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Do Brazilian Women Really Reign Supreme?

BRAZIL'S WOMAN-VERSUS-WOMAN PRESIDENTIAL RACE SUGGESTS THAT FEMINISM HAS TRIUMPHED. THE REALITY IS MORE COMPLICATED

About the Author

ANNA PETHERICK
Anna Petherick, a former economist report in Latin America, is a graduate student in comparative government at the University of Oxford.

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There is a pejorative phrase in Brazil that is occasionally applied to female would-be politicians: They are called "orange candidates." The phrase's etymology is juicy, if muddled. By one account, an "orange" was prison slang for a target of fraud, a sucker or a mark. By another, bootleggers injected the fruits with liquor to evade the authorities during prohibition. What both versions have in common is the implication of fraud or alibi—reflecting the assumption that a woman on a list of candidates may have no real influence if her inclusion is merely to inch the party closer to its legally enshrined gender quota.

Yet Dilma Rousseff, the incumbent in this year's Brazilian presidential election, and Marina Silva, her main competitor, could not be less orange. Though Rousseff was plucked by her illustrious predecessor, Luiz Inácio Lula da Silva, to inherit the benefits of his colossal popularity, both she and Marina Silva are the primary authors of their own success. Both were ministers in the Lula government. Both became politically engaged—riskily so—in their youth. While Rousseff made her name as a militant activist in the fight against dictatorship, Silva founded a trade union movement with fellow rubber-tapper and environmentalist Chico Mendes, who was ultimately murdered for these activities. Rousseff's lymphoma of five years ago, and Silva reoccurring bouts of the infectious diseases she acquired growing up dirt-poor on a plantation, attest to their bravery and determination.

In comparison, the men who have featured most prominently in this election have benefited from more traditional dynastic politics. At the tender age of 25, Aécio Neves, currently third in the race, was appointed "secretary for special affairs" to president-elect Tancredo Neves, his grandfather (who died before he could take office). Eduardo Campos—who was replaced by then vice-presidential candidate Marina Silva after he died in a plane crash on Aug. 13—became finance secretary in his home state at age 30 after serving his grandfather, the long-time governor, as cabinet chief.

In many ways, the prominence of the competition between Rousseff and Silva conceals the puzzling realities of women in Brazil. Brazilian women do pretty well by many measures. The majority of illiterates in the country are male. Almost a third more women than men enrol in tertiary education. The 1988 constitution gives men and women equal rights and obligations in the family, prohibits sex discrimination in employment and wages, and includes the right to 120 days of paid maternity leave. Police stations staffed by mostly by women, for women, have mushroomed in every state since 1985, to tackle violence against women, such as rape and spousal abuse.

Behind many of these achievements lies the largest women's movement in contemporary Latin America. During the 70s and 80s, more than 400 self-professed feminist organisations sprung up in Brazil's cities, spurred by disgust at the sexual violence endured by political prisoners of the military regime—and by a broader gender consciousness that blossomed out of the regime's contradictory promotion of the female homemaker, even as its economic policies forced millions of mothers into employment. Feminist groups forged links with other pro-democracy forces and, over the course of Latin America's most protracted transition to democracy, had time to weave a gendered perspective into the new legal architecture of the state. Today, Brazilian voters show little prejudice against female leaders. A political science experiment conducted a year ago randomly swapped fake candidate pictures and profiles and then asked thousands of participants who they would vote for. It uncovered a 5-7 percent bias in favour of female candidates.

Yet other features of Brazilian law and society contradict the country's breezily progressive reputation. The universities may be stocked by female undergrads, but the upper-echelons of professional jobs fit the cross-national norm: they are overwhelmingly male. The public sector upholds equal pay at all levels of its various hierarchies, but the private sector is way off. For a few years the women's police stations operated in the knowledge that juries accepted claims by murderers of adulterous wives that an upwelling of machismo emotion causes a momentary loss of sanity, known as the "legitimate honour defence." Domestic violence became a specific crime only in 2006. Even so, in 2011, 40 percent of murders of women still occurred in the home, and a woman was more likely to be murdered in Brazil than in all but six other countries around the world. (Since the turn of the millennium, murders of white women have been going down, while murders of black women having been going up).

The women's movement has not been a straightforwardly liberalizing force. Before it called for democracy, it called for dictatorship, organizing marches against the democratically elected government of João Goulart, including one through the streets of Rio de Janeiro the day before the 1964 coup. (The women in that procession whipped out their rosaries and crucifixes as they called on the military to do its "manly duty" and take the country back from the leftist leader who had vowed to expropriate big landowners). The proportion of women in power hovered below 0.6 percent while the military ruled. While female representation has improved during the current period of democracy, it has remained stubbornly low nonetheless. Within Latin America, only Panama counts a smaller proportion of women in congress—an astounding fact in light of this year's presidential election and the recent research into Brazilian voting preferences. So what's up with gender and politics in Brazil?

