THE OPPENHEIMER REPORT

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Economy is key to Lula da Silva's second term

BY ANDRES OPPENHEIMER

SAO PAULO - Shortly after the polls closed Sunday and leftist President Luiz Inácio Lula da Silva had won a landslide reelection victory, his campaign manager and ruling party president, Marco Aurélio Garcia, brushed off with a wide smile my suggestion that Lula could be a weak president in his second term.

"On the contrary," Garcia told me in a half-hour exclusive interview at the hotel where Lula da Silva was preparing his victory speech. ``He will be much stronger than in his first term."

Earlier, several opposition leaders had assured me that Brazil will have a politically fragile president over the next four years. Among their arguments:

• Lula will start his second term with a host of ongoing investigations into his party's recent corruption scandals, which could eventually reach him.

While few insiders expect a Lula impeachment -- his nearly 21-percentage-point victory Sunday will give him a certain political immunity, at least for the near future -- his political adversaries will raise the specter of corruption charges at their convenience. One influential opponent told me, ``Lula will govern with a Damocles sword over his head."

• Lula will start his second term without the aura of anti-corruption fighter that helped him win his first term in 2002. This time, voters decided to overlook Lula's party's corruption scandals because a good world economic environment allowed his government to reduce poverty, but public sentiment toward the president may change if the economy sours, they say.

• Lula will have a largely opposition Congress. His Workers' Party will have a slightly smaller presence in Congress, and most governors of big states -- who in Brazil have an unusual influence in Congress -- will be oppositionists.

• The economy, which will grow by more than 3 percent this year, may suffer from a possible slowdown in world economic growth, excessive pre-election government spending and high interest rates, Lula's rivals say. And Lula's leftist constituents will demand more subsidies, at a time when the government will be forced to cut spending.
Finally, like reelected U.S. presidents, Lula will suffer from the lame-duck syndrome. Since he can't seek election for a third term, and Brazilian society would most likely not allow him to change the laws as Hugo Chávez did in Venezuela, Brazilian legislators and politicians will have little to gain by following his orders.

A DIFFERENT VIEW

Garcia, who until recently served as Lula's top foreign-affairs advisor, shrugged off those claims.

First, he said, the fact that the president won by a landslide will by definition allow him to start his second term on a strong footing.

Second, he said, he will have greater support in Congress than in his first term, because -- after he failed to win reelection in the first-round voting earlier this month -- he had to strike alliances with other major parties, such as former President José Sarney's Brazilian Democratic Movement Party.

"This new government will be more of a coalition government than the last one, and that will help us," Garcia said. "I think the first-round election results were good for the country, and better for Lula."

Third, the economy will grow faster, even if Lula is not likely -- "Thank God," Garcia said -- to adopt the fiscal, social-security and labor reforms that Wall Street is asking for.

"I don't think those three reforms are so essential for the country to grow," Garcia said. "We will reach an important economic growth, because we are already witnessing a changing pattern in monetary policy. As you know, there is a downward trend of domestic interest rates, which perhaps will continue. And that will speed up economic growth and will have a very positive effect on our exchange rate, which is a little overvalued."

REASONS FOR VICTORY

My conclusion: Lula won big-time because he is "simpático" to millions of Brazilian poor, many of whom have been helped by his social policies, and because his rival, Alckmin, was -- much like Al Gore or John Kerry in recent U.S. elections -- a wooden candidate who in the end couldn't connect with most voters.

Now, Lula's political fate will depend on the economy. If world conditions continue to help Brazil and Lula cuts back on the pre-election government spending spree, we will see a relatively strong president who will be able to stay isolated from his government's corruption scandals. If the economy sours, today's impressive victory will be a distant memory.