



## **Brazil's Compounding Crisis**

***By Mark S. Langevin, Ph.D, Senior Research Fellow  
Council on Hemispheric Affairs***

Brazil's crisis is compounding and threatens to drive the recession deeper and drain the political conditions for governability. The government's capacity to respond to the recession and its fiscal crunch is nearly exhausted by the rush toward presidential impeachment and fueled by the *Lava Jato* (Car Wash) corruption investigation and prosecution.<sup>1</sup> Brazil's coalitional presidentialism (*presidencialismo de coalizao*)<sup>2</sup> created a sturdy institutional and political foundation for public policymaking, but is now cracking from the weight of the economic downturn and the corruption scandal. President Dilma Rousseff may or may not serve out her second term (2015-2018), but Brazil's multifarious crisis will likely outlast her one way or another. Most important, the crisis may damage Brazil in ways far surpassing the monetary losses attributed to the Petrobras "pay to play" kickback scheme that lies at the heart of the Lava Jato scandal.<sup>3</sup>

### **Rising Expectations and Accountability**

The seeds of Brazil's crisis were planted before the Car Wash corruption taskforce announced its first arrest. Its first expression swept through Brazil in June of 2013 in the form of the expanding marches and demonstrations that called for better public services and less patronage and corruption.<sup>4</sup> To gain the spotlight, these demonstrations were organized to coincide with the FIFA Confederations Cup, a warm up to the 2014 FIFA World Cup held in Brazil. These widespread protests, beginning with the free bus pass movements in cities of São Paulo and Rio de Janeiro, were largely nonpartisan and focused on the excessive World Cup expenditures that were perceived to undercut public education, health and transportation spending. These were expressions of rising expectations and greater interest in governmental accountability after a decade of economic and fiscal expansion. They were not directed at the president's authority. Rather, they challenged governmental efficacy and accountability at all levels. In many ways the June 2013 protests confronted the efficacy of national developmentalism,<sup>5</sup> but not its legitimacy.

In the third year of her first term, preceding the popular outburst in June of 2013, President Dilma enjoyed an overall Excellent/Good approval rating of 65 percent.<sup>6</sup> A year later the country was riveted by the initial results of the Lava Jato operation, including high-profile arrests of Petrobras executives. The president's favorables plunged to 32 percent, the national economy all but came to a halt, and Petrobras (the nationally controlled energy company) was taking on debt faster than it could drill oil.<sup>7</sup> This poisonous concoction of economic stagnation and corruption held fiscal and economic policymaking hostage and intensified contestation over the executive branch. With only 51.64 percent of the valid vote, President Dilma won a second term by narrowly defeating the opposition candidate (Aécio

Neves of the Party of Brazilian Social Democracy, or PSDB) in the second-round presidential election of October 2014. Unlike most elections, this result did not suspend political contestation until the next election cycle. Rather, the election aftermath led to a torrent of political polarization and opposition mobilization to pound the president and her Workers Party (PT) throughout 2015. Unlike 2013, the mobilizations following the election challenged the very legitimacy of the Workers Party' national developmentalist agenda.

## **Mobilization Amidst Recession**

The Brazilian economy also took a pounding in 2015, contracting by 3.8 percent while inflation busted through the 6.5 percent target to surpass 10 percent by the end of the year.<sup>8</sup> The deterioration of the economy was matched by the rise of a number of popular organizations dedicated to mobilizing millions of Brazilians to force President Dilma's removal from office. The popular mobilizations of 2015 were carried out by organizations established immediately after the 2014 election with the purpose of moving the National Congress to impeach the president. Organizations such as *Vem pra Rua* (Come to the Streets) and *Movimento Brasil Livre* (Free Brazil Movement)<sup>9</sup> could not have anticipated the depth of the recession in 2015 or the notable rise in consumer price inflation, but these organizations took full advantage to stage massive street protests throughout the year with the singular refrain that the president should be impeached by Congress or removed by the Supreme Electoral Tribunal (known as the TSE) for campaign finance infractions directly related to the Lava Jato scheme.

