And the election cycle begins . . .

João Augusto de Castro Neves, *Washington D.C.*

WITH GENERAL ELECTIONS LESS THAN a year away, political dynamics in Brazil will be increasingly shaped by polling numbers and suppositions about potential candidates. For starters, an interesting aspect of next year's race is the "second-best" nature of the three main contenders. A glance at the polls confirms that in each party more prominent political figures currently overshadow each of the three major presidential hopefuls.

In the Workers' Party (PT), will former president Lula replace Dilma Rousseff in the ballot? Will José Serra supersede Aécio Neves as the Social Democratic Party's (PSDB) candidate? In the Socialist Party (PSB), will Marina Silva lead the ticket with Eduardo Campos as her VP? Definitive answers to each of these questions are unlikely to materialize before the party conventions in June.

Speculation aside, it's safe to say that next year's presidential election will be the most interesting in over a decade. Underscoring this appraisal is the fact that the well-known polarization that has dominated the country's political landscape for nearly two decades will be splintered by a third party. A recent defector from the current governing coalition, the PSB will seriously shake up the established feud between the "old-timers," the PT and the PSDB.

At this juncture, with the major political forces coalescing into three distinct camps, it is possible to speculate about what the next government's policies will look like. The issues raised by protesters earlier this year will be central to all the candidate's platforms. It is important to note, though, that this is a response not only to the recent demonstrations but also to the expansion of the middle class in the past decade. The emergence of these consumers has changed Brazil's economy. The growth of this segment of the population is also changing the demands on politicians.

A decade ago, according to public opinion surveys voters were primarily concerned with such economic issues as jobs, salaries, and inflation — quality of life issues, such as health, security, and education, were of secondary concern. Since then, however, preoccupation with economic issues has steadily declined while the quality of life agenda has expanded in importance and recently surpassed the economy as voters' primary concern. To succeed politically, politicians will have to work harder to deliver tangible improvements to services. Unfortunately for them, this challenge is occurring at a time when resources are less abundant than five years ago.

joao@castroneves.net

So how would the three main contenders respond to these challenges?

Dilma Rousseff's critics argue that her government's decision to intervene often in currency markets, its tolerance for above-target inflation, and the deterioration of government fiscal accounts represent an erosion of macroeconomic management. While these critiques are not without substance, they go too far when they suggest that Rousseff's economic policy has broken with the policies of the past two decades. A more nuanced interpretation takes into account the effects of the economic supercycle — the commodity and consumption booms from 2004 to 2010 — on policymakers, and their incentives.

With the end of the supercycle, the Rousseff administration is slowly turning to a more constructive economic agenda. Signs of this shift can be found in the central bank's recent cycle of rate hikes intended to fight inflation, signals from Rousseff that the government will reduce the subsidized lending of public banks to nonstrategic sectors, and the government's aggressive turn to the private sector for transportation infrastructure. If Rousseff wins, the gradual shift to more constructive policies—although consistently behind the curve—can be expected to continue.

If Aécio Neves wins, the shift to more market-friendly policies would be wholesale. Not only would he restore the orthodox premises of macroeconomic management, he would also unwind some of the excessive interventionism of the state in key sectors of the economy, such as energy. Neves would probably improve and deepen the government's engagement with the private sector and launch an agenda of economic reforms to boost competitiveness. His challenge would be essentially political in that he would have to form a coalition of center and center-right parties to endorse these changes.

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An Eduardo Campos—Marina Silva government could be more of a wildcard in terms of social issues, especially because of Silva's conservative ideological bent. Furthermore, her track record as an environmentalist casts doubts on the future of energy policies. On macroeconomic topics, however, the signs from both suggest a more positive trajectory, similar to the changes that Neves would implement. But here too the main challenge would be political: Campos and Silva would have to carve a new coalition, breaking the balance of power that has structured Brazil's politics for the past two decades. ■

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