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Lula Wins Second Term By Wide Margin

by LADB Staff
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Luiz Inacio Lula da Silva won a second four-year term as Brazil's president after 61% of voters handed him a landslide victory in an Oct. 29 runoff. More than 58 million Brazilians voted for Lula. His opponent, former governor of Sao Paulo state Geraldo Alckmin, took 39% of the votes. Lula's Partido dos Trabalhadores (PT) and allied parties won another victory on Oct. 29 as seven of the 10 state governorships at stake in runoff elections went to Lula's allies. But Lula will face a challenge in the coming term as he will have to work with a legislature in which the opposition controls the largest bloc of seats.

Landslide similar to 2002

Lula failed to win 50% of the vote on Oct. 1, forcing a second round (see NotiSur, 2006-10-06). His failure to get a majority and Alckmin's higher-than-expected vote total put extra focus on various corruption scandals that have tarnished the PT's image and brought down a number of its high-ranking officials (see NotiSur, 2005-06-24 and 2005-09-09). But the international press, initially impressed by Alckmin's surprise momentum in the first vote, was quickly agog at Lula's overwhelming popularity at the ballot box as the results became available in the hours after the polls closed.

Opinion surveys prior to the election showed that Lula would trounce Alckmin by a margin of 20% to 25%, which proved to be a correct prediction. Alckmin received 37.5 million of the valid votes counted by Brazil's electoral authority. With 1.3 million blank votes and 4.8 million nullified ballots, the total number of voters was just less than 102 million, about 81% of Brazil's 125 million registered voters.

Lula's landslide victory hands him a powerful mandate to press his anti-poverty agenda, although corruption scandals dogging the PT and thinner support in Congress could hinder his efforts to govern during his second term. Lula's re-election reflected the support of tens of millions of poor Brazilians who rewarded him for easing poverty while improving the economy in Latin America's biggest nation.

Beaming as he wore a white T-shirt emblazoned with "It's Brazil's Victory," Lula promised to boost growth and further reduce Brazil's wide gap between the rich and poor. "We're going to do a lot better in my second term than we did in the first," Lula said following his victory. "We will continue to govern Brazil for everyone, but we will give the most attention to those who need it most. The poor will have preference in our government." After repeatedly denying knowledge of corruption allegations that slammed the PT during the campaign, Lula acknowledged that the party faces a tough road ahead and must regain the prestige it once enjoyed as Brazil's most ethical party.
"From now on we do not have the moral, ethical, or political right to commit errors," Lula told 5,000 cheering supporters in a late-night postelection street party on Avenida Paulista in the heart of Sao Paulo. With 99.9% of the vote counted, Lula showed a 22-point lead against Alckmin. The number was nearly identical to Lula's 2002 victory against Jose Serra (see NotiSur, 2002-11-01), a fellow member of Alckmin's Partido da Social Democracia Brasileira (PSDB).

The PSDB selected Alckmin over Serra, partly fearing that another defeat for Serra in a race against Lula could ruin Serra's political future (see NotiSur, 2006-03-24). While Lula wants to push important pension and tax reforms through Congress, his legislative support has diminished since he first took office in 2003 (see NotiSur, 2003-01-10).

The PT lost several seats in Congress and will remain under investigation after the election because of the latest scandal--alleged plans by top members of the PT to pay US$770,000 in cash for an incriminating file about Alckmin's allies, which would violate campaign spending laws. Lula will have to deal with a host of difficult issues, from the back-to-back corruption scandals to criticism that Brazilian growth has lagged behind other Latin American economies. The runoff campaign was marked by ideological debates, with the president accusing Alckmin of planning to privatize state-owned companies and cut welfare benefits to poor Brazilians. Alckmin scurried to defuse the president's attacks while hammering the incumbent about accusations of government corruption.