Successive mobilizations against the president extended the political distance between her and Congress, made personal by the open hostility between Dilma and Eduardo Cunha, president of the House of Deputies and a member of the Party of the Brazilian Democratic Movement, or PMDB. Mobilizations in the streets and the breakdown of coalitional presidentialism compounded the crisis by undermining efforts to achieve a congressional consensus around a fiscal adjustment capable of sharply reducing the budget gap as the first step toward fiscal stability and economic recovery. Rather, the deficit deepened and the government debt to Gross Domestic Product (GDP) rose sharply from 57 to 66 percent by the end of the year, pushed forward by the currency's rapid devaluation and rising interest rates. The resignation of Finance Minister Joaquim Levy at the end of 2015 demonstrated that coalitional presidentialism could no longer be sustained under the compounding crisis. Legislation and policy aggregation were shelved as the agenda shifted toward an ardent focus on measures to remove Eduardo Cunha from the Presidency of the Chamber of Deputies and impeach the president. Like a rip tide, these political currents swept through Congress to drown out any possibility of reviving governability to treat the government's budget gap and the economic downturn.

## **Disruption and Disaggregation**

Brazil's recession and corruption scandal disrupt politics as usual. Congress is in turmoil and its legitimacy is under increased scrutiny. The House of Deputies includes representatives of 27 registered political parties, including the newly formed *Rede de Sustentabilidade* (Sustainability Network) founded by a two-time presidential candidate and former Minister of the Environment in the Lula government, Marina Silva. Of the 513 lower house members, only three parties have 50 Deputies or more: the Workers Party (PT), the

Party of the Brazilian Democratic Movement (PMDB), and the Party of Brazilian Social Democracy (PSDB). Most of the parties have 20 or fewer members in the House of Deputies.<sup>10</sup>

The Senate includes 16 political parties. With so many parties in Congress, most of them relatively small, the costs of passing legislation (pork-barreling and log rolling) require expensive earmarks and excessive executive branch appointments. These costs rise in proportion to the low degree of party cohesion found in the Brazilian Congress, a factor that undermines congressional leadership, its negotiations with the executive branch, and the overall process of interest aggregation that is so fundamental to formulating public policy under democracy.

Many justify so many parties by pointing to the principle of participation and freedom of association expressed in Brazil's 1988 Federal Constitution, but the observable outcome is that most members of Congress remain very distant from their electoral constituencies and very close to those who finance and direct their political careers, including the construction firms implicated in the Lava Jato corruption scheme.<sup>11</sup> Few in Congress have pushed forward legislation to lessen the number of parties or increase the accountability of its members.

Under growing public outcry, Congress passed a political reform last September that is unlikely to change this fundamental dynamic among parties and elected politicians, although it does ban corporate donations to campaigns.<sup>12</sup> The Progressive Party (PP), the fourth largest party in the lower house, illustrates the congressional accountability gap. The PP has more members under investigation and convicted by the Lava Jato operation taskforce than any other political party. Of the 38 congressional representatives under investigation for crimes related to the Lava Jato corruption scheme, 21 are members of the PP.<sup>13</sup> The PP became the largest beneficiary of congressional party switching before the recent deadline. All in all, 68 federal deputies changed parties with 10 moving to the PP, a 20 percent increase to reach a total of 48 deputies. Moreover, Aguinaldo Ribeiro, Jerônimo Goergen, and Roberto Britto of the PP are under investigation for the Lava Jato corruption, but all three were named to the recently composed impeachment commission of the lower house. These outcomes widen the congressional accountability gap and are likely to stir up more political disruption as congress proceeds with impeachment.<sup>14</sup>

## Can Brazil Restore Governability?

Growing doubts about congressional legitimacy compound with the impeachment process to escalate the crisis and place the PMDB at the center of the governability nexus. The PMDB is the largest political party in Congress and has participated in all presidential administrations since the installation of civilian rule under President José Sarney (1985 to 1989). The PMDB has been the key strategic partner of successive Worker Party governments under Lula and Dilma. It has been the fulcrum for coalitional presidentialism. However, the party's imminent departure from President Dilma's government all but guarantees impeachment and the assumption of presidential powers by one of its own, Vice President Michel Temