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Coalitional Presidentialism and Side Payments: Explaining the *Mensalão* Scandal in Brazil¹

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Abstract

The Brazilian *mensalão* scandal of 2004-2005, which involved illegal monthly side-payments from the executive's office to legislators, poses a puzzle: Why would a publicly popular and constitutionally powerful president need to use illegal means to generate legislative support? We argue that Luiz Inácio Lula da Silva faced initial bargaining conditions and constraints that made using orthodox means of generating legislative support difficult. In particular, Lula's Workers' Party was, for historical reasons, a fractured one that lacked cohesiveness and that distrusted other parties. Additionally, the relative ideological extremity of his party made bargaining with the rest of the legislature expensive. Finally, he faced policy constraints imposed by the international financial community that required him to take positions on fiscal policies that alienated core supporters. We argue that these difficult conditions contributed to strategic choices that left few conventional options for the executive in terms of generating legislative support.

Resumo

O chamado escândalo do "mensalão" de 2004-2005, o qual envolveu pagamentos ilegais e mensais do Poder Executivo a parlamentares, apresenta uma pergunta fascinante: Por que um presidente constitucionalmente forte e com grande respaldo popular precisaria empregar medidas ilegais para conseguir apoio legislativo? O nosso argumento é que Luiz Inácio Lula da Silva enfrentou condições iniciais de barganha que tornaram difíceis as estratégias rotineiras para se construir uma maioria parlamentar. Em primeiro lugar, o Partido dos Trabalhadores (PT), devido à sua trajetória histórica, era um partido caracterizado por facções internas e demonstrava desconfiança face aos demais partidos. Além disso, o relativo extremismo ideológico do PT aumentou os custos das negociações com os outros atores no interior do Poder Legislativo. Finalmente, Lula enfrentou as limitações impostas pela comunidade financeira internacional, que obrigaram o presidente a defender políticas fiscais rejeitadas por militantes históricos do PT. Sustentamos que essas difíceis condições levaram a escolhas estratégicas que deixaram poucas opções convencionais para o Poder Executivo conquistar apoio parlamentar.

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Introduction

He seemingly had everything going for him. He had handily won the presidency of the largest country in Latin America, despite a history of radical views that had compromised his four previous unsuccessful campaigns. He had assumed an office that vested in him extraordinary constitutional powers. Even the financial markets had decided that he was a palatable choice, again despite a profile that seemed to conflict with the fiscal austerity programs required by international donors. He had rapidly received the support of ten political parties in Congress, earning the backing of a large majority in the lower house. To top it all off, he was wildly popular with the general public. Why, then, did the administration of President Luiz Inácio Lula da Silva resort to illegal side payments in order to generate legislative support? If anything, legislators should have been paying *him* for the privilege of hanging from his coattails. To explain this puzzle, we argue that intra-governmental bargaining conditions and sub-optimal bargaining strategies were the primary causes of the *mensalão* bribery scheme that took place in Brazil from early 2004 through May 2005.²

Our argument emphasizes both institutional constraints and the relative autonomy of presidential leadership. A substantial literature has identified numerous linkages between characteristics of political institutions and public corruption. This literature has generally proposed and found that presidentialism (Persson, Roland, and Tabellini 1997; Panizza 2001; Gerring and Thacker 2004; Lederman, Loayza, and Soares 2005; Kunicová and Rose-Ackerman 2005), federalism (Treisman 2000; Gerring and Thacker 2004; Kunicová and Rose-Ackerman 2005), and proportional representation electoral systems (Persson, Tabellini, and Trebbi 2003; Kunicová and Rose-Ackerman 2005) are associated with greater levels of perceived corruption, though Treisman's (2007) review of the literature raises some questions about whether these institutions have an impact on the actual frequency of corrupt activities. This literature has not yet investigated how such institutions work in conjunction with one another or how combinations of institutions structure the intra-governmental bargaining game – questions difficult to answer with aggregated cross-national data.

Brazil is one of four countries in Latin America to possess all three of these institutional characteristics (i.e., presidentialism, federalism, and a proportional representation electoral system for the national legislature),³ and over time Brazil has refined a model of *coalitional presidentialism* to compensate for the fragmenting effects of this

² In Portuguese, the word *mensalão* literally means monthly payments, or figuratively a “monthly retainer.” In reality, the payments were not monthly but instead timed around crucial roll-call votes in Congress. Nonetheless, when the scandal broke the media seized on the “monthly” concept and the *mensalão* term stuck.

³ The other three countries are Argentina, Venezuela, and Mexico; the fragmenting effect of proportional representation in Mexico is attenuated by a mixed electoral system, however.

constitutional environment. Under coalitional presidentialism, presidents must behave similarly to European prime ministers in multiparty systems, sharing power and governing in concert with several parties. Simply put, presidents need to put together broadly based and proportionally distributed coalitions in order to pass legislation. We contribute to the literature linking corruption and political institutions by highlighting the coalitional dimension of Brazilian governance and by asserting that the characteristics of intra-governmental bargaining were the major permissive factors in the *mensalão* corruption scandal.

Briefly summarized, our argument is that political corruption occurs when official intra-governmental bargaining resources fall short of overcoming the difficulties in the bargaining environment. In the case of the Brazilian *mensalão*, the bargaining environment was extremely complex due to: (1) the bargaining constraints set up by the particular configuration of Brazilian political institutions, with its tense combination of strong centralizing and decentralizing forces; and (2) the particular bargaining context facing Lula, including the distribution of legislative preferences, the policy agenda, and the historical trajectory of Lula and his Workers' Party (*Partido dos Trabalhadores* or PT). Lula's party had spent more than two decades as firmly entrenched government outsiders. When their time to govern arrived, some on-the-job learning was unavoidable. While Lula also commanded tremendous official resources to deal with these complications, the strategic choices made by Lula's administration reduced the effectiveness of these resources. Ultimately, corruption filled the gap when the misused official resources fell short of meeting the challenges posed by a very difficult bargaining environment.