David Fleischer, professor of political science at the University of Brasilia, says that the culprit is clear. "Our main problem is this stupid, open-list system," he says, referring to the country's unusual electoral system. "We have the worst variant of proportional representation." (Senators are chosen by a first-past-the-post system, while members of the Chamber of Deputies are selected by proportional representation).

Opposite to the situation in the United States, the Brazilian lower house of parliament consistently has a smaller percentage of women than the upper house. Why? In most countries the need for financial firepower and the benefits of incumbency place a negative skew on the average prospects of female candidates in winner-takes-all elections. (It could also be that the gladiatorial style of winner-takes-all elections resonates better with male gender stereotypes). But the Brazilian version of proportional representation has a way of amplifying the influence of money and media.

For example, the state of Rio de Janeiro, home to Clara Araújo, a politics researcher at Rio de Janeiro State University, elects 46 representatives. There are 32 parties. Each party can field one-and-a-half times 46 candidates. That's an upper limit of 2,208 candidates. These swarms of political hopefuls explain why name recognition—through family ties or advertising, membership in soccer teams, or whatever—makes so much difference. The sizes of electoral districts tend to be big in a continent-sized country, which imposes large travel budgets on competitive campaigns. Araújo has found that official donations to female candidates' campaigns tend to come from individuals, in the form of many small amounts; as a rule, the big lump sums from institutions go to male candidates.

The gender quota law only applies to elections to the Chamber of Deputies. It stipulates that 30 percent of the spaces on a party's candidate list must be reserved for women. When party bosses signed off on the law in the mid-1990s, however, they never required these "reserved" slots to be filled. At the same time, because of the uneasiness of male politicians as it was debated, the new law allowed each party list to include more candidates than there are seats representing the district. Mala Htun, associate professor at the University of New Mexico, explains the misaligned incentives. "Politicians in power owe their positions to the existing system," she says. "So they usually lack incentives to change what delivers them their positions in the first place."

The upshot was a minor uptick in the percentage of female deputies in tandem with the arrival of an orange-scented haze. Before the quota law's introduction, women were elected in about the same proportion as their candidacies; afterwards, the average female candidate became less successful than her male counterpart. Put simply, the evidence suggests that parties started enlisting uninterested, unprepared, or ill-qualified female newbies to drag up the numbers.

As if that weren't enough, the country also turns mainstream ideas about development and female political success upside-down. Women are not elected in greater numbers in the wealthier, better-educated regions of the south and southeast. Instead, two-thirds of female mayors and city councillors are found in the poorer parts—the forested north, the northeast and the central region—even though these regions account for only half of the total number of municipalities.

Various theories have been proposed to explain this pattern. Parties (and thus their old-school bosses) seem to play a more prominent role as gatekeepers to power in the south. Anecdotally, the more oligarchic politics of the north has allowed some local first ladies to grow patronage bases from their charitable activities. Historically, some women in these states have kept seats warm for male relatives, for whom constitutional constraints on re-election have inconveniently required them to sit out a term. The geographical pattern is too entrenched to reflect any recent empowerment of women in Brazil's most poverty-stricken households, thanks to social programs such as Bolsa Família, the federal stipend paid to mothers in low-income families who regularly send their children to school and to the doctor's.

It is hard to overstate Bolsa Família's place in the political discourse. The policy is credited with Lula's second-term victory, which was threatened by a giant corruption scandal that embroiled much of the senior ranks of the Worker's Party, or PT. (To Brazil's credit, no other country has seen so many senior members of a democratically elected party punished soundly by the courts while that party was in power). A good part of Rousseff's support also draws on a sense of gratitude and loyalty from Bolsa Família's beneficiaries. Municipalities far from the nuclei of power have experienced huge change because of Bolsa Família, minimum wage increases, and an overall trend of economic growth. A good example of such a place is Rio Branco, in the eastern state of Acre, where Silva worked as a maid and famously transformed herself from an illiterate 16-year-old into a 26-year-old with a history degree. In Rio Branco, the proportion of people living in houses with piped water jumped from 53 percent to 94 percent between 2000 and 2010. . Over the same period, the 34 percent of 15- to 17-year-olds with full primary education rose to 64 percent.

