

# Contemporary Brazilian Politics

## I. Basic Political Institutions

## II. The New Republic (1985-present)

## III. Tax Reform: Should rates go up or down on the wealthy?

### I. Basic Political Institutions

#### EXECUTIVE

- 4-year presidential terms w/ possibility of 1 immediate re-election (after 1997 reform)
- ballotage election:
  - 1st Round: need majority of vote
  - 2nd Round: top 2 candidates in majority runoff
- powers
  - veto & partial veto (with override by absolute majority of joint session of LEG --> i.e. a weak veto)
  - provisional decrees have force of law until treated by LEG (must be treated in 30 days)
  - can submit own bills which must be treated in 45 days
  - can name & remove all ministers w/o confirmation

#### LEGISLATURE

- **lower house: Chamber of Deputies**
  - representation of provinces by population
    - rural provinces still overrepresented
  - 4-year terms concurrent w/ PRES since 1994
  - open-list PR elections
    - **fragmentation is the norm:**
      - many parties get in (23 currently)
      - the parties themselves have a weak hold on their legislators
        - (pork barrel politics gets you reelected)
- **upper house: Senate**
  - 3 per province
  - 8-year terms w/ 1/3 or 2/3 up every 4 years
  - plurality elections

#### JUDICIARY

- **Supreme Federal Court**
  - consists of 11 judges appointed by PRES & confirmed by Senate majority
  - *solely a constitutional court*
    - this is closer to the norm in Latin America (& the world)
- **Superior Court of Justice**
  - 33 judges appointed by PRES out of various existing lower courts (& confirmed by Senate)
  - highest court in the land on most matters
- all federal & state judges enjoy life tenure after serving two years

## II. The New Republic (1985-present)

### A. Tancredo Neves & Jose Sarney (1985-90)

- Neves built a coalition but fell ill on inauguration eve (3/14/85) & died in April
- Sarney was a last-minute addition who had supported military gov't until mid-1980s
  - not trusted by center-left nor by military's supporters
- briefly beat back inflation in 1986, then slowly lost control of the economy

### II.B. Fernando Collor (1990-92)

#### Quadros reborn???

- obscure rural governor attacked The Establishment & promised to beat inflation
- lacked national party & legislative majority

#### tried to push market reform by decree

#### resigned amid corruption charges

- 5/92 brother Pedro makes charges in *Veja*
- 8/92 congressional report documents corruption
- Collor tries to buy legislative support w/ pork-barrel projects
  - after failed “national mourning” speech
- 9/29/92 CofD begins impeachment (441 to 38)
- 12/92 Collor resigns prior to final vote
  - “take” estimates for Collor/Farias range from \$20m to \$2b

### II.C. Itamar Franco (1992-95)

#### Collor's V-P became president and visibly slowed the economic reform process inflation doubled in 1993 and was on the rise in 1994 until F.H. Cardoso was named economic minister & launched the Real Plan

- pledge to defend new currency at new lower value
- spending reductions to pull in budget deficit
- various efforts to end “indexation economics”

### II.D. Fernando Henrique Cardoso (1995-2003)

#### won presidency in 1994 first round

- first to win over 50% of vote since WWII

#### slowly built legislative coalition to privatize

#### used conditional cash transfers to increase school enrollments

#### payoff scandal clouded 1997 constitution amendment to permit reelection

#### won majority reelection in 1998 only to see economy falter amid int'l turmoil

- currency devalued by 25% in 1999, 30% in 2001, & 20% in 2002

### II.E. Luiz Inácio “Lula” da Silva (2003-2011)

#### leader of the center-left PT moved to the center to win the 2002 election

- in campaign he agreed to abide by the existing IMF accord
- in office he initially delivered a higher budget surplus by cutting social spending

#### his main social policies (“Zero Hunger” and “Family Stipend” conditional cash transfers) were launched slowly

#### the PT had many loyal to Lula and others loyal to the previous party platform

- 4 PT legislators were expelled from the party in Dec. 2003 for voting against Lula's pension & tax reform bill

#### 2005 corruption allegations re: campaign finance & legislative vote-buying created a new cloud

#### good economic news in '05-'06 helped Lula win reelection

- more good economic news followed in '07-'10: agro boom, major oil discoveries, resilience in face of global economic downturn, etc.

## II.F. Dilma Rousseff (2011-present)

- **longtime member of center-left PDT joined the PT in 2001**
  - she had been energy minister in state government for PDT
- **in Lula's cabinet, she became Mines & Energy Minister**
  - this made her one of only a handful of women to have served in the national cabinet in Brazilian history
- **when Chief of Staff Jose Dirceu resigned during the corruption scandal in 2005, Rousseff replaced him**
  - she established herself as a credible leader, but not a charismatic one
  - she underwent successful chemotherapy for a lymphoma in 2009
- **Lula strongly backed her selection as the PT's candidate for the 2010 presidential election**
  - Rousseff was the first major party female candidate for president in Brazil
  - in turn, Lula campaigned actively for her as she overtook Jose Serra in opinion polls and, ultimately, won via a runoff election
  - Rousseff has quickly removed two handfuls of collaborators facing corruption allegations

## III. Tax Reform: What should Brazil do?

- **A. The Stakes**
  - (unless it's income-neutral) the tax system affects income distribution
  - generate sufficient revenue to defend currency & provide/expand basic services
  - reduce potential for renewed inflation
  - maintain investment climate & creditworthiness
  - try to avoid alienating interest groups & ordinary citizens in the process

- **B. The Players**
  - too many to count...