This essay proceeds as follows. First, we offer some context and disclaimers with regard to the *mensalão* scandal. Second, we examine how the political game of executive-legislative relations is structured under the Brazilian variant of coalitional presidentialism. The third section examines strategic options for the executive, the lead player in this game. We then offer a brief history of coalition management in Brazil before turning to the contextual issues facing Lula beginning in 2003. Our central argument is that poor initial choices in the management of interparty coalitions were conducive to the *mensalão* scandal. We conclude by discussing the ramifications for our understanding of corruption and accountability in Brazil.

A Prefatory Note on the *Mensalão* Scandal

In order to partake of our logic, the reader must accept that the *mensalão* did in fact exist. A minority of observers, including some prominent Brazilian social scientists, either do not believe that the government made illegal side payments to legislators in 2004-2005 or claim that the evidence is at best fragmentary. Disbelief in the *mensalão* may result from

political reasons (e.g., sympathy for the Lula government) or from skepticism about the evidence, but what concerns us here is only the latter. We acknowledge that as is the case with most political corruption scandals, the evidence is sometimes indirect and can be compromised when (as here) the whistle is first blown by a disgruntled conspirator. However, in this paper we side with the overwhelming majority of observers who agree that the Lula administration paid bribes to legislators in order to secure political support in Congress.

We will not go into the details of the several intersecting investigations (mostly centered on the Postal Service and the regulation of gambling) that led to the uncovering of the *mensalão* affair. Suffice it to say that on June 6, 2005, federal deputy Roberto Jefferson of the *Partido Trabalhista Brasileiro* (PTB) revealed a scheme by which aides to Lula used illegal side payments to win votes in Congress. Within days, the legislature had established two parallel investigatory committees that made further spectacular revelations. Members of these *Comissões Parlamentares de Inquérito* (CPIs) were designated according to long-standing conventions of proportional representation, and thus the committees were dominated by allies of Lula. This, however, made no difference to the outcome once financial evidence began to roll in and prominent witnesses took the stand, some with detailed confessions and some armed with impressive paper trails. Payments of specific amounts were linked to individual legislators and their staffers, and these payments were clearly synchronized with important legislative roll-call votes over the previous two years. The political consequences were immediate and, for some, dire. In late 2005, Jefferson and José Dirceu, the former chief of staff to Lula, were expelled from Congress and lost their political rights for eight years. Several other legislators resigned their seats preemptively to avoid the same fate.

On April 5, 2006, a special joint congressional committee released its final report in which it named 18 deputies (and one former deputy) who had received *mensalão* payments. The committee, which was chaired by Sen. Delcídio Amaral of Lula's own party (the PT) and had as rapporteur a respected attorney, Dep. Osmar Serraglio of the PMDB (the largest party in Lula's support coalition), won praise for its impartiality and for the detail of its report. The committee declared bluntly that the *mensalão* was a form of vote buying in Congress that was operated by aides to the president, but the committee spared President Lula from direct responsibility for the affair. The committee approved the report by a 17-4 vote and referred it to the congressional leadership. Subsequently, the full Chamber of Deputies absolved some of the accused, each of whom received a separate secret vote.

Parallel to the internal congressional investigations, the Federal Public Prosecutor (*Procurador Geral da República*), Antônio Fernando de Souza, launched an independent criminal investigation. In March 2006, Souza asked the Supreme Court to open criminal

proceedings against 40 individuals linked to the *mensalão* affair, including some who had already been judged by their political peers. Roberto Jefferson, for example, was formally accused of money laundering, even two years after he had already been expelled from the Chamber of Deputies. José Dirceu, along with former PT president José Genoïno and party treasurer Delúbio Soares, was accused both of racketeering and of intent to corrupt others (*corrupção ativa*). All in all, Souza's brief identified a so-called "Gang of 40": four senior PT officials, 10 federal deputies in the PT and allied parties, a dozen members of legislative staff, and several bank employees who allegedly operated the *mensalão* scheme. Spectacularly, in August 2007 the Supreme Court (*Supremo Tribunal Federal* or STF) announced that it would approve all 40 indictments and that each of the accused would have to stand trial in the STF, probably in 2009 or 2010.

We note that the congressional investigatory committees were dominated by allies of Lula; that the full Chamber of Deputies, controlled by pro-government forces, expelled key political aides to Lula based on the committee reports; that the federal prosecutor, Souza, was appointed by Lula; and that six of the ten Supreme Court justices who approved the 2007 indictments were also appointed by Lula.⁴ We conclude that if all these well-placed allies of Lula accepted the allegations of *mensalão*, there must be something to the accusations. This is to say nothing of the mountains of investigatory journalism that have accumulated since early 2005, all of which point strongly to the same conclusions. In fairness to President Lula, we note that the investigations uncovered evidence that the opposition PSDB in the state of Minas Gerais also enlisted the same illegal financier (Marcos Valério de Souza) in the elections of 1998 and, moreover, that the president himself has not been implicated directly in the scandal. President Lula has been accused of sins of omission, not of commission.

The objective of this paper is not to demonstrate whether Lula did or did not have direct knowledge of the *mensalão* affair (an issue that is likely to remain unresolved), but rather to discuss the institutional and political variables that apparently led his administration to initiate the scheme of illegal side payments. Like astronomers studying a black hole, we cannot directly see our phenomenon of interest; we can only infer that it exists by constructing a theory that can be tested indirectly by marshalling various lateral bodies of evidence. Our theory relies on coalitional politics and presidential strategy. Our bodies of indirect evidence include cabinet representation, political ideology, and transfers of particularistic resources ("pork") between the executive branch and its backers. If the empirical implications of our theory "follow the money" and match up well with the

⁴ There was one vacancy at the time of the August 2007 Supreme Court deliberations.

conclusions reached by independent investigations, we gain confidence that we have correctly identified some of the important permissive factors at work.

The Structure of the Political Game

The extensive institutional powers and resources of the Brazilian president add considerably to the “clarity of responsibility” (Powell 2000) for government actions, a crucial piece in the accountability relationship between government and the citizenry. However, from the executive’s perspective the political game is not always so clear. The institutions that strongly centralize power in the office of the executive are counter-balanced by strong decentralizing forces. Certain Brazilian institutions disperse power and individualize incentives, thereby complicating the executive’s job of generating legislative support through official channels – to the point that Brazilian presidents may sometimes feel like their job is not so different from herding cats.

