

# From Hope to Despair

By Paulo Paiva



Photo by Getty Images.

Former Chief of Staff José Dirceu gives a speech during a Worker's Party rally in São Paulo the day after he left his position.

**P**resident Lula's landslide victory in 2002 brought hope for change in Brazilian politics. The Workers' Party's (PT) high ethical standards led many people — even among those who had not voted for Lula — to anticipate changes. The PT was expected to live up to its slogan “*O jeito petista de governar*” or “the Worker's Party way of governing” based on its municipal administration experience. The true face of Lula's government has been revealed through the series of scandals that have unfolded involving ministers, congressmen, directors and other executives from state owned companies. Everyone in Brazil is disappointed, especially those who believed in the PT. Years of hopes, dreams and hard work have been thrown away by the misconduct of the Lula administration. Hope is turning to despair.

## Facts

As early as March 2003 Brazilians were shocked as major TV networks broadcast scenes of ex torti on featuring Waldomiro Diniz, a legislative aide to the Minister's Chief of Staff.

Diniz was taped trying to elicit money from a gambling operator. Unfortunately it was not — as government authorities claimed — an isolated case justified by the fact that it happened before Diniz began working in the Ministry.

Although the PT successfully managed to block a congressional investigation into the Diniz case, since May 2004 several other corruption cases have come to light. These scandals have included: fraud, the illegal funding of election campaigns, the bribing of members of congress in exchange for their votes or their change of political party, illicit government contracts, dubious investments by public sector pension funds and the

diversion of large sums of money from municipal authorities, banks, corporations and insurance companies owned by the federal government. In addition to this list of malfeasance, there are also indications that the government was involved in international money-laundering.

In all cases high level government authorities and members of the PT board of executive directors were involved. A number of deputies were found making suspicious cash withdrawals and an aide to the PT president of the state of Ceará was stopped in the São Paulo Airport carrying R\$200,000 in a suitcase with USD\$100,000, in cash, in his underwear. It would be funny if it did not dramatically expose the systemic corruption of Lula's government. The scandal has hit even closer to home as there have been allegations of influence peddling against Lula's son and brother.

The mysterious January 2002 assassination of Celso Daniel, Mayor of Santo André, a town on the periphery of São Paulo, is another tragedy that has served to undermine the administration.

“At the first glance the whole thing seemed utterly preposterous.”

— Dostoyevsky, *The Idiot*

Since then seven more people with ties to the murder investigation have been killed. The murder remains unsolved and so far the investigation has served only to release a cloud of misinformation. More to the point, Celso Daniel was the coordinator of Lula’s presidential campaign in 2002. The prosecution believes that Daniel’s murder was a political act, while the São Paulo police maintain that it was the result of all too common violence. Evidence of corruption in Santo André has been alleged to be the motive for murder.

“Toninho do PT,” the Workers’ Party mayor of Campinas, was also murdered, and the case remains unsolved. Evidence of further corruption has appeared in other municipalities under PT control such as Ribeirão Preto and São Paulo. Nonetheless corruption is not an invention of the PT.

Corruption has a long history in Brazilian politics. In recent years Brazil has witnessed a series of scandals, including the 1992 impeachment of President Fernando Collor and the 1993 budget “dwarfs” scandal in which congressmen were found to be embezzling public funds. Additionally, there have been allegations of corruption in the privatization process and in the approval of the amendment to the Constitution allowing reelection for president, governors and mayors.

Compared to other developing countries, Brazil is equipped with institutions capable of fighting and controlling corruption, particularly in the areas of public finances and the banking system. However, this time, the institutions responsible for oversight — the Finance Ministry’s Council for the Control of Financial Activities (COAF), the Central Bank, federal prosecutors, the Federal Accounting Office and the press — failed to detect what was going on.

Ironically, the scandals came to light from inside the government’s own coalition. The PT created and implemented a system of corruption



Photo by AP/Wide World

coordinated either by the party’s treasurer or by its strongman, President Lula’s former Chief of Staff, José Dirceu. As the scandal unfolded, it became apparent that the bribery scheme had the clear approval of the PT executive board and senior members of the administration. Investigations have led to the resignation of Minister Dirceu as well as the president, treasurer and general secretary of the PT. The Minister of Communication was also demoted to a lower position in the administration. To date, several high level managers from state owned companies have been fired, five deputies have resigned, two were expelled (Roberto Jefferson, who revealed the whole process of corruption, and Dirceu) and 13 others are being prosecuted by the Chamber of Ethics

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A man dressed as a prisoner and wearing a clown’s nose protests against corruption in São Paulo.

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Council and may be expelled from the Chamber of Deputies. Three Parliamentary Investigation Committees are conducting hearings on different corruption cases, including the Waldomiro Diniz gambling case that was blocked in 2003.

This corruption crisis is the PT's own creation. This is the first time in Brazilian history that a government crisis emerged from within the government's own coalition and not from revelations by the opposition.

## Causes

There were two motivating factors behind the PT's corruption scheme: one was to raise money for campaigns while bypassing campaign finance laws, both to pay off debts from past elections and to finance the 2004 municipal campaigns; the second was to pay deputies for their support of government bills in the Chamber or to switch parties in order to provide the government with the necessary majority in congress. (Switching parties is a common practice in Brazil.) The official explanation has been that the PT used two advertising firms that have contracts with the government and borrowed money from two private banks in order to pay congressmen and minor parties. But the facts have gone beyond this simple explanation. The scope of corruption appears to be much more widespread.