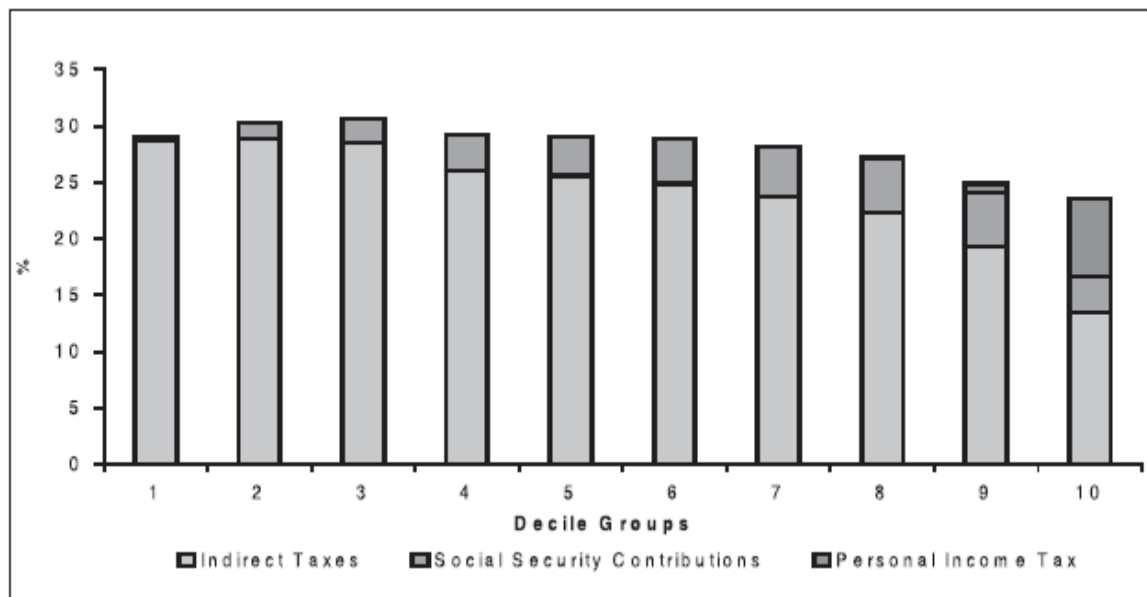
## III. C. Basic Tradeoffs

- *Distributional Issues*
  - Progressive v. Regressive
    - progressive: from rich to poor
    - income-neutral: no redistribution
    - regressive: from poor to rich
- *Revenue Collection Issues*
  - Compliance v. Avoidance v. Evasion
    - compliance: payment of all taxes legally owed
    - avoidance: reduction of taxes owed via how money is used within the law
    - evasion: reduction of taxes owed via illegal non-compliance
  - Regressive taxes tend to be easier to collect

## III. D. The Brazilian Tax System

- *In Brazil, the wealthy pay a smaller % of their income in taxes than middle- and low-income taxpayers*
  - tax evasion (esp. via undeclared income)
  - tax avoidance (esp. by use of business expenses)
  - tax structure concerns
    - the VAT (value-added tax) is the biggest chunk of the tax system
    - many exemptions in income tax system
- *Having a regressive tax system is particularly controversial because Brazil has had, for decades, one of the highest levels of income inequality in the world*
  - Brazil has been among the ten most unequal countries in the world for decades
  - *the Gini coefficient fell from .60 to .55 under Lula*

## Taxes paid at different income levels in 2000 in Brazil



## The VAT rate v. the effective VAT rate

income	relevant spending	money on G & S	rate	VAT paid	VAT as % of income
50	0.98	49	0.3	14.7	0.294
200	0.98	196	0.3	58.8	0.294
1000	0.98	980	0.3	294	0.294
10000	0.98	9800	0.3	2940	0.294

income	relevant spending	money on G & S	rate	VAT paid	VAT as % of income
50	0.98	49	0.3	14.7	0.294
200	0.95	190	0.3	57	0.285
1000	0.8	800	0.3	240	0.24
10000	0.5	5000	0.3	1500	0.15

## III.E. Latin American Tax Reform Trends

- Cut tariff barriers
- Raise the VAT [sales tax] rate
  - and cut exemptions
- Lower individual income & corporate rates
  - and, sometimes, cut exemptions
- Efforts to improve enforcement
  - computerization
  - (sometimes) via swifter action
- On balance, reforms increased the tax share of low- & middle-income households
- *Q: What should Brazil do now & why???*