After falling far behind Silva earlier in the campaign, Rousseff's team recently staged a dramatic comeback largely by claiming that Silva would cut back Bolsa Família. Despite denials buttressed with tales of how her parents wouldn't eat for several days in a row so that her siblings could, Silva has slipped in the polls. About a month ago, the candidates were neck-and-neck in the first round, with a clear victory predicted for Silva in the second where she is expected to pick up the Neves vote. She is now predicted to lose the second round, although that may change. Brazilian electoral rules mean that her coalition gets far less TV airtime in the first round than Rousseff's party, a major disadvantage

But neither of these women is talking about women's rights. Throughout the debates, it has been the third female candidate, Luciana Genro, who has inserted gender issues into the electoral discourse. Little known beyond Brazil, she has—like Rousseff and Silva—spent the majority of her political career in the PT. This is the party that has openly backed the gay rights movement ever since it supported striking metalworkers in 1979; the party that introduced its own 30 percent gender quota years before the national one (and in more rigorous, zero-sum terms); the party that, under Lula, established a special secretariat for women's rights with the status of ministry.

The PT has never dared to make the decriminalisation of abortion party policy, however. Brazil is the most populous Catholic country, and abortion is a crime unless conception is the result of rape or the woman's life is in danger. Most citizens, moreover, agree with the legal status quo. And successful politicians, whatever their personal position, must operate with this in mind.

Silva, an evangelical who once trained for two years to become a nun, is opposed to abortion—but perhaps surprisingly for someone so religious, she also frames the topic primarily in terms of public health rather than reproductive rights. When the Rousseff administration tried to increase spending on medical care for botched abortions, the congressional religious lobby sunk the idea. (More than a hundred times as many Brazilian women seek this kind of help from the state than have legal abortions).

For her part, Rousseff is suspected of being privately in favour of decriminalisation, but constrained by the necessary compromises of coalitional politics. The 2010 election saw her enter into a weird arms race with her main opponent over who could appear more Catholic—as health minister he had made legal abortions more accessible, and so was also considered to be lying about his true thoughts on the matter. "It was sort of embarrassing to watch," says Paulo Sotero, director of the Woodrow Wilson Center's Brazil Institute. "You know, they were there all going to church, probably for the first time in years."

This time around, Silva's biggest handicap is probably not going to be any particular issue, but history. If she wins, she will be only the second challenger since 1990 in Latin America—a continent where elections are dizzyingly frequent—to uproot an incumbent president. But the future bodes very well for her. Analysts such as Eurasia Group's João Castro Neves reckon that the PT's grip on the north and northeast is at an inflection point. And unlike any other politician of national significance, Silva gained support during the huge urban youth movements of the past year; her stated intention to take the pork out of Brazilian politics resonates well with Brazilians who no longer feel represented by the traditional parties. It is striking that she has so dramatically outperformed the late presidential candidate to whom she was supposed to play second fiddle. This demonstrates just how out of touch, and hopelessly macho, most party bosses still are.

The Subtle Art of the Brazilian Majority

BRAZILIANS WANT CHANGE. BUT THEY'LL ONLY GET IT IF THEIR NEW PRESIDENT CAN COMBINE THE URGE TO REFORM WITH THE WILL TO GOVERN.

About the Authors

GREGORY MICHENER AND CARLOS PEREIRA
Gregory Michener and Carlos Pereira are professors at the Brazilian School of Public and Business Administration, Getulio Vargas Foundation (EBAPE/FGV) in Rio de Janeiro.

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Brazilian politics stands on the cusp of potentially far-reaching change. In June 2013, widespread protests against corruption and poor government services demonstrated a deep discontent among the Brazilian public. That anger has aided the dramatic rise of Marina Silva as the leading opposition candidate in the campaign leading up to the presidential election on 5 October. Although President Dilma Rousseff has since succeeded in reversing the nine-point lead Silva had over her in polls a month ago (the latest survey gives the incumbent an 8 percent margin in a putative runoff), Silva has enjoyed remarkable momentum. The third-place candidate, Aécio Neves, however, has rapidly closed the gap, helped by Rousseff's negative ad campaign against Silva. According to the latest polls, Silva has 25 points in second place, with Neves reaching 20 points in third place.

Whoever wins, the closeness of the race and the strong challenge from Silva—an Afro-indigenous environmentalist from a poor background—are emblematic of where Brazil now finds itself. Once the most unequal country in the Americas, Brazil has seen inequality and poverty plummet steadily since 2003. Affirmative action policies govern the university system and public services. A woman became president in 2011 and, barring a late leap forward by Neves, a woman is likely to assume the presidency again from 2015 to 2019. Leaders can no longer expect deference from citizens. Millions of Brazilians took to the streets in protest last year, and dozens of powerful politicians, including a former presidential chief of staff, have received lengthy prison sentences for their role in the paradigm-changing mensalão corruption scandal. In short, neither Brazil nor Brazilian politics is what it used to be.