Chief among these complicating features are Brazil’s electoral institutions (Ames 1995a, 1995b), which negatively impact policymaking efficiency. Brazil uses an open-list proportional representation (PR) electoral system with virtually no effective national threshold for party representation in the legislature. The mixture of electoral institutions produces excessive party fragmentation. In fact, Brazil’s multiparty political system is one of the most fragmented in the world (Mainwaring 1999). The party of the president has not held more than 25% of the lower house seats since 1990. Compounding the issue of fragmentation is that party switching by legislators is a common occurrence in Brazil (Melo 2004; Desposato 2006)⁵ and coalition voting discipline is not particularly high (Amorim Neto 2002).

Open-list PR systems also encourage voters to support candidates based on personal qualities and activities (Mainwaring 1991; Ames 1995b). Consequently, individual legislators have incentives to cultivate direct relationships with local constituencies rather than doing so through national parties. This cultivation typically takes the form of personalistic politics and support for geographically oriented pork-barrel policies. The system also gives state parties (rather than national parties) influence in the selection of legislative candidates. In sum, the political party system makes building stable and reliable coalitions

⁵ In the last two decades, up to one-third of federal legislators have typically switched parties during the quadrennial legislative sessions, but the practice has recently been restricted by court decisions. In August 2007, a resolution by the *Tribunal Superior Eleitoral* (TSE), later confirmed by the Supreme Court, established the principle that elective mandates belong to parties, not individuals, and that party defectors would lose their seats in legislative bodies. These rulings have been challenged in several hundred court cases in the past year, with some politicians claiming just cause for defection. Currently, the Lula government is sponsoring a constitutional amendment that would open up a “window” for party switching six months prior to elections.

difficult (Samuels 2000) and prevents the executive from generating legislative support by assisting legislators with reelection efforts.

The federal structure of government and the existence of an independent judiciary also disperse power in ways relevant for bargaining outcomes. These institutions further increase the number of veto players in a country (Tsebelis 2002), meaning that the number of actors capable of blocking any particular policy initiative is larger. As the number of veto players increases, the ability of the executive to create policies directly reflective of her personal preferences tends to decrease.

If this were the end of the story, the plight of the Brazilian executive in a highly decentralized system might seem bleak indeed. However, as mentioned at the outset of this section, the Brazilian executive also benefits from various institutions that centralize power and resources. A number of studies have shown that variables internal to the decision-making process (e.g., the rules by which the Congress operates, the degree of cabinet proportionality) and the institutional legislative powers held by the president (e.g., decree and veto powers, the right to introduce new legislation, permission to request urgency time limits on certain bills, and discretionary powers over budget appropriation) influence the behavior of legislators in ways that promote governability (see Figueiredo and Limongi 2000; Amorim Neto 2002; Amorim Neto, Cox, and McCubbins 2003; Pereira and Mueller 2004; Alston and Mueller 2006). In addition to these centralizing tendencies in government, the high degree of fragmentation in the legislature can also be positive in that the executive has many potential partners and allies, while the low degree of party loyalty and discipline means that monetary benefits are likely to be persuasive for a substantial number of legislators.

The upshot for the executive is that certain political institutions hinder the executive in implementing her policy preferences, while other political institutions increase her ability to do so. The former constitute bargaining obstacles for the executive (or in some cases bargaining assets for legislators), and the latter constitute sources of bargaining leverage. The president stands at the intersection of these centralizing and decentralizing institutions, charged with creating and maintaining a governing coalition in this complicated and contradictory environment.

Strategic Governance Options

Standing as he does at this intersection, a Brazilian executive must develop an integrated governing strategy that balances political transfers (i.e., cabinet posts, other patronage), monetary transfers (i.e., pork), and concessions on policy preferences within the overall systemic constraints. Ideally, an executive would develop an integrated strategic approach that minimizes total costs to utility. The strategy chosen will also depend on the

distribution of preferences and baseline support in the legislature, what types of policies the executive hopes to pass and implement, and the president's popularity with the public. The executive can trade on public popularity when bargaining with the legislature, though this technique is less effective in a regime like that of Brazil in which partisan identification is relatively weak and legislators are elected more on a personalistic basis.

The distribution of political benefits itself is multifaceted, since the executive must determine the number of parties in the formal governing coalition, the ideological spread of those parties, and the proportionality of the seat distribution within the cabinet. Again, he does so within an overall system of constraints. These choices constitute the executive's "coalition management" approach, which we define as *the strategic manipulation of coalition characteristics over time to achieve legislative objectives*. Smaller and more ideologically homogeneous governing coalitions are easier to manage internally; however, a governing coalition with a smaller number of political parties, especially if these parties include a minority or a bare majority of legislators, can cause substantial difficulties with getting legislation passed. Furthermore, excluding certain parties raises the risk of alienating those parties, and the appearance of an unfairly small governing coalition could otherwise generate ill will.

A cabinet constituted disproportionately of an executive's own partisans may also create external animosity, but the larger effect would be to disrupt relationships within the governing coalition. Commitment to the governing coalition generally carries with it an expectation that the political party will have access to cabinet posts, as well as the associated resources and policymaking capabilities. Ignoring such expectations can undermine support from within the governing coalition.

In addition to political transfers, the executive may also obtain legislative support using monetary benefits. The Brazilian executive has the authority to choose which individual pork requests (i.e., individual budgetary amendments) and which state-based pork requests will actually be executed and disbursed. Monetary benefits are particularly valuable in a political system like that of Brazil in which ideological commitments tend to be weak and pork is a highly effective tool for getting reelected (Pereira and Rennó 2003).