Despite the rhetorical sparring, the candidates' platforms were not very different. Both candidates pushed pro-business platforms such as running primary budget surpluses and checking inflation, although Alckmin has said he would more aggressively cut government spending. During his first term, his orthodox fiscal policy cost Lula the support of many longtime allies who left the PT accusing the president of betraying his radical roots. Two party defectors, Sens. Cristovam Buarque and Heloisa Helena Lima de Moraes Carvalho, ran against Lula this year and won more than 9% of the first-round vote.

The PT has grappled for two years with charges of vote-buying and illegal campaign financing. Although Lula was never personally linked to the scandals, they hurt the reputation of the former labor leader and lathe operator. Even Lula's supporters said they expected more from their president during the next four years.

"We know there was corruption, so the first thing he'll have to do is get rid of corruption in the PT and in the government," said Riquelme Wallen Alves Brandao, a 23-year-old Sao Paulo resident who voted for Lula. "He helped people who were never given any attention," said Deise de Oliveira, an accountant from a working-class Rio de Janeiro neighborhood who voted for Lula. "He did good things despite the scandals. He's with the poor, while Alckmin is with the elites."

Another Lula supporter, teacher Melissa Ferreira, said the president had broken with past governments by giving federal investigators free rein to weed out corruption, which had always existed. "Corruption is a thing that didn't just start now," Ferreira said. "It's only appearing now because Lula's government is looking into it." But some felt the corruption scandals showed Lula is no different from other politicians in a nation long accustomed to corruption.
"I didn't vote for that bum," said Jose Gomes Araujo, who reupholsters furniture. "He says the PT is the party of the workers, but he's never worked a day in his life."

**Economic development agenda**

Lula said on Oct. 31 that he would use his second term to boost economic development, improve education, and ease poverty. Lula's comments came in a speech broadcast nationwide, his first official address after the runoff. "The name of my second mandate will be development development with income distribution and quality education," Lula said. He reached out to the opposition, saying he wants to discuss his "common agenda" with all political parties. He promised more jobs as well as health and public-safety measures, but said he would keep a lid on government spending and inflation. Lula also pledged to hold to account anyone involved in corruption. "All denunciations of corruption will be fully investigated and the guilty will be punished," he said. Lula said he would work with Congress to approve projects of "interest to the nation," including measures to increase educational spending and reduce taxes for small-business owners.

Lula's popular Bolsa Familia program gives monthly payouts to 11 million poor families. Although his predecessor, former President Fernando Henrique Cardoso (1995-2000), started the program, Lula dramatically expanded it in a move analysts said translated into guaranteed votes. Lula also managed to reduce Brazil's notoriously high inflation rate through high interest rates, and even prices of staples like rice and beans dropped.

Analysts from Sao Paulo to Wall Street have praised Lula's economic policies, but say he has more work ahead to decrease unemployment that stands at 10%. Alckmin and other critics said the president used aid programs to buy the votes of poor Brazilians and said his government set a new low for scandal. They also pointed out that many of the government's aid programs started under Cardoso, who, along with Alckmin, is from the PSDB. "The money is helping people, but they've become hostages to it," said Rio de Janeiro public school principal Tony Menezes, who voted for Alckmin. "They receive this help, and they don't want to lose it, so they vote for Lula."

Economic policy during Lula's second term "should remain more or less in the same line as before, but [Lula] will have to implement policies to increase growth and decrease unemployment," said David Fleischer, a Universidade de Brasilia political scientist. Lula said he believes Brazil's economy can expand as much as 5% next year and that Brazilians are "fed up with being an emerging power" with boom-and-bust economic cycles. Lula disappointed the US by backing away from talks to form a Free Trade Area of the Americas (FTAA) stretching from Canada to Chile (see NotiSur, 2003-12-05), but relations with the US are not expected to suffer, analysts said.

"The US lived peacefully with Lula during his first four years and there's no reason it won't live peacefully in the next four," said Alexandre Barros, an analyst with the Brasilia-based Early Warning political-risk consulting group. Markets had a brief negative reaction to Lula's victory, although pre-election polls that showed he would win contributed to investor confidence in economic stability in Brazil. The Bovespa stock index dropped 1.1% the morning after the vote, making it the steepest decline since Oct. 3. Brazil's currency fell for the first day in four, losing 0.38% against the dollar.
Lula's pledges include plans to build more roads and railways and put a greater emphasis on impoverished regions.