Given these advances, then, why has there been such dissatisfaction with the current administration that Silva, a candidate who came in third with 19 percent in the last presidential elections, has managed to come so close to victory? Some believe that Brazilians are fed up after three consecutive terms of rule by Workers' Party (PT) presidents Luiz Inácio Lula da Silva and Rousseff. Others believe that widespread malaise in Brazil is not necessarily due to the PT, but rather to a long-standing desire for systemic political reform. (The country's political institutions appear to be safe. In a poll commissioned by the Perseu Abramo Institute, respondents did not cite them at all when asked about proposals for reform, pointing instead to issues such as improving service delivery and reducing corruption).

Public frustration with a president who is widely viewed to have accomplished too little and spent too much, along with the recent surge in inflation and the slowdown of growth, may be at the root of Rousseff's problems. Many were also unhappy at the drain on the public purse by the World Cup—a glitzy event that cost taxpayers dearly in terms of contract-based corruption and useless infrastructure (e.g., soccer stadiums in Manaus and Brasilia).

An ever-increasing tax burden—37 percent of GDP, compared to 20 percent in China and only 13 percent in India—is another major source of discontent. According to a survey of Latin American countries by Latinobarometro, Brazilians are the people least satisfied not only with the provision and quality of public services, but also with the amount of taxes they pay. In fact it was the only country surveyed in which satisfaction worsened in both dimensions from 2007 to 2011.

These factors have clearly helped Marina Silva. Demographic analysis shows a strong correlation between the profiles of the 2013 protesters and those likely to vote for her on Sunday, particularly among 16-to-24-year-olds and the college-educated. The markets, too, are in the opposition's favour. In fact they have become so sensitive to a possible Rousseff victory that Sao Paulo's Bovespa stock index dropped by more than 1 percent when polls showed a surge in support for her. There was also a dramatic weakening of Brazil's currency, which fell past the $2.40 mark for the first time in seven months. Investors are hoping the election will bring pro-market reforms that many economists argue are long overdue and which Silva, a strong supporter of Central Bank independence who has promised to reduce subsidies to industry, is seen as likely to implement.

If Rousseff is re-elected, her challenges will include restoring confidence in Brazil's economic fundamentals, its regulatory policy stability, and working with Congress in order to undertake the reforms being demanded by a significant section of the population. The general consensus, however, is that Rousseff is uninterested in serious change and may, in any case, lack the capability to generate it after poor power-sharing and coalition management has left her in dire standing with critical allies. All of this suggests that she is unlikely to embark on any sort of fundamental challenge to the status quo.

The more interesting question is how Silva, as the candidate of change, will govern if she manages to win the election. A former city councillor, senator, minister of the environment, and co-founder of the Workers' Party, Silva trailed in the 2010 presidential election, and efforts to build a platform for her ambitions this year fell short after her own political party, the Rede de Sustentabilidade (Sustainability Network), failed to obtain the required number of voters' signatures. She then made an unexpected move. She agreed to be the vice-presidential running mate of the late Eduardo Campos of the Brazilian Socialist Party (PSB).

Campos's choice made a splash, but the ripples did not reach the opinion polls. On 13 August, however, Campos was killed in a plane crash, and Silva's assumption of the candidacy turned the election on its head. Partly this was due to the immense publicity surrounding the events, but Silva was also able to make much of her own "outsider" status, with a backstory strong enough for her to downplay the reality of her long involvement in mainstream politics. Her parents were rubber tappers in the Amazon, and she only learned to read and write in her teens. She made her name working with the murdered environmental activist Chico Mendes, and would be, if elected, the first president to represent the 60 percent of Brazilians of African or mixed-race heritage.

An evangelical Christian, she has come under attack from those suspicious that her real views on same-sex couples and abortion are far more conservative than her message of a "socially just country" suggest. But her emphases on macroeconomic stability, inflation control, transparency, the environment, and strengthening social policies have reverberated with Brazilians, especially urbanites, the upper middle classes, and young voters.

The most crucial question, however, turns on whether she will be in a position to translate that support into action in Congress. However bitter her relationship with Congress, Rousseff did benefit from a large, effective party organization and legacy alliances with other parties and the industrial sector. By contrast, a victorious Silva will possess little in the way of such organisational resources. Analysts predict that Silva's hollow institutional base of support—including her small party and fragile alliances—will make her a minority president; and history has shown that minority governments do not govern well or sustainably in Brazil. Several ended in fateful institutional crises. A series of stalemates partly triggered by minority governments ultimately ended in a 1964 coup d'état, which was followed by more than 20 years of dictatorship. Later, the first president democratically elected to take office after the return to democracy, Fernando Collor, resigned in 1992 after widespread corruption and minority support in Congress left him vulnerable to impeachment.

Should Silva win, however, the real question is not whether she will be able to sustain majority support in Congress, but rather whether she will do what it takes to achieve this goal. She faces an electoral dilemma not dissimilar to other leaders recently brought to power in the wake of large-scale political protests: Change must come by working within the system, yet those leaders were elected partly on an anti-system ticket. They are damned for "caving" or "selling out" when they try to work within existing institutional limits but, if they choose to remain loyal to protesters, they are damned by their incapacity to govern parliament through adequate coalition management.

Negotiating governing majorities in the Brazilian Congress has long been considered the primary challenge of any incoming president. No executive head in Brazil comes to power with an outright partisan majority. Exchange-based coalition building is the only way forward. Brazil's last three presidents had reasonable success in governing through an institutionalized and legal "gains-by-exchange" system. They deployed the formidable constitutional prerogatives of one of the world's most powerful chief executives to cajole and coax majority coalitions out of a fragmented and ideologically splintered congress. In a multiparty presidential system like Brazil's, pork, ministerial positions, and policies are more critical than ideology in cementing alliances and ensuring governability.

Brazil's exchange-based politics presents as many risks as rewards. Some presidents fall into the trap of treating resource distribution as an end unto itself, thus opening the door to political corruption. Other executives use coalition-building tools as the means to an end, to implement the policy promises that brought them to office. For these presidents, coalition management is an ongoing and complicated administrative process. And Brazil is a large, regionally heterogeneous developing country where approximately two dozen parties are represented in Congress, and partisan fragmentation is expected to increase.

Silva will face several important tradeoffs if she is to be an effective leader—and each of them will require a degree of ideological flexibility as well as an astute sense of possibilities for accommodation and negotiation. Currently, her ideological positions alienate her from the Brazilian Democratic Movement Party (PMDB), a large centrist and ideologically amorphous party that has played a pivotal role in all coalition governments since re-democratization. Her environmental views pit her against some of the most powerful politicians in Congress, many within the PMDB. Silva's candidate for vice president, Beto Albuquerque, recently admitted that "no party governs without the PMDB." But the latter is widely viewed as a party-for-sale, having allied itself with every government—of the right and the left—since the return to democracy in 1985. Given perceptions that Silva will not yield to business-as-usual exchange-based politics, prospects for a PMDB alliance are dim, and the party will certainly demand positions if it is to be counted on.

Accommodation and negotiation, then, will be key. And if Silva is open to that course, the new president should be able to look elsewhere: to the Social Democratic PSDB, the party of the current third-runner candidate for the presidency, Aécio Neves. Historically dominating the centre-right side of the spectrum (despite its leftist name), PSDB leaders have already placed calls to Silva's campaign and her husband, Fabio Vaz, a political operator in his own right, is ostensibly working behind the scenes to cement an alliance. Former president Fernando Henrique Cardoso, the most influential leader of the PSDB, has also made public statements in favour of supporting Silva in the second round of the election if Neves comes in third. If conditions are met, an alliance is all but assured.

Accommodation will also be required to corral support in an increasingly fragmented Congress. The number of political parties that hold seats in Congress's Chamber of Deputies should rise from 22 to 28 and very few will occupy more than 50 seats out of a total number of 513. Thus, small and mid-size parties will increase in importance. If Silva decides to play by the rules of exchange-based politics, she could foreseeably build a piecemeal coalition out of smaller parties; the advantage of this is that individual parties are relatively easy to substitute if they break away, which is not the case with larger coalition partners.

These tradeoffs will become increasingly important as her term goes on. If Silva does indeed win Brazil's highly competitive presidential race, her extraordinary symbolic capital should furnish her considerable partisan support. Failing stable congressional coalitions, the option of appealing directly to the public over the heads of elected representatives may strengthen her hand, at least for a short period of time.

Overall, Brazilian democracy has been remarkably stable, especially in the context of a volatile region and Brazil's patchwork democratic history. Parties have lost elections and power has repeatedly changed hands, both unambiguous signs of democracy. The political system has visibly increased commitments to safeguard citizens' civil and individual rights. Checks and balances have waxed rather than waned over time, and Brazil is one of very few countries in the region to have resisted the lure of illiberal solutions to entrenched historical problems. Serious challenges remain, especially in terms poverty, inequality, and the poor quality of policing and other social services. Moreover, as mentioned before, a President Silva would have to rebuild Brazil's economic and regulatory credibility.