Pork is not, however, a magic bullet for generating legislative support. We have demonstrated elsewhere that pork expenditures suffer from diminishing marginal returns in producing legislative support; expenditures become less and less effective, in part because there exists a "price ceiling" on the possible level of legislative support (Raile, Pereira, and Power 2008). Furthermore, the effectiveness of obtaining legislative support through the distribution of monetary benefits depends on the distribution of political benefits (and *vice versa*); the two types of goods – political and monetary – act as imperfect substitutes in the political marketplace (Raile, Pereira, and Power 2008). Additionally, our formal model of

exchange in multiparty presidential regimes predicts that the executive is better off using monetary transfers in exchange for support from factions that are ideologically distant, but she is also better off using political transfers when the support of ideologically similar factions are needed (Araujo, Pereira, and Raile 2008).

The number of moving parts here is daunting, but one should also consider the issue of what an executive intends to *do* with legislative support. All other things held constant, non-controversial and minor policy changes will require the executive to be less accommodating. The importance of legislative efforts to the executive is also relevant. The executive will be less reluctant to give ground on policies over which he has weak preferences. Finally, the executive must consider non-traditional legislative options. The Brazilian president has substantial unilateral decree powers that can serve as a credible threat when bargaining with the legislature (Pereira, Power, and Rennó 2005, 2008). However, an executive must exercise care with these unilateral powers, since they too can generate animosity in the legislature.

A Brief History of Brazilian Coalition Management

In 1992, Brazilian President Fernando Collor de Mello became the first popularly elected president to be impeached and removed from office in Latin America. At first glance, the impeachment seemed like one more chapter in the traumatic story of Brazil's fledgling democratic institutions. However, this episode – complex and distressing as it was – illustrated how the Brazilian presidential system that emerged from the 1988 Constitution was flexible enough to allow adjustments under democratic rule. The democratically elected legislature, not the military using extra-constitutional means, decided to remove Collor from office based on charges of corruption. From this perspective, the impeachment process supplied evidence that Brazilian democratic institutions could effectively check opportunistic behavior on the part of a very institutionally powerful and resource-laden executive.

Accusations and evidence of corruption against Brazilian presidents are not rare, so why was Collor impeached and removed from office but not others? Why was Collor unable to trade pork, local policies, and cabinet portfolios for his political survival? The Collor government has been the only administration since re-democratization in which a president governed without a stable, multiparty, majority governing coalition supporting him within Congress. Collor preferred instead to build *ad hoc* coalitions, relying mostly on his high popularity and a strategy of “going public” to achieve majority support.

Collor (1990-1992) had an initial governing coalition that consisted of only three political parties (PFL, PMDB, and PRN). Collor's coalition began with 245 seats, which was about 49% of the Chamber of Deputies at the time; this was clearly a minority coalition

government (see *Table 1*). His coalition size quickly dropped to 144 seats by the end of the first year of his administration when the PMDB quit the cabinet and was replaced by the PDS/PPR. Collor's first cabinet straddled the center and right ideologically, but his second and third cabinets were the most homogeneous coalition governments of the democratic period, featuring exclusively right-wing parties. Further, his cabinets were extremely disproportional – the coalition parties apart from his own small party (PRN) were underrepresented within the cabinet. In his first cabinet (shown in *Table 1*), 60% of the posts went to independent, nonpartisan ministers. He did not share power with parties that could support him in times of need. In 1992, facing massive popular protests around the country and without a credible and sustainable coalition in Congress, the cost of “buying” support eventually caught up with Collor. Partly as a consequence of this political choice he was impeached and removed from office.

Fernando Henrique Cardoso (1995-2002), on the other hand, learned quickly that governing without a sustainable coalition in Congress would be too risky even with an impressive range of presidential powers and resources for trade with legislators. He initially included only four parties in his governing coalition (PSDB, PFL, PTB, and PMDB). However, in order to accelerate approval of his many proposed constitutional reforms (which necessitated supermajorities in both houses of Congress), Cardoso recruited two additional parties (PPB and PPS) into his government, bringing the coalition size up to 381 seats, or almost 75% of the Chamber of Deputies. Though large in size, the Cardoso coalition was not endangered by internal ideological differences. The coalition was a focused center-right coalition in which the constituent parties shared a considerable amount of consensus with regard to the president's agenda of constitutional reforms. A notable feature of the Cardoso coalition was the high level of “coalescence” (Amorim Neto 2002) or proportionality of his cabinet. The coalition management choices made by Cardoso were decisive elements in helping him to sustain his majority coalition for almost eight years at a comparatively low cost.

[Table 1]

Specific Context for Lula's Game

As mentioned earlier, systemic institutional features are important for setting the bargaining parameters and stakes, but these broad features do not constitute the entire set of information relevant to the executive-legislative bargaining game. Certain features of the game facing any executive are contextual. One important contextual feature for Lula was the nature of his political party. The PT was a house divided. Born in 1979-1980 as an unusual alliance of workers, intellectuals, and social movements, the PT had always had multiple

factions or *tendências*. In 2002, the dominant faction was the *Campo Majoritário*, which itself was a merger of sorts between Lula's historic group known as the *Articulação* and its ally *Democracia Radical*, the two elements considered to represent the pragmatic wing of the party. However, on the left there were several smaller factions such as *Democracia Socialista*, *Força Socialista*, and *O Trabalho*. Lula could not ignore the radicals, and he had to respect the history of the party, which was based on inclusion of ideological minorities. In this sense, we emphasize that *the PT is utterly unlike any other party that has captured the Brazilian presidency in the past*. Most analysts have called attention to the role of ideological stretching across parties within the Lula coalition; below, we draw attention to the role of ideological diversity within the president's party. In sum, the PT is the only large Brazilian party in which internal ideological struggles actually matter, and this feature could not help but affect the approach to allocating executive power.

Another important piece of contextual information is that Lula's traditional leftist leanings put social welfare programs and policies squarely on the agenda. However, social programs are very costly, and U.S.-style deficit spending was not an option. As a consequence, Lula needed to find ways to cut other costs and/or to enhance government revenues. The clearest options for freeing up funds were reforms to the tax and pension systems that would create controversy and would offend his core partisan supporters. Just as importantly, such reforms would require constitutional amendments, with the approval of a concomitant 60% majority in each house of Congress. A more fiscally conservative approach was also necessary to enhance Lula's credibility with external funding organizations and markets, as well as with a non-trivial portion of the electorate (Martínez and Santiso 2003; Spanakos and Rennó 2006). A record of leftist rhetoric raised questions about whether Lula would continue the fiscal austerity programs that had helped Brazil's economy grow. Satisfying these actors was essential to continued growth and prosperity, but it would require a delicate balancing act between fiscal conservatism and social leftism.

