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Brazil: Senate President Renan Calheiros Resigns

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Brazil's former head of the Senate, Renan Calheiros, resigned early in December while under investigation for charges of corruption. He had taken a leave of absence to fight the allegations (see NotiSur, 2007-10-26), with Brazilian media reporting that the government of President Luiz Inacio Lula da Silva hoped removing Calheiros from the center of attention would allow a key financing and tax bill to move through the Senate without opposition obstructions. But the opposition won a double victory, successfully ousting Calheiros a Lula ally as head of the Senate and defeating Lula's proposal to tax financial transactions. Calheiros remains a senator.

Congressional commissions end impeachment process Calheiros resigned as Senate president before a vote that could have led to his expulsion after a long-running corruption scandal (see NotiSur, 2007-06-01 and 2007-09-14), a scandal that includes accusations that he used third parties to buy two radio stations and a newspaper. He announced his decision in a speech to the Senate a short time before the vote was to take place. The Senate president had fought a fierce battle to preserve his job and survived one vote that threatened his position in September 2007. He had stepped down from his post for a 45-day leave of absence after resisting calls to resign since May 2007.

The allegations this time focused on claims that he had used third parties as a front to illegally purchase two radio stations and a newspaper in his home state of Alagoas. In the earlier stages of the scandal, he admitted using a lobbyist to pass on substantial child-support payments to his former mistress but always claimed that it was his own money. Announcing his resignation just ahead of the impeachment vote, Calheiros again denied the claims against him and said, "I give up my mandate as Senate president without grief or resentment, holding my head high." Critics noted that, by resigning, he also avoided being stripped of the right to run for office for eight years, which would have been the result had he lost the vote, a fate that befell one of Lula's closest collaborators, Jose Dirceu (see NotiSur, 2005-12-09). The level of controversy surrounding the case was so high that Calheiros had to accept taking the leave of absence after some senators threatened to boycott sessions if he were preside over them. Impeachment hearings were concluded, and an ethics commission archived hearings against Calheiros. Financial transactions tax fails in Senate, budget crimped Opposition leaders denied that Calheiros resignation was part of a deal to allow the passage of the Contribuicao Provisoria sobre Movimentacao Financeira (CPMF), a tax on financial transactions that Lula's allies argued was necessary to adequately fund government operations.

The opposition proved its denials by rejecting the bill on Dec. 13, with Lula's coalition falling four votes short of the 49 needed to pass it. Senators refused to postpone voting to hear alternative government proposals for the tax that raises about 40 billion reais (US$22.7 billion) in revenue and which may account for as much as 10% of government revenue. Finance Minister Guido Mantega said Brazil wouldn't draw from its primary surplus, or government revenue before interest payments, to make up for the shortfall. Instead, the government said it would pull back its proposed
2008 budget and announce measures to reduce expenditures and increase revenue, he said. "The government will take the appropriate steps to minimize the impact," Mantega said. "The measures will ensure that the Brazilian economy keeps the balanced and robust growth it enjoys today." Mantega said the government would make adjustments, which will not affect social programs in the country. Maintaining a budget surplus of 4.25% of GDP and spending on social programs have been key elements of Lula's economic policy (see NotiSur, 2003-02-21, 2003-08-29 and 2005-04-15).

The defeat forces the government to raise revenue or cut expenses at least until Lula can negotiate with the opposition for a second attempt, said Alexandre Schwartsman, chief Latin America economist for ABN Amro Holding NV in Sao Paulo. "A budget loss of 40 billion reais is significant," said Amaury Bier, a partner at Rio de Janeiro-based Gavea Investimentos Ltda. and a former deputy finance minister. The tax had been in place since 1996 and imposed a 0.38% levy on all financial transactions, such as bank withdrawals or transfer payments, by individuals or companies. The government championed the tax because it helped combat evasion, while industry groups, such as Sao Paulo's Commerce Federation, opposed it, saying it raised production costs and expenses. "This requires a quick government reaction in gauging a series of budget cuts and ways to make up for the lost revenue. Investors want them to have a Plan B," said Bier.

The government had not decided if it would send Congress a new proposal to renew the tax, which expires at the end of the month, Romero Juca, the government leader in the Senate, told reporters after the vote in Brasilia. Arthur Virgilio, the leader of the Partido Social da Democracia Brasileira (PSDB), the second-largest party opposing the government in the Senate, said his party was willing to negotiate. "This decision shows the government is weak politically," said Joao Castro Neves, a political analyst at CAC Consultoria, a Brasilia-based consulting company. "It's clear that the government cannot have a very ambitious congressional agenda because its political support is weak." Opinion polls tend to show Lula as a popular figure, although trust in the government and his Partido dos Trabalhadores (PT) has declined as corruption scandals have brought down PT members and allies. The failure to renew the CPMF may stymie Brazil's efforts to win an investment grade credit rating, Schwartsman said.

Mantega denied the Senate's rejection would hurt the country's ability to secure an investment grade rating. The government will lose at least six months of revenue from the tax in 2008 provided the tax is approved in a second attempt, said Roberto Padovani, a senior strategist at WestLB AG in Sao Paulo. Padovani said the central bank (Banco Central do Brasil) may adopt a more prudent monetary policy because the end of the tax will increase disposable income, which may end up fueling consumption. "The impact on domestic interest rates would be very bad," Padovani said Dec 12. "The central bank will have to have a more cautious policy." Brazil will trim outlays by 20 billion reais (US$11.4 billion), Mantega said on Jan. 2. At the same time, a tax on financial operations, mainly bank lending, will be increased by 0.38%, and a tax on profits by financial institutions will rise to 15% from 9%, he said. The higher taxes will add 10 billion reais (US$5.7 billion) in revenue, Mantega said, adding that another 10 billion reais will come from economic growth that will boost tax collection. The measures "can make credit a bit more expensive in Brazil, but we expect credit to continue to grow," Mantega said. Lending in Brazil has increased every month for almost four years, helping to boost banks' profits. Loans climbed 26.7% in November from the same month a year earlier, the central bank said in December. Brazil's central bank has made a sustained effort to reduce interest rates.
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