No matter who wins, however, it is clear that Brazilian citizens are demanding far more of their leaders than anyone might have imagined just a few years ago—and politicians will have to adjust accordingly. Otherwise—and especially given the country's current economic slowdown—they are almost certain to face fresh turmoil ahead.

How to Bring Brazil's Economy Back to Life

THE POLICIES THAT HELPED BRAZIL TO HEALTHY GROWTH OVER THE PAST DECADE HAVE LOST MOMENTUM. THE NEXT PRESIDENT WILL NEED BOLD NEW IDEAS THAT LOOK BEYOND THE SHORT TERM.

About the Author

ROB DWYER

Rob Dwyer, based in São Paulo, is Latin America Editor of *Euromoney*, and writes regularly about Brazil and other Latin America economies.

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As Brazilians went to the polls on 5 October to choose their new president, Aécio Neves, the Brazilian Social Democratic Party (PSDB) presidential candidate, surged dramatically into the run-off election against the incumbent, Dilma Rousseff—taking almost all observers and polling companies by surprise. The twisting campaign remains unpredictable, but two things are certain. The first is that the Brazilian electorate faces a very distinct choice between two candidates with completely different economic philosophies and policies. The second is that the Brazilian economy is desperately weak. Brazil, which suffers from serious macroeconomic imbalances, fell into recession in the first half of this year. Whoever wins in the final stage of the election on 26 October will face the daunting task of restoring dynamism to a slow-moving economy.

At the end of September, the central bank lowered its prediction for Brazil's annual growth from 1.6 percent to just 0.7 percent. Such low growth is behind most other Latin American countries, with the exception of Argentina and Venezuela. For example, Mexico expects to grow at 2.7 percent and Colombia by 4.7 percent. Yet 0.7 percent is actually an optimistic estimate for Brazil: A survey of 100 private economists by Brazil's central bank revealed an average growth rate projection of just 0.29 percent. The level of public sector debt (at 60 percent of GDP), government taxation, spending rates, and the economy's investment and savings levels are closer to those of developed market economies than emerging market nations. Unfortunately for Brazil, this means that its growth outlook is more in line with Portugal's than Peru's.

Essentially, Brazil is suffering from "short-termism." In the 2000s, the economy maintained robust growth thanks to the 1994 implementation of a tough anti-inflation regimen during the presidency of Henrique Cardoso—but subsequent Brazilian governments (especially during the 2000s) were content to enjoy economic prosperity without introducing the macro and micro reforms that would have sustained it. Growth depended entirely on the commodity super-cycle—Brazil's mineral exports (particularly iron ore) and agricultural commodities (particularly soy)—as well as on domestic consumption. After the 2008 financial crisis, global liquidity entered emerging markets and extended Brazil's benign financial backdrop. Since the Workers' Party (PT) assumed power in 2002 under President Luiz Inácio Lula da Silva, Brazil's leaders have taken measures against income inequality (such as the Bolsa Familia, a social security program that provides financial support to low-income families) and achieved social advances that produced significant positive results. This combination of factors contributed to the rise of a new, consuming middle class that helped to sustain growth through a consumer boom.

Since these tailwinds have eased, however, the government's response has been to tinker, intervening in industries through price controls and tax adjustments, extending credit in public banks as part of a quasi-fiscal expansion policy, and pulling on monetary and fiscal policy levers in attempts to re-start spluttering growth. In the future, Brazil's government will simply have to prioritise policies that affect long-term growth.

The next president's first problem will be to address high and stubborn inflation, which is very close to the top of the central bank's target band of 4.5 percent, plus or minus 2 percentage points. Inflation hasn't hit the centre of the target since December 2009, and the IPCA consumer price index has been running at above 6 percent since July 2011. The central bank has adjusted by raising interest rates, but this has only slowed GDP growth even further. The Selic, the country's base interest rate, now stands at 11 percent. In all likelihood, the central bank will have to raise it even higher after the election if it truly means to get a grip on inflation.

Meanwhile, service-sector inflation is running at about 9 percent, and recent currency devaluations will create additional pressures. Economists say that, on average, every 10 percent of currency devaluation adds 10 base points to inflation due to the increased cost of imports in local currency. With inflation already high this is hitting the spending power of ordinary people. The traumatic hyperinflation that plagued Brazil in the 1980s and 1990s remains vivid in the minds of many Brazilians, and politicians are all too aware of the sensitivity of the issue.

At some point, the government will also have to dismantle the current price controls on gasoline and electricity subsidies, a move that will inevitably also increase inflation—and that will be incredibly unpopular with the public.