Yet another bargaining-relevant difficulty facing Lula was the distribution of ideological preferences within the legislature. The top panel of *Figure 1* shows the ideological positions of the parties and the number of seats each party held in the Chamber of Deputies in March 2003, shortly after Lula and the new deputies assumed office.⁶ The ideological location of Lula's political party, PT, was rather distant from the ideological positions of the parties that held the bulk of the seats in the Chamber of Deputies (328 of 513 seats as shown in the figure from PMDB rightward). While we have indicated Lula's

⁶ The ideology data in the top panel of Figure 1 are drawn from a survey conducted by Power in mid-2001, about 18 months before the 2002 election, so they represent the reputational positions of the parties on the eve of the Lula presidency. The ideology data in the bottom panel are drawn from a 2005 survey, thus representing the updated ideological reputations of the parties after two years of the Lula presidency.

position along with PT, this is not to say that his ideal point was equivalent to the average of his party.⁷ Instead, this point was the natural departure point for bargaining. As a candidate in a nationwide election, Lula needed to appear more centrist and needed to obtain some support from the right side of the distribution in *Figure 1*. As the figure shows, one of Lula's electoral alliance partners was PL, a party well to the right of PT. The inclusion of the PL in the 2002 campaign was the first sign that the president would build a disconnected coalition.⁸

The central point here is that bargaining with the legislature over controversial legislation would be expensive for Lula, given the initial gap between his party's ideology and the ideology of the strong majority of Chamber members (even if we allow for some individual-member variance around each party's ideal point). Any policies at or near the executive's ideal point would create substantial disutility for many non-PT legislators. Lula's previous identity as a firm opponent of government would further serve to increase the price of bargaining.

[Figure 1]

Lula's Strategic Decisions

The First Year

Partially in response to these contextual factors, Lula adopted a different coalition management approach than that of his predecessor Cardoso. As Cardoso began his second term in January 1999, he had a coalition of six parties and a coalescence rate (i.e., a seats-ministries proportionality rate) of 0.70. When Lula was inaugurated in January 2003, he formed a coalition of eight parties, with a coalescence rate of 0.64, which was not dramatically different from that of Cardoso. Legislators, as professional politicians, are perhaps more likely to observe a different statistic: the share of cabinet ministries controlled by the party of the president. This is a simple and intuitive measure of monopolistic behavior. It is easily calculated by glancing at any photo of the weekly cabinet meeting, is broadly disseminated by the media, and is frequently discussed on the floor of Congress.

Upon taking office, Lula immediately expanded the number of cabinet-level posts from 21 to 35. Ostensibly, the purpose of expanding the cabinet upon taking office was to include several new ministries with responsibilities for different dimensions of social policies,

⁷ The expert survey by Wiesehomeier and Benoit (2007) finds that analysts of Brazilian politics generally see President Lula as being slightly to the right of his own party.

⁸ Disconnected coalitions are those that include parties occupying noncontiguous spaces on the left-right spectrum. As *Figure 1* shows, the leftist PT "skipped over" the most influential center party (Cardoso's PSDB) in order to ally with smaller parties on the center-right. In the 1988-1993 period, PT and PSDB had frequently allied at the sub-national level.

but the bulk of the new positions went to loyalists of the president's own Workers' Party. The PT was awarded no fewer than 20 portfolios. In early 2003 Lula had not yet seduced his preferred coalition partner, the PMDB, which was the second largest party in the Chamber of Deputies at the time. In December of that year, in a major political coup for Lula, the PMDB was added to the coalition as the eighth party in the cabinet, replacing the departing PDT. However, by that time Lula had already firmly established the principle of PT over-dominance. Why was this the case?

In the first year of government, cabinet expansion and over-rewarding of PT members were necessary for Lula to satisfy the internal factions within the party. As noted above, the expanded cabinet size created space for minority factions (e.g., Trotskyists and agrarian social movements) while preserving the dominance of Lula's own *Campo Majoritário*. After two decades of leading the PT through the political wilderness, upon arriving to power Lula had to give as much attention to proportionality *within* the party as to proportionality *across* parties. Yet the data show that Lula did not provide fair representation of intra-PT diversity in his first cabinet. In the 2001 internal party elections, the *Campo Majoritário* had received the support of 52% of the PT rank and file compared to 33% who voted for the left factions, but the 2003 cabinet distribution was quite different: of the 20 portfolios awarded to the PT, some 13 (65%) went to the *Campo* and only three (15%) went to the left factions.⁹ Thus Lula overrepresented precisely those PT *tendências* that were most amenable to forming a governing coalition with right-wing and centrist parties (the leftist factions had historically opposed such an alliance strategy). In thinking through these intra-PT dilemmas, the president wanted to appease the hard left while at the same time position the *Campo Majoritário* for the long haul. The "easy way out" was simply to expand the total size of the cabinet, a mathematical distraction which would gloss over the central fact of *Campo* hegemony. The end result was the appointment of 20 PT ministers, which left the allied parties perplexed and dismayed. This is a classic case of a "nested games" problem (Tsebelis 1990) in which observation of apparently non-rational behavior is the fault of the observer rather than the actor. Lula's benchmark was simply different from the one that outside observers might have used.

In terms of coalition size, the number of governing coalition parties (or potential veto players) was greater under Lula; his governing coalition included eight parties every month from the start of his term through the *mensalão* scandal, as compared to a high of six parties for Cardoso (Amorim Neto 2007). Yet even so, his coalition initially still fell short of the 60%

⁹ The remaining four PT ministers were not linked to internal factions: three had technocratic backgrounds and the fourth (Waldir Pires) made his career in other parties. Notably, of the three ministries awarded to the left, two (Cities and Fisheries) were created only in 2003. Factional affiliations generously provided by Oswaldo Amaral; for further analysis, see Amaral (forthcoming). On the *Campo Majoritário*, see Hunter (2007).

supermajority in the lower house necessary for constitutional amendments; Lula only surpassed this threshold when adding the PMDB to his alliance in December 2003. Moreover, the ideological spectrum of Lula's coalition was much more diverse than was that of Cardoso, spanning from left-wing to right-wing parties.

