Zero Hunger (Fome Zero) campaign aiming at lifting millions out of misery, organizers dubbed their march Zero Corruption.

Hundreds of protesters donned round, red clown noses to ridicule politicians, and some dressed up in black-and-white striped outfits. Marchers went through the heart of Sao Paulo after gathering at the Praca de Se, a vast plaza where Lula gave a fiery 1984 speech to 250,000 people when he was a radical union leader a watershed event leading to the end of Brazil's 1964-1985 military dictatorship. But earlier marches approached similar numbers as students, landless campesino groups and social-movement organizations rallied in mid-August to back Lula's leadership.

"Lula, the people are with you," chanted more than 10,000 people as they marched through Brasilia on Aug. 16. The protest was backed by the Uniao Nacional dos Estudantes (UNE), labor groups, and the Movimento dos Trabalhadores Rurais Sem Terra (MST), the landless rural workers movement, which supported Lula's election in 2002.

Gustavo Petta, the UNE president, said students opposed government corruption, but added, "We won't be the shock troops of the Brazilian right wing." Whether the social movements that brought Lula to power will tolerate his apparently greater commitment to fiscal discipline than to poverty-relief programs may determine if the president can maintain a loyal, mobilized base. Financial markets have generally maintained their confidence in Lula's management style, particularly since he has adhered to a program of fiscal austerity, something many economists say has fueled Brazil's strong economic growth in recent years.
One factor leading to concern among foreign investors may be the decline in Lula's influence. The decision of the Congress in August to increase the national minimum wage by almost 50%, a figure higher than Lula had endorsed, led to concerned murmurings among the investing community. The general hope among investors seems to be that legislators and voters will choose not to stir the pot too vigorously by seeking to oust the president, but instead focus on next year's electoral process.

Markets took a shock from Mendonca's revelation that the 2002 campaign ran on illicit, foreign-banked money. On Aug. 12, Brazil's real fell 2% versus the dollar a day after experiencing a 3% drop its biggest slide in 15 months. Meanwhile, the Bovespa stock market index fell 3% after a 2% dip the day before. "There was a consensus among investors that economic policy and the president would not be involved in the scandal," said Alexandre Sant'Ana, analyst at Arx Capital Management in Sao Paulo. "But now you have new factors adding uncertainty to the market."

-- End --