

## Dilma's Brazil

Written by Louis W. Goodman

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LOUIS W. GOODMAN, NOV 13 2014

Brazil's citizens seem to have individual personal relationships with their presidents: Fernando Henrique Cardoso (1995-2003) is known to all as "Fernando Henrique"; Luiz Inacio Lula da Silva (2003-2011) is "Lula"; Dilma Rousseff (2011-) is "Dilma." With Dilma winning re-election as Brazil's President on October 26 in a nasty campaign, her Brazil Workers Party is poised to hold power for an unprecedented fourth consecutive four-year term. Dilma's vote strength came from her country's impoverished North and from Brazil's women, eager to sustain the standard of living gains made possible by their country's *bolsa familia* – the concessional cash transfer policy which has raised some forty million Brazilians out of poverty since it was established in 2003 by Workers Party President Lula. How will Brazilians remember their president at the end of her second term in 2018?

Dilma's re-election was a close call, uncertain until the end. She received 41.6 per cent of the vote in the October 5 first round and 51.6 per cent of the second round votes. Her more conservative run-off opponent, Aécio Neves, received 48.5 per cent. Acknowledging his defeat, Neves urged Rousseff to heal the divide, which has made governing Brazil so complicated. This task may well be more difficult in Dilma's second term than it was during her first four years. Dilma's Workers Party, still the largest force in Brazil's Congress, lost seats, while Neves' center-right Brazilian Social Democratic Party gained 10 seats and the number of political parties represented increased to 28 (from 22 in 2010).

With the 50 million votes he won this year, Neves became his party's best-performing candidate since its two-time former president Fernando Henrique. As such, Neves is likely to be in contention for the party's nomination in 2018 with São Paulo state governor Geraldo Alckmin. The Workers Party ticket may well be headed again by Lula (who is reported to be ailing and will be 73 in 2018). Neves returned to Brazil's Senate on November 5 to state his position for engaging in the "dialogue" that Dilma promised following her electoral victory. In a 30-minute speech, Neves said that he would provide "indefatigable opposition in the defense of the interests of Brazilians."

The Brazil which Dilma is leading is not just divided politically, it is in economic trouble. Brazil is the seventh largest economy in the world (expected to soon become the fifth largest) and the biggest in Latin America. Through 2009, according to the World Economic Forum (WEF), Brazil experienced an export boom and was the top country in the world in terms of increased economic competitiveness, gaining eight positions on its scale, surpassing Russia for the first time and approaching levels held by fast-growing China and India (World Economic Forum, 2009). However, since Dilma assumed the presidency in 2011, the country has shown signs of stumbling, economically. Inflation in Brazil has now exceeded its target of 6.75 per cent; there is a widening budget gap; economic growth is projected at a sluggish 0.3 per cent for 2014; and, while unemployment is at a historic low of 5 per cent, many analysts fear that it would soon increase. This has caused some to worry that this economic success is a 21<sup>st</sup> century variant of the "boom and bust" economic cycles that have plagued the country since it became independent nearly 200 years ago.

With this backdrop, Brazilian eyes are on the economic policies Dilma's team will put in place for its second term. The Brazilian private sector blames its economic slowdown to what it sees as Dilma's erratic meddling in Brazil's economy, much of it designed to keep consumer prices low for Brazil's citizens. For example, one of the most controversial measures of Dilma's first term was to require that the state oil company Petrobras import refined petroleum and sell it at a loss to offset the inflationary pressures generated by her attempts to bring interest rates down. Over the past four years, it is estimated that Petrobras has lost around US\$60 billion through selling fuel at

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government-mandated prices.

Thus the news following Dilma's electoral victory might have given Brazil's economy watchers a severe case of whiplash. First, on October 30, four days after the election, in a surprise move, Brazil's Central Bank raised its already-high 11 per cent interest rate to 11.25 per cent. The move was designed to reduce consumer prices. The Brazilian business community hopes that this move signals a willingness of Dilma's team to adopt more market-friendly economic policies, now that she has defeated a political rival more identified with that position. Next, on November 5, it was reported that the ranks of Brazilians living in "extreme poverty," unable to afford enough calories to avoid malnutrition, swelled by 371,000, between 2012 and 2013, to 10.4 million. This is the first sign of surge in poverty rate since the Workers' Party came to power in 2003. It came as a blow to Dilma, who spent much of the campaign boasting of how much she had done to improve the conditions of the poor. Experts pin this rise in extreme poverty on sagging output, which affects incomes, and on high inflation, which eats into them. This is evidence that an extension or expansion of the *bolsa familia* expenditures will be necessary to sustain the consumer demand that has been a foundation for Brazilian economic growth.

Prognosticators are waiting for Dilma's announcement of who will replace her outgoing finance minister, Guido Mantega, and what will be the tone of economic policy-making in her second term. What is clear is that concerted measures will have to be put in place if Brazil is to sustain its competitiveness and continue to be one of the engines of economic growth for the global economy. At the same time, preventing a relapse of poverty will be important for maintaining the demand needed to support the economy and for support from Dilma's political base. Whether that will be possible with a divided Brazilian Congress populated by supporters of rival political party factions, jockeying for positions for their candidates in the 2018 presidential race, remains to be seen. If Dilma can reach across the aisles of Brazil's deeply divided political system and forge a grand compromise, which will continue her nation's economic success, the importance will transcend Brazil. According to Moises Naim, in 2012, of the world's 34 wealthiest democracies, only four had a chief executive whose party also had a legislative majority (Naim, 2013:23). Such a divided government can result in political gridlock with impacts beyond the nation in question – especially if that nation is as important to the world economy as is Brazil (or the United States, another executive/legislative branch divided polity).

Brazil will be Dilma's through 2018. If it can regain its economic footing in the face of divided and fractious politics, Dilma will set a standard for others to follow. If Dilma's second term becomes an economic "bust," the negative consequences will spread beyond her nation's borders.

### References

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