As mentioned earlier, some very difficult constitutional amendments were on the agenda for Lula's first year in office. He would pursue pension reforms (see Alston and Mueller 2006) and tax reforms as signals to the international finance community and as a means of freeing funds for certain social programs. Somewhat surprisingly, however, he pursued such reforms in basically identical terms to those of Cardoso, though Lula changed the focus of the tax reforms and broke the reforms into more palatable pieces. The pension and tax reforms represented severe reversals of position for Lula, since the PT had been a main source of opposition to Cardoso's reform attempts.

The pension reforms passed in August 2003 with 357 pro-reform votes in the Chamber of Deputies in two rounds. Similarly to what had happened with Cardoso, Lula's initial tax reform proposal never reached the floor. The governing coalition abandoned its original proposal and decided to focus instead on aspects related to increased taxation via social contributions (CPMF, DRU, and CIDE), which would not require sharing new tax resources with states and municipalities. The main source of revenue would come from the existing tax on financial transactions (CPMF). The DRU (*Desvinculação dos Recursos da União*) was created in 2000 to provide the executive with flexibility in spending revenues from the taxation of manufactured goods, while the CIDE was a tax on gasoline consumption. The CPMF and DRU votes occurred in September 2003, while the vote on the less controversial CIDE occurred the following year. The more controversial reforms passed with 79% of the vote in the Chamber of Deputies.

Lula's decisions on the distribution of monetary benefits reflected the substitutability of these benefits with political benefits (Raile, Pereira, and Power 2008) as well as the relative costs of the two types of benefits. Lula had focused political benefits primarily on his partisans, which is the relatively cheaper strategy (Araujo, Pereira, and Raile 2008). Handing political benefits over to ideologically distant parties would cede some policy control to ideological opponents; sending pork to these parties is less politically costly. Lula purchased outside support for the difficult constitutional reforms by sending the lion's share of pork to parties *outside* the governing coalition. Of the individual pork, 76% of the total value went to individuals from non-coalition parties in 2003, and 41% went to the core opposition parties (the PSDB and PFL). Even more of the state-based pork went outside the coalition, with 89% disbursed to states run by non-coalition parties (and 34% of the overall total going to states controlled by the PSDB and PFL).

Neither set of reforms would have passed without positive votes from outside the formal governing coalition. Lula received only 213 votes from within the coalition for the pension reforms, a number well below the 308 required. Within PT itself, four members voted against the reforms and another seven abstained from voting. Lula received decent support from the PSDB and PFL due to the fact that the reforms were basically what they had proposed earlier and due to the relative volume of pork being sent their way. Both the PSDB and the PFL were split about evenly in supporting Lula's pension reforms. Similarly, Lula received 215 supportive votes from within the coalition for the CPMF and DRU tax reforms, though the support from the opposition PSDB and PFL parties was lesser for these reforms.

Mensalão and Its Aftermath

The painful transition period of Lula's inaugural year had left its scars. Though preemptively rewarded with a windfall of cabinet posts, Lula's own party remained fractured and elements of the party resented the policy directions of the necessary constitutional reforms. The other parties in the governing coalition had their expectations dashed when they received a disproportionately low number of cabinet seats, though some of these parties like the PTB were compensated with pork during this first year. Yet another slap to the face for these other coalition parties was that the vast majority of overall pork had gone to non-coalition parties in an effort to pass the constitutional reforms. Finally, the general public had not made matters any easier for Lula. His popularity steadily plunged during that first year in office from a high of about 54% to a low of about 27%.¹⁰ This trend, too, severely eroded Lula's political capital.

[Figure 2]

Lula did take some corrective measures after that rough first year. He cleaned house within the PT by expelling several members who had not voted with him, and he even further increased the ideological heterogeneity of the formal governing coalition through the addition of the PMDB in December 2003. The PMDB's very large size (78 seats) pushed the Lula government's coalition beyond the 60% supermajority threshold. However, the fact that the PMDB was allocated only two ministries significantly worsened the proportionality of the coalition. The PT did not "make room" for the PMDB, and this caused coalescence to fall sharply from 0.64 in early 2003 to 0.50 in early 2004 (which is the cabinet composition depicted in *Table 1*). This skewed allocation increased the PT's dominance over its governing coalition partners, and we call attention to the fact that this sharp reduction in

¹⁰ Presidential popularity is calculated as the percentage of positive evaluations minus the percentage of negative evaluations of the president.

proportionality occurred exactly at the same time the *mensalão* is alleged to have begun. In January 2004, the PT controlled 60% of the cabinet portfolios while supplying only 29% of the coalition's seats in the Chamber of Deputies.

Lula realized the power of pork (especially with eroded public support) and increased the use of this tool substantially, with individual pork disbursements going from 27 billion *reais* in 2003 to 45 billion in 2004 and 50 billion in 2005. In addition, Lula significantly increased the proportion of the pork staying within the coalition (from 24% in 2003 to 56% in 2004) and particularly ensured that the more ideologically distant members of the coalition, who were shortchanged in cabinet seats as shown in *Table 1*, received a large share of that internal pork. Lula also spent a much smaller proportion of the pork on his party, PT.

These corrective measures and Lula's legislative successes in his initial year apparently were insufficient. Lula had learned that managing the internal factions of PT would be extraordinarily difficult. He had also learned that the dealing with the opposition would be an expensive endeavor; gaining PSDB and PFL votes for the constitutional reforms had been quite costly despite the ideological satisfaction of these parties with the legislative measures. Yet another important lesson was that the general public could be somewhat fickle, as the honeymoon ended quickly due to unhappiness over the constitutional reforms and natural erosion in support. The most important lesson for Lula may have been that he was dealing primarily with weakly ideological, opportunistic, and clientelistic political parties – a context that historically had lent itself to an extreme form of “exchange politics” (Geddes and Ribeiro Neto 1999).