Brazil's deteriorating labour market is also suppressing growth prospects. Until recently, the economy's lack of job creation (now running at rates last seen in the 2008 crisis) wasn't leading to increased unemployment because the labour market participation rate was also falling—largely driven by greater numbers of young people entering full-time education. Now, however, unemployment has increased over the last two months, and expectations are that it will continue to rise throughout 2015. This will be yet another blow to consumer confidence. Consumption rates were already low following a decade long credit-boom that left the new "middle classes" indebted. Some estimate that 30 percent of this segment's disposable income is now spent paying off debt. In response to weakening credit quality, private banks have been hesitant to expand lending—and now even the public banks (which the government has been using as a counter-cyclical credit tool) are showing wariness about extending credit further down the risk spectrum.

The new president will also have to raise short-term tax revenue to counter the country's weakening fiscal position. Brazil's tax revenue is currently at 36 percent of GDP—above the OECD average and twice the average for Latin America—while its expenditures, at 41 percent, are even higher. Non-discretionary expenditures account for about 85 percent of that spending, so fiscal cuts will require significant structural reforms. Nor will the next government be able to count on the large, one-off revenue streams that shored up its balance sheet under previous administrations (such as the $6.2 billion the government earned by selling rights to the Libra oil field in October 2013).

The implication is clear: The next government will have to raise taxes. It will also have to abandon Brazil's recent experiment with supply-side economics, such as the auto-industry tax breaks that were meant to stimulate demand. Just as in the United States in the 1980s, the only material effect of this policy has been the lowering of tax revenues (by an estimated $36.5 billion in 2014, or 1.72 percent of GDP) and widened deficits.

Meanwhile, the country's southeast and center-west regions have been suffering from a severe drought. These areas are responsible for about 70 percent of all hydroelectric power generation. The government has ignored calls from hydrology experts to conserve dwindling reservoir levels, and if rainfall doesn't return to historical norms by November, it will have to consider energy rationing. Economists estimate that this will knock off between 100 basis points and 150 basis points of 2015 GDP growth, almost certainly plunging the country into recession. Environmental consultancies say that energy rationing is still a material risk for Brazil in 2015—and offers a perfect example of the lack of strategic, long-term thinking among the country's policymakers.

But these are just the domestic issues. The next government will also find itself operating in an external economic environment that is considerably less favourable than in the recent past. The expectation that interest rates will rise in the United States is already leading to greater risk aversion among investors, and the bountiful, quantitative-easing-created tide of liquidity that swept into emerging markets will recede. International investors are also beginning to differentiate between emerging markets to a greater extent, and Brazil isn't coming out on top. Mexico is now Latin America's favoured economy—followed by the other more dynamic economies that make up the Pacific Alliance. In many respects Brazil's closed economy, high level of government intervention, and persistent fondness for red tape and regulation—the famous "custo Brasil"—have made the country unattractive to investors, making its economy similar to Venezuela and Argentina in the eyes of some.

For longer-term growth to rise above trend growth projections, the government needs to address the country's low investment rate. Brazil invests less than 18 percent of GDP compared to the regional average of about 23 percent. Low investment has always been a drag on productivity-led growth, and now the demographic driver of growth is subsiding, making investment-led growth even more important. Brazil's working-age population is now growing at just 1.2 percent a year and will stop growing altogether by 2030.

The government is the best-positioned agent in the economy to facilitate this leap in investment. However, given Brazil's already high tax burden and large fiscal spending, any attempt to boost savings and investment would have to incorporate social security reform, reduced government expenditure, and cuts to tax and onerous and expensive business regulations. (Brazil's current account has deteriorated sharply in recent years—recording a deficit of 3.6 percent last year—and international financing of investment would widen the current account deficit to an unsustainable level).

The government has been refocusing its policies on infrastructure investment. Rousseff recently committed herself to a market-driven program of private-sector concessions, such as building and operating ports, airports, and toll roads. At one stage Rousseff seemed ideologically against this form of private-sector development, but people who have spoken to her directly about this issue now say she "gets it," and expect a new Rousseff government would continue with more rounds of concessions.

Such projects would generate investment that will not only boost growth but also address the negative side effects that poor infrastructure has on investment levels in other industries. For example, agriculture in Brazil is blessed with huge natural competitive advantages, but high costs for transporting crops from the interior to ports hit margins hard: It currently costs less to ship soy from a Brazilian port to China than it does to get the soy to the port from the farm.

