



## **BRAZIL ALERT**

### **Backdrop for 2002 Elections: In the Wake of the Cardoso Years**

William Perry

Eight years ago noted intellectual Fernando Henrique Cardoso became Brazil's minister of finance and soon thereafter assumed the central role on its political stage that he has occupied to the present day. Prior to Cardoso's election, two decades of worsening stagflation seemed to have hopelessly stymied President Itamar Franco's administration, and polls indicated that a despairing population, in an effort to escape its toils, was even disposed to hazard the then rather unalloyed Marxist nostrums of Luiz Inácio "Lula" da Silva's Workers' Party (PT). Despite his own previously left-of-center views, however, Cardoso moved promptly to formulate an ambitiously neoliberal approach to the country's daunting economic problems. As it began to go into operation, he resigned his ministerial post to enter the 1994 presidential sweepstakes.

With the backing of his Brazilian Social Democratic Party (PSDB) alone, Cardoso would have not stood much of a chance of prevailing—especially with public support for Lula already in the 40—percent range. The very specter of a PT victory, however, created the basis for a broad coalition of the non-Marxist left, more centrist parties, and interest groups. Resting on an accord with the conservative Liberal Front Party (PFL), Cardoso showed the necessary flexibility to form such an alliance. As the ex-finance minister's Real Plan went into full effect—halting an increasingly voracious rate of inflation in its tracks—the 1998 campaign witnessed a startling abrupt reversal of fortune. Fernando Henrique Cardoso went on to win in a walk that October, promising to follow through on this hopeful beginning with a thoroughgoing program of market-oriented reform.

Given Brazil's highly corporatist traditions and the very fragmented nature of its party system in Congress, progress was slow. However, substantial advances were made in reducing the legal basis for statism, structural reform, privatization, lowering trade barriers, and imposing austerity on government—along lines that its hemispheric neighbors already pursued. These positive changes, aided by favorable world economic conditions, produced a pattern of remarkably inflation-free growth. This record allowed Cardoso both to alter the institution to permit himself a second term, and to win an overwhelming reelection victory in 1998.

However, the huge foreign capital requirements of this process could not be fully met in the wake of the Asian and Russian financial crises of that same year. Less than two weeks after his inauguration, Cardoso's second administration was obliged to accept a sharp devaluation of the real and witness the onset of a recession that deeply eroded his previously high popularity. The government bravely attempted to stay its course and the economy returned to a 4+ percent growth rate in 2000. The president's standing with the Brazilian public never fully recovered, however, and a rising tide of opposition from the left gradually paralyzed Cardoso's reformist efforts. Moreover, a seemingly endless parade of gaudy corruption scandals heaped discredit on the existing political class. With the 2002 general elections beginning to loom on the horizon, the ruling party coalition has shown unmistakable signs of decomposition over the past year.

Under these difficult circumstances, congressional (Planalto) hopes for victory by a candidate who would provide continuity to the Cardoso program came to depend increasingly on economic dynamism continuing through 2001 and into the following election year. However, a deteriorating global climate, higher oil prices, Argentina's ever more chronic difficulties, and the onset of an unexpected electric energy shortage have been wilting formerly optimistic forecasts since mid-2001. The economic aftermath of September 11 also makes 2002's outlook more likely to be recession, rather than any rate of expansion at all.

This somber backdrop obviously favors the leftist opposition in the race for the four-year presidential term that begins on January 1, 2003. At this preliminary stage PT's da Silva has long been in the lead according to all polls—with public support for him presently in the 30+ percent range and rejection numbers markedly lower than during his three previous tries for the presidency. Moreover, the two runners-up over the course of the past year have also been prominent critics of the Cardoso administration and its liberalizing economic policies. Ciro Gomes is an ex-governor of Ceará (he was also, for a brief period, Cardoso's finance minister), who subsequently defected to the opposition. In 1998 he ran for president and finished third—behind Lula and the then dominant incumbent—under the banner of the PPS (Brazil's old Communist

Party). Although this representative of Latin America's "new left" has certainly placed himself in opposition to the neoliberal course that the Cardoso administration pursued, he is difficult to define or pin down on key issues. Perhaps in part for this reason, his initial support ratings in the mid-20s have more recently tailed off into the mid-teens. However, Gomes remains a formidable contender in the upcoming race—particularly if ultimately he is able to sew together the right kind of alliances. Running behind him has been former president Franco—who originally appointed Fernando Henrique Cardoso as finance minister, but subsequently emerged as a most vociferous foe of the policies launched late in his own term. Now governor of the important state of Minas Gerais, Franco rails constantly against liberalism from a nationalist/populist perspective. This rather eccentric and parochial figure certainly has a constituency (now in the low teens) and he recently rejoined the third major-party pillar of the heretofore-ruling coalition (the PMDB - Party of the Brazilian Democratic Movement) in an effort to hijack its presidential nomination.

The absence of an obvious and attractive standard-bearer (or even an assured coalition) to make the race next year further complicates the prospects of Planalto supporters. Cardoso's PSDB is inclined to insist that someone from its own ranks occupy the top slot on the ticket. The leading figure there, however, Health Minister José Serra, still faces some resistance within the party (most notably from Ceará governor, Tasso Jereissati) and has not shown great strength in the polls nor much appeal to other potential alliance partners. Meanwhile, the PFL, which is absolutely indispensable to any governmentista coalition, has found a contender in Maranhão governor Roseana Sarney who currently registers greater public support than any PSDB figure. The PMDB now seems inclined to run its own candidate—whether Franco prevails in its selection process or not. Thus, coming up with a unifying centrist ticket that enjoys good electoral prospects in 2002 remains a very serious challenge.

Brazil's highly fragmented party system and kaleidoscopic coalition patterns exercise a powerful influence on presidential politics. Under the New Republic, amazing reversals of fortune have characterized competitive election years (not only 1994, but 1989 as well). Moreover, the country's two-stage voting process for executive offices (when, as virtually certain in 2002, no candidate reaches the 50 percent mark on the first round) means that the specific run-off match-up can also be a decisive factor. Thus, although Lula—and the left more generally—enter the upcoming electoral year at a considerable advantage, no definitive conclusions can be drawn until the final lineup of candidates and alliances are defined. This scene will only gradually be revealed as the parties nominate candidates and form coalitions during the initial months of 2002. Thereafter, in the run-up to the first round of balloting early next October, a spirited campaign season can certainly be expected against the backdrop of still unforeseeable domestic and international developments.

The stakes involved in this contest are obviously large. Lula's PT's historically Marxist dogma no longer animates it so much and its dominant elements have gained in moderation, as well as experience, in Brazil's democratic politics of recent decades. Moreover, no party can hope to win anything like a majority in Congress or among Brazil's traditionally powerful state governors in 2002. Nevertheless, a victory at the presidential level by a candidate from the leftist opposition would imply a halt of some kind in Brazil's still incomplete liberalization process. Brazil's next president will preside over a difficult period—both in terms of its prospects for continued growth and development, and choices that will have to be made on the wider international stage. Thus, Brazil's citizens and interested foreign observers, alike, must follow the course and outcome of the campaign leading up to the Brazilian general elections of 2002 with great attention

### **About the Author**

**William Perry** is a senior associate of the CSIS Americas Program and president of the Institute for the Study of the Americas and William Perry and Associates. Mr. Perry has an extensive track record of involvement in Colombian, Venezuelan, Argentine, Brazilian, and Southern Cone affairs and the analysis of elections there and in other Latin American countries. He has also served as a senior Latin American specialist for the Senate Foreign Relations Committee, director of Latin American affairs at the National Security Council.

©2001, Center for Strategic and International Studies