Maintaining majority support is difficult, and this was particularly so for Lula given the distribution of preferences shown in *Figure 1* and the strategic miscalculations made early in the administration. According to investigators, illicit monthly payments to legislators began in January 2004. The scale of the scandal became clear when Roberto Jefferson of the PTB found himself trapped by evidence and blew the whistle in mid-2005.¹¹ The history of Jefferson's individual pork disbursements is illustrative of the *mensalão* system. In the pre-payment period of 2003, Jefferson received 57 million *reais* worth of individual pork disbursements. This number dropped precipitously in 2004 to 1.03 million *reais* when the illicit payments began. A huge jump in pork in 2005 perhaps represented “hush money” as

¹¹ Roberto Jefferson's political trajectory is typical of many members of the clientelistic parties of the center-right, which tend to support the government of the day. During the 1970s military regime, Jefferson belonged to both the government and opposition parties at different times. In 1992, as a PTB deputy, he led the so-called “shock troops” who attempted to protect President Collor from impeachment. In 1994, he was implicated in a budget scandal involving 29 members of Congress (Krieger, Rodrigues, and Bonassa 1994) but escaped formal prosecution. He supported Cardoso in his first term though not in his second term, when as president of the PTB he aligned the party behind Lula. When Jefferson was expelled from Congress in 2005 as result of the *mensalão* scandal, he was only 52 years old yet already in his sixth four-year term in Congress. He remains president of the PTB today.

the noose tightened on Jefferson. He received 179 million *reais* in pork disbursements in the year in which he blew the whistle on the *mensalão* scheme.

The illegal proceeds spread across the political spectrum in the legislature. Perhaps too many legislators had learned to play the blackmail game and needed a cut of the payment arrangements in return for keeping quiet. Another possibility is that the price of legislative support had increased dramatically after that difficult first year, and key legislators knew they could extract a substantial ransom in return for their support. Interestingly, some of the legislators implicated in the *mensalão* scandal were PT members. Even the cabinet restructuring was not enough to satisfy all the factions and members within PT.

Conclusions

Concerning corruption. What have we learned about political corruption from our examination of the causes of the *mensalão* scandal in Brazil? Perhaps most importantly, we have identified conditions ripe for corrupt activities. In particular, corruption is one of the few viable “solutions” when official bargaining resources fall short of overcoming the difficulties in the bargaining environment. The strong counterbalancing institutional forces in Brazilian government contribute to the complexity of the bargaining environment. The coalitional presidency in Brazil is almost schizoid in its extreme mixture of “consensual” and “majoritarian” institutions (Lijphart 1999). Further, the institutional framework provides incentives for corruption, while giving the president ample power to funnel government proceeds illicitly.

However, our explanation does not rely on institutional explanations alone, because to do so would imply that every administration would engage in large-scale vote-buying scandals. This has not happened. Therefore, we also emphasize the importance of strategic bargaining. Specifically, we point to the ways misused bargaining resources can also leave an executive short of overcoming a difficult bargaining environment. Even given institutional constraints, the president has some room for maneuver. Much like an architect who builds a house on shaky foundations, bad initial decisions by the president in cementing his coalition will later compromise the structural soundness of the edifice. In constructing governing coalitions, Brazilian executives face choices about ideological range and heterogeneity, about transfers of budgetary resources, and about access to the all-important presidential cabinet. These choices influence the demands that fickle legislators will later make against the executive.

Our analysis points to some pitfalls to be avoided in coalition management. One such pitfall is disproportionality in the allocation of cabinet portfolios. Access to executive power is the lifeblood of Brazilian politics, and politicians prize it greatly (Samuels 2003). Other things

being equal, greater cabinet coalescence means a more satisfied coalition arrayed behind the president, while a more monopolistic approach is sure to engender internal dissatisfaction. Lula's packing of the cabinet with members of his own party is understandable in the historical and political context of PT politics (as the party had waited 22 years for access to federal government and was characterized by various internal factions that had to be appeased), but it was almost certainly an unwise choice in terms of coalition management. We have suggested that this cabinet disproportionality combined with Lula's (perhaps necessary) decision to create an ideologically heterogeneous, disconnected coalition to generate the permissive conditions that led to the *mensalão* scandal of 2004-2005. In another respect, Lula's policy agenda also contributed to the scandal. The constitutional amendments necessary both to appease outside observers and to free funds for social spending alienated core supporters. These reforms also required that Lula send the majority of pork outside the governing coalition, thereby further upsetting the internal cohesion of the coalition. Therefore, circumstances of policymaking indirectly also led to the illicit payments.

The story we have told is not moralistic, yet there is a moral to the story. If politicians pledge support for a president and are subsequently given only limited access to the executive branch, they will seek compensation in other ways. *Presidencialismo de coalizão* cannot be *presidencialismo de exclusão*.

Concerning accountability. What does the aftermath of the *mensalão* scandal teach us about accountability? Despite the regime's complex nature, the accountability mechanisms have worked reasonably well in some respects. The previously mentioned resignations, expulsions, and prosecutions all testify to the effectiveness of Brazilian accountability mechanisms at the level of national government. Though some fact-finding and decision-making processes were less transparent than full accountability would seem to require, many government officials did receive punishment for their actions.

The issue of accountability through electoral mechanisms is more complex. Does "accountability" mean giving the people what they want, or does it mean punishing all public officials associated with improper behavior? As is well known, Lula made a full political recovery from the scandal and went on to win a convincing reelection in October 2006.

While various potential explanations for this recovery exist, observers commonly cite three factors: (1) Lula's enduring personal popularity, which fortuitously insulated him from scandals affecting his party and allies; (2) his innovative social policies, especially the conditional cash transfer program known as *Bolsa Família* (Hall 2006); and (3) the acceleration of the strong economic recovery which began in mid-2004 (Hunter and Power 2007). Seen against the backdrop of improving economic conditions and Lula's remarkable popularity (see *Figure 2*), the *mensalão* crisis now appears only a temporary downturn in the

President's fortunes. He was reelected with a 61% majority in 2006, has close to a 70% majority in the Chamber of Deputies in 2008, and is supported by 20 of 27 governors in his second term. He is the most popular president since the advent of modern political polling in Brazil, and few other world leaders can match his level of popular support.