At least three causes could be underlying these unethical and illegal activities.

The first cause is the weak enforcement of law in Brazil. The informal nature of Brazilian society in many aspects — informal markets, labor legislation, tax evasion, embezzlement, etc. — and the almost total impunity for white-collar crimes, may lead to a culture of not complying with the law. In this environment where the rule of law is not enforced, it seems that just about any crime can be committed without fear of punishment. Everything seems like business as usual or, as the PT senior leaders are saying, "All of the parties have been doing the same." The belief seems to be that if everyone

does it, it is not a crime.

The second factor is the mixed-up relationship between the PT and the government. The goals of the party and the government seem to be the same. For the PT, the ends justify the means, and all means are right in order to achieve the end of keeping the party in power.

The third problem is the way in which the coalition in the National Congress was built. To build its alliance, the PT attracted several small and medium-sized parties as well as regional leaders that had no ideological commitment to the PT's program.

One way to build this alliance was by transferring money to those parties (PL, PTB, and PP) and to some deputies, whether to pay for past campaign debts or to buy their votes for government bills. Additionally, the PT made the mistake of mixing up its congressional coalition with its electoral coalition. A congressional alliance is not necessarily the same as electoral alliances, where local interests and ideological identification are important. Moreover, electoral alliances do not necessarily lead to congressional support. By funding allies in the 2004 municipal elections, the PT was trying to buy their commitment for the next presidential election. There was no ideological connection between the PT and these parties, so the easiest way to form the coalition was by financing the municipal elections by transferring money from the PT to other parties. This large-scale transfer of money from one party to another is another PT innovation in the Brazilian political tradition.

## Consequences

It is too early to evaluate the consequences of the PT scandals on Brazilian life. Of course, one direct consequence is that a number of senior leaders had to step down or were fired, and several deputies resigned, were expelled or are still under congressional investigation. So far, none of the alleged wrongdoings have been connected to President Lula, which has prevented

the start of an impeachment process.

On the economic front it seems that there has been no short term impact. The economy is protected; the GDP is still growing at the same rate as before the crises; inflation is within its target; the Brazilian rating in the international financial markets continues to improve; exchange rates have not been affected. However, I believe the impact is more likely to be seen in the medium term. With congress paralyzed, no major reforms have been approved. Brazil is losing the window of opportunity opened by its global economic performance to complete the microeconomic reforms necessary to sustain economic growth, such as labor reform, tax reform and the reorganization of regulatory agencies, to name a few. Also, corruption has diverted public money that would otherwise have gone to public programs. Corruption causes inefficiencies in the public sector, which result in a lower rate of economic growth.

On the political front, the consequences are even harder to predict. Agreement has not yet been reached on proposals for political reforms that could impose more control on campaign finances and raise barriers to prevent the switching of party allegiances. These measures will not reach a vote in time to be implemented before the 2006 elections. The upcoming campaign will most likely be conducted under the existing regulations.

Regarding the 2006 presidential elections, one can expect a higher rate of abstention, especially among the more educated voters who supported Lula last time and are now disappointed. That said, Lula still has a relatively high level of support and will likely be a strong candidate for reelection. However, it will only be the second time in Brazilian history that an incumbent president has sought reelection. Under the nation's electoral rules, if no one gets 50 percent of all valid votes, the two candidates with the most votes go to a run off. The first round is a kind of plebiscite on the government where all candidates but the incumbent are from the opposition. Under compulsory broadcasting rules, more candidates mean more TV and radio time allocated to the opposition.

Under this system, chances are the incumbent

will do better in the first election and worse in the run-off. If the incumbent does not get more than 50 percent of the votes in the first round he could be considered the loser because all his opponents together might be able to form a majority afterwards. That is why the PT was trying to build a large alliance to avoid too many candidates and so to prevent Lula having to go to a run off. As a consequence of the corruption storm, the PT might have difficulty building a large alliance for the first round. It is possible that all the major parties will have a candidate, making a run-off more likely. That is Lula's big risk. If the elections were to be held now, fall-out from the scandal would make a run-off highly likely, a situation unfavorable to the incumbent candidate.

After just over two years, Lula's government seems to have come to an end without creating any of the change that people expected. The PT has failed to change Brazil's way of carrying out politics. It turns out that "the Worker's party way of governing" is at least as vice-ridden as the old Brazilian politics — and perhaps more so. Hope has been overtaken by despair.

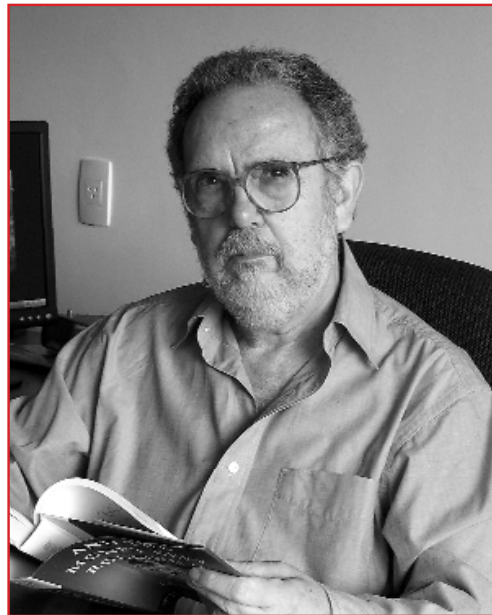


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