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Holier-than-thou no more

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The corruption scandal surrounding Brazil's governing Workers' Party has deepened, forcing the resignation of a string of top officials. According to one poll, many Brazilians suspect that President Lula da Silva—Latin America's leading political figure—knew about the alleged bribery of congressmen, casting doubt over his chances of re-election



HAVING portrayed itself for so long as owning a monopoly on virtue in political life, the fall from grace of Brazil's governing, left-wing Workers' Party (PT) has been spectacular. In the past month, amid mounting allegations of corruption, President Luiz Inácio Lula da Silva has lost a string of his top aides. The latest to step down, on Saturday July 9th, was José Genoíno, the PT's national president. Mr Genoíno quit the day after police arrested an aide to his brother (who is also a PT official) at São Paulo's domestic airport with \$100,000 in American dollars stuffed down his underpants and a further 200,000 *reais* (\$85,000) in a suitcase.

Suspicion was raised that the money might be connected to an alleged vote-buying scheme, in which the PT leadership is accused of raiding state-owned companies to bribe congressmen from smaller parties belonging to the governing coalition. Like all those facing allegations, the arrested aide protests his innocence—apparently he gave the police the curious explanation that he had earned the cash selling vegetables. (In a probably unrelated incident, a congressman from an opposition party, who is also an evangelical bishop, was briefly held at Brasília airport on Sunday night after being found with 10m *reais* in cash in seven suitcases—he said they were donations from his congregation.)

Earlier scandals had already begun to tarnish the PT's holier-than-thou image. But things got serious last month when Roberto Jefferson, a disgruntled government ally who runs the smallish Brazilian Labour Party (PTB), began spilling the beans on

a supposed 30,000 *reais* monthly “allowance” that he claims the PT has been doling out to some congressmen to secure their votes. The PTB, he claimed, declined the allowance but instead accepted a campaign contribution of 4m *reais*, stuffed in two huge suitcases. “Everyone knows where the money comes from,” Mr Jefferson told a congressional panel: state firms, their boards packed with political hacks, sign overly generous contracts with companies run by their cronies, who then distribute the loot as directed by the politicians. Mr Jefferson accused Marcos Valério de Souza, the owner of two advertising agencies that have big contracts with state firms, of being the scheme’s main bagman.

Evidence quickly emerged that seemingly supported the accusations. Mr de Souza’s agencies were found to have made large withdrawals from banks at times and places where politicians suspected of taking the bribes (or their aides) were also present. *Veja* magazine uncovered even more damaging documents, showing that Mr de Souza had acted as guarantor of a bank loan of 2.4m *reais* to the PT and even repaid an instalment of 350,000 *reais*—implying that money milked from state firms was used to fill the PT’s own coffers as well as bribing other parties’ politicians. Lula’s chief of staff, José Dirceu, resigned in the wake of Mr Jefferson’s explosive testimony and, last week, the PT’s treasurer and secretary-general took “leave of absence”. Since Mr Genoio’s signature was on the loan document, his departure was already looking likely. The arrest of his brother’s aide was the final straw.

More sleaze may yet emerge, and more heads may roll. Questions are being asked about the remarkable growth of a company jointly founded by Luiz Gushiken, the president’s communications chief. On Tuesday the president demoted Mr Gushiken from his cabinet, though he will continue being responsible for big government advertising contracts. Lula’s opponents, and the Brazilian press, are also sniffing around a small company in which one of the president’s children is a partner, which received a 5m *reais* investment from a privatised phone company. Again, all involved deny wrongdoing.

Allegations of vote-buying in the Brazilian Congress are no novelty. There were claims, investigated inconclusively so far, that lawmakers were bribed to pass a constitutional amendment to let Lula’s predecessor, Fernando Henrique Cardoso, stand for re-election in 1998. But the emergence of what looks like a money trail leading to the top of the ruling party has made this the country’s worst political crisis since 1992, when the then president, Fernando Collor, was forced to resign.

So far there has been no serious talk of Lula himself being forced out of office. However, an Ipsos poll for last weekend’s *Veja* suggested that 55% of Brazilians now think Lula knew personally about the alleged vote-buying scheme. Only 36% think the PT an honest party, though 55% still think Lula himself honest. Lula’s approval ratings—sky-high when he became president in early 2003—have slipped. But on Tuesday there was some cheer for the Brazilian president in a new poll from Sensus, which showed his approval ratings recovering to 60%, from 57% in the firm’s last poll in May.

Until recently it was almost universally assumed that Lula would easily win re-election next year. Now this seems uncertain. The president is hoping that the departures of those officials linked to the scandal, combined with a limited cabinet reshuffle, will help to put the crisis behind him. The PT is said to be encouraging the creation of a plethora of congressional inquiries into the various allegations—as opposed to a single inquiry into everything—in the hope that congressmen and the media will get so bogged down that the investigations make little headway.

Don't panic...yet

How the government's troubles might affect the running of South America's largest economy and the management of its enormous public debt is hard to predict. So far there has been little sign of panic on the financial markets, though this might change if the scandals begin to touch Lula's finance minister, Antônio Palocci, who has impressed investors with his firm control of the public finances. If Lula is so weakened that he decides against seeking re-election, the markets' reaction will depend greatly on whom the PT puts up in his place: a unreconstructed statist from the party's left wing? Or the market-friendly Mr Palocci, who would be a strong contender?

Brazil has not done so badly since Lula came to power. Fears of an Argentine-style economic meltdown and debt default have not been realised; inflation has stayed low; and growth, especially in the past year or so, has been respectable. But the PT's articulation in Congress has been poor—if it did bribe lawmakers, it didn't get much in return—and it has made ever slower progress on the economic reforms that are needed if Brazil is ever to enjoy an East Asian-style surge in prosperity. Its troubled South American neighbours sorely need the region's giant to keep on pulling them upwards. Brazil's scandal, if it ends up triggering a financial crash, risks dragging it, and them, down.