There is also a growing risk to the country's investment grade status. The decline in the primary surplus (total spending before debt payments) this year will probably amount to around 1 percent—well below the 1.9 percent target and also well below the level required to stabilize its debt. Standard & Poor's cited the country's fiscal deterioration when it downgraded Brazil to the lowest investment grade rating in March 2013. And the position is worsening: In July, the government's revenues fell 2.4 percent when compared with the same period in 2013, and expenditures (adjusted for inflation) rose by 3.7 percent. This is well below projections. Without significant increases in taxes, cuts in spending, or short-term growth, Brazil will face a material threat to its investment grade status—not immediately after the election perhaps—but quite possibly in 2016.

The problems then, are many and deep-rooted. The markets clearly think Neves is the better option for re-starting Brazil's growth. The day after Neves shocked everyone by winning 34 percent of the popular vote in last Sunday's election, the stock market rose 5 percent. In the short term, a win for Neves would inspire a substantial recovery in business confidence, which has plummeted in recent months. That, in turn, would lead to a similarly short-term boost in investment and GDP growth.

Neves' commitment to return of Brazil to the economic "trinity" of inflation targeting, a free-floating exchange rate, and fiscal restraint (established by PSDB President Henrique Cardoso) would also likely reap immediate benefits. Neves has been so far light on specific policies, and instead has been focusing on criticizing Rousseff's interventionist approach. However, his announcement that Armínio Fraga—president of the central bank under Cardoso—will be his finance minister has created the impression that his would be a presidency that would return orthodoxy to macro-economic policy.

This could have a powerful effect: A study into the components of inflation by one economist found that almost 70 percent of the higher inflation in the period between 2011 and 2013 (compared to 2004 and 2010) came from the expectation of higher inflation. Re-anchoring inflation targets would bring significant benefits, and the next administration would be wise to signal its desire to hold inflation to under 5 percent in the next couple of years. It could do this by planning to dismantle current price distortions in the economy and committing to exchange rate liberalization.

In the longer term, Neves is the only of the two candidates to talk about the need for fiscal discipline and market-friendly reform. He supports opening up the notoriously closed economy to competition from the outside and reducing state intervention in the economy. But the challenge of putting these policies into effect shouldn't be underestimated, and any reform agenda is likely to encounter major political roadblocks—on the streets as well as in congress. The newly emerged middle classes, who typically vote for Rousseff's Workers' Party, regard Neves's Social Democrats as a self-serving and elitist group. If they believe that the richer classes are the only ones who will benefit from Neves's reforms, the result could be a return of last year's protests. But if Neves harnesses the momentum from his surprising first-round election win, and if he cites the success of modernizing policies in other Latin American economies like Mexico's, it could be possible for him to push through reforms significant enough to make Brazil more competitive and attractive to investment.

The alternative, a second Rousseff administration, is more problematic. During her campaign, Rousseff warned against making the central bank independent—which certainly doesn't suggest a swift return to credible inflation targeting. Over the longer term, Rousseff may broaden her infrastructure concessions, but that alone is unlikely to power growth. She would also need to implement wider, structural change, yet she has shown little inclination to do so during her first administration. Optimists suggest that Rousseff's current plan is likely to trigger sudden ratings downgrades—and the resulting increases in cost of capital and the damage to Brazil's pride might just convince her to reconsider her economic policy. It's conceivable that a second Rousseff administration may discover a new will to reform. One thing, though, is for sure: Brazil cannot afford to wait.

ABOUT THE EDITOR

Christian Caryl joined Legatum in October 2011. He is a Senior Fellow and the editor of *Democracy Lab*, a Legatum Institute website published in partnership with *Foreign Policy* magazine. *Democracy Lab* follows transitions from authoritarianism to democracy around the world. Before coming to Legatum Christian worked for a year as Washington bureau chief for Radio Free Europe/Radio Liberty. From 2000 to 2009 he was a foreign correspondent for *Newsweek*, running the magazine's bureaus in Moscow and Tokyo. He has reported from some 50 countries and his assignments have ranged from Japanese cuisine to the wars in Afghanistan and Iraq. His first journalistic assignment was covering the collapse of communist East Germany and the fall of the Berlin Wall. He has lived in Germany for thirteen years, Russia for seven, Japan for five, Kazakhstan for one, and Hong Kong for four months. His book *Strange Rebels: 1979 and the Birth of the 21st Century* (Basic Books) was shortlisted for the 2013 Cundill Prize in Historical Literature. Christian has a degree in comparative literature at Yale College and a graduate year at the University of Constance in Germany.

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LEGATUM INSTITUTE
11 Charles Street
Mayfair
London W1J 5DW
United Kingdom

t: +44 (0) 20 7148 5400

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