Regardless of one's take on the issue of electoral accountability, the aftermath of the scandal has forced President Lula's hand in other respects. In his second term, Lula has adjusted his coalitional strategy in a more inclusive and less monopolistic direction. While the PT is still key to the coalition, its dominance over its partners is less pronounced than in the first term. Other factors have also attenuated the permissive conditions for the *mensalão* scandal. The decisive re-branding of the PT as a pragmatic, pro-market, center-left party after 2003 greatly reduced the perceived ideological distance between the PT and its alliance partners (see the lower panel in *Figure 1*). Also, partly because of the corruption scandals, Lula ran for reelection with a far higher degree of autonomy from his own party than was the case in 2002 (Hunter and Power 2007). He has even declared openly that he may back a successor from outside the PT in 2010. Lula seems to have adjusted his personal approach to the management of coalitional presidentialism, but the question that remains is whether the lessons learned from the *mensalão* scandal will be absorbed by other actors in Brazilian politics. Given that coalitional presidentialism exists not only at the national level but also within each of Brazil's 27 states, we venture that we have not seen the last of this volatile connection between corruption and coalition building.

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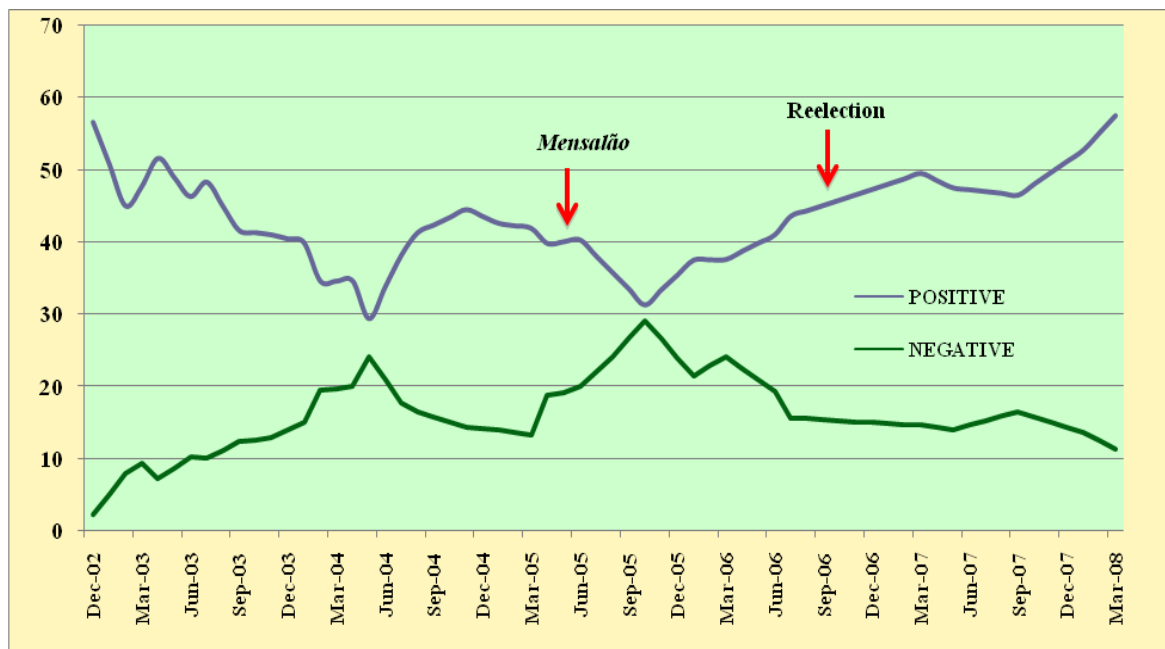
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Table 1. Comparing Representation of Coalition Members within the Collor, Cardoso, and Lula Cabinets

Party	Collor				Cardoso				Lula			
	Cabinet Posts	% of Posts	Coalition Chamber Seats	% of Coalition Seats	Cabinet Posts	% of Posts	Coalition Chamber Seats	% of Coalition Seats	Cabinet Posts	% of Posts	Coalition Chamber Seats	% of Coalition Seats
PSDB					6	28.57	99	25.98				
PFL	2	20.00	91	37.14	4	19.05	105	27.56				
PMDB	1	10.00	130	53.06	2	9.52	83	21.78	2	5.71	78	24.53
PP					2	9.52	60	15.75				
PPS					1	4.76	3	0.79	1	2.86	20	6.29
PTB					1	4.76	31	8.14	1	2.86	51	16.04
PT									21	60.00	91	28.62
PC do B									2	5.71	9	2.83
PL									1	2.86	43	13.52
PSB									1	2.86	20	6.29
PV									1	2.86	6	1.89
PRN	1	10.00	24	9.80								
Ind.	6	60.00			5	23.81			5	14.29		
Totals	10	100.00	245	48.71	21	100.00	381	74.27	35	100.00	318	61.99

NOTES: Data are for Collor's first cabinet, Cardoso's second cabinet of the second term, and Lula's second cabinet of the first term. The "% of Coalition Seats" is the percentage of within-coalition seats held by the particular party in the Chamber of Deputies. The totals for seat percentages represent the percentage of total seats in the Chamber of Deputies held by all coalition parties combined. The total number of seats in the Chamber of Deputies was 503 for Collor and 513 for the other two executives. Octávio Amorim Neto (2007) is the source of the cabinet data.

Figure 2: Popularity of Lula Government, 2003-2008



NOTES: Positive is the sum of *ótimo* and *bom* evaluations, while negative is the sum of *ruim* and *péssimo* evaluations. Neutral evaluations (*regular*) are excluded. The *mensalão* scandal broke in June 2005. Source: CNT/Sensus (www.sensus.org.br).