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HEADLINE: BRAZIL: IF LULA WINS, FREE MARKETS WILL SURVIVE

BYLINE: By Gary S. Becker; Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution.

BODY:

The large plurality of votes received by Luiz Inacio Lula da Silva, popularly called Lula, in the first round of **Brazil's** presidential election may seem like a resounding defeat for neo-liberalism in the world's fourth largest nation. After all, Lula is an old-time unionist and leader of the left-wing Workers' Party (PT). But I believe his strong showing mainly signifies that the Left has moved toward the center and accepts many of the tenets of free-market liberalism.

The contrast between Lula's behavior and background and those of retiring President Fernando Henrique Cardoso supports this interpretation. Cardoso was a former left-wing professor who helped develop dependency theory, which claimed that developing nations such as **Brazil** were exploited by capitalist economies such as that of the U.S. Yet as Finance Minister and then as President, Cardoso mainly followed conservative market-oriented policies. In 1994, Cardoso ended a rate of inflation that had exceeded 5,000% a year by launching a new monetary unit, the real. He pegged the real's exchange rate to the dollar until the Russian crisis in 1999 led to a run on the real that forced it to be floated. Still, annual inflation has remained well under 10% since 1997. Cardoso also privatized the inefficient state telecommunications and electricity companies as well as a few other sectors. But in its attempt to raise more revenue from the sale of these enterprises, the government alienated Brazilians by replacing public monopolies with protected private monopolies.

Although Jose Serra, the government candidate, trailed Lula by over 20% in the recent election, Cardoso remains popular according to recent polls. This sign that many policies of the 1990s remain popular explains why Lula eliminated most of the radical rhetoric that had been associated with his party.

During his campaign, Lula promised cautious government spending policies and committed his party to upholding the market-oriented reforms of the '90s. He pledged not to repudiate the large government debt accumulated under Cardoso's presidency and to work with the International Monetary

Fund and other global institutions to restore **Brazil's** reputation on world financial markets. To be sure, he expressed opposition to privatizing many more state enterprises, but he did not call for renationalization. He also supported bringing in private companies to run much of the water system.

There's no support in **Brazil**, or elsewhere in Latin America, for bringing back the discredited populist policies of earlier decades with extensive state ownership of companies, bloated government employment, and widespread protection of domestic industry. Socialism is no longer considered an alternative to the mainly capitalist systems that **Brazil** and most other Latin American nations now have.

Yet if Cardoso's policies remain reasonably popular, why did many Brazilian businesspeople and others in the middle class desert Serra and back Lula? Part of the answer is their belief that someone from the Left can better tackle the major problems facing **Brazil** without throwing out the progress reached in the '90s. This explanation is similar to why Britain turned to Tony Blair and his remade Labor Party after extensive market reforms under the Tory leadership of Margaret Thatcher and John Major.

Take unemployment, for example. The official rate now exceeds 8%, and the true rate is probably much higher. **Brazil** continues to have archaic labor laws that discourage employers from hiring; they induce many workers and companies to work in the gray economic underground. A flexible labor market may be attained more easily under someone like Lula, who has the confidence of unions, than under a conservative President -- just as it took New Zealand's Labor Party to free that country's labor market.

Lula also may be better able to deal with crime. **Brazil** has one of the highest crime rates anywhere: Rio de Janeiro is the only city where I remove my watch while strolling in a good neighborhood. With both the police and judiciary widely seen as corrupt, it may be easier for a populist to push for sharply higher convictions and increased punishments of criminals.

How Lula will handle **Brazil's** public-sector debt is less clear. The debt ballooned in the past few years from 30% to 60% of gross domestic product. Fear that Lula will default on this debt explains the sharp decline in stock prices and in the value of the real during the months leading up to the presidential vote. Although he has pledged to repay rather than "renegotiate" this debt by creating a budgetary surplus, it remains to be seen whether he can succeed.

Many middle-class Brazilians have come to support Lula because they believe he'll take a pragmatic approach while helping to solve remaining economic and social problems. Time will tell whether these expectations will be met. But his large vote doesn't indicate that **Brazil** has repudiated market-friendly policies.

The Associated Press

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HEADLINE: **Brazil** elections expected to have little impact on Amazon rainforest

BYLINE: By MICHAEL ASTOR, Associated Press Writer

DATELINE: RIO DE JANEIRO, **Brazil**

BODY:

It is the world's largest tropical wilderness, as big as western Europe, covering 60 percent of **Brazil's** national territory. But the Amazon rainforest remains insignificant as a campaign issue in **Brazil's** presidential race.

Environmentalists say that regardless of who wins Sunday's election, little is likely to change in the Amazon, where logging and farming destroy a Connecticut-sized region each year. "The Amazon is not in the national political debate with the potential it could have," said Analuce Freitas, public policy director for the World Wildlife Fund in **Brazil**. "There's always been a lot of interest in the Amazon, but that's mostly an imaginary Amazon and has little to do with reality."

The Amazon has excited the imagination of everyone from Spanish conquistadors who came in search of Eldorado, the mythical city of gold, to modern day scientists who believe the rainforest could hold the cure for diseases like AIDS.

Industrialists and politicians have long seen it as the country's final frontier, the key to transforming the country into a First World industrial economy.

The reality is very different.

Most of the massive development schemes launched in the 1970s and '80s failed miserably. Today, the region is inhabited by some 17 million people, most of them desperately poor.

There are jobs in Manaus, an industrial city in the heart of the rainforest,

but in the rest of the jungle there is little economic opportunity. The most pressing issue is not the environment but rather jobs and development.

Not surprisingly, all the major presidential candidates are careful to balance their concern for the environment with the promise of prosperity.

"I want to make clear that we don't see social and environmental issues only as a problem but as a path to develop our country," said front-runner Luiz Inacio **Lula** da Silva, of the leftist Workers Party.

The government's candidate, Jose Serra, who is running second in the polls, said he would seek to reduce the causes of deforestation and burning and promote sustainable agriculture and cattle ranching.

"This election marks the first time all the candidates are saying development of the Amazon has to be compatible with the forest," said Roberto Smeraldi, director of Friends of the Earth **Brazil**. "Between words and deeds, obviously there's always a certain difference."

Silva would seem to be the most eco-friendly candidate thanks to the much heralded success promoting sustainable development in the western Amazon state of Acre, where the Workers Party hold the governorship and a Senate seat.

The same people responsible for the successes in Acre will likely advise Silva on Amazon issues.

But Smeraldi worries that what worked in sparsely populated Acre may not work in heavily deforested areas on the Amazon's southern rim, where large settler populations are desperate for jobs, land and opportunity.

"At best, a left-wing victory might mean a little reorientation of the economic model directed toward the people and less toward the fat cats," said David Fleischer, a political science professor in Brasilia.

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