"Who is going to pay for all the things Lula plans to do, for all the people he has put in the government, for all the bills coming due," said Plauto Fraga, a currency trader at Corretora Souza Barros, a Sao Paulo-based brokerage. "If Lula doesn't manage to build a coalition right away, we are in for a lot of trouble." The president's spending pledges have raised concern among some investors after the government boosted expenditures 16% in the first nine months of the year, more than the 12.8% increase in tax collection during the same period. Lula's spending cuts upon taking office in 2003 helped spark a rally in the nation's bonds, stocks, and currency.

"Continuity is always good for investors, though they will look for signs of renewed fiscal efforts by Lula's next administration, especially because spending rose ahead of elections," said James Barrineau, who helps manage US$9 billion in emerging-market debt at Alliance Bernstein. Lula may keep most of his economic team, including Finance Minister Guido Mantega, Planning Minister Paulo Bernardo, and central bank president Henrique Meirelles, Barrineau said. Meirelles has overcome an investigation into alleged corruption (see NotiSur, 2005-04-15).

Lula also will work to persuade investors that anti-inflation policies will be maintained, said William Landers, who manages US$4 billion of Latin American assets for Blackrock Inc. Inflation dropped to 3.7% from 14% during Lula's first term, the currency strengthened, and unemployment declined. Mantega, a former president of Brazil's state development bank, was named finance minister on March 27 after Antonio Palocci quit amid allegations he was involved in violating bank secrecy laws (see NotiSur, 2006-04-07). "There will be a change of emphasis from the first term, not a change in policy," Mantega told reporters Oct. 30. "In the first term, it was necessary to bring the economy into equilibrium. Now that we've done that, we will push on to the next phase of more intense growth and job creation."

### Coalition-building in Congress

A first goal for Lula is to build a coalition in Congress to push through promised legislation, said John Welch, senior Latin America economist at Lehman Brothers Inc. He said Lula needs backing from the Partido do Movimento Democratico Brasileiro (PMDB). "The support from the PMDB will be key for Lula to approve important legislation in Congress next year," Welch said. The PMDB elected 89 deputies in Brazil's lower house, more than any other party, and won 16 seats in the Senate. There are mixed analyses as to whether Lula will be able to build an adequate coalition in the Congress. The opposition PSDB and Partido da Frente Liberal (PFL) each hold 65 seats in the lower house and a combined 33 seats in the Senate. The PT has 11 of 100 senatorial seats and 83 House seats, making it the second-largest force in the 513-member body.

"Lula will have a more comfortable situation than he had when he first took office in 2003," said political adviser Antonio Augusto de Queiroz, a director at Brasilia-based Diap, a political-consulting firm that advises politicians and labor unions. "He'll have to negotiate support with fewer parties and may build a majority more easily now." Lula will have fewer parties to woo because a new rule designed to trim the number of parties in parliament, which bars small parties from
getting federal funding or a spot on congressional committees, will likely prompt some politicians to migrate to bigger alliances, said Queiroz. The "barrier clause" weakens parties that did not get at least 5% of the votes for the lower house and 2% of the ballots in a third of Brazil's states.

The law will also make it easier for Lula to push through legislation not backed by opposition lawmakers, such as minimum-wage increases and the creation of public posts, Queiroz said. Under the new rule, only seven of the country's 21 political parties with representatives in Congress got enough votes in the October elections to sit on committees and receive government money. "The rule will help clean up Congress, and Lula's life will be much easier," Queiroz said. Lula's PT wins 7 of 10 governorships in runoff Gubernatorial races were also held in 10 of Brazil's 27 states where elections were not decided in the first round on Oct. 29. Lula came away victorious from those races, with seven allied candidates winning, giving him the support of at least 17 governors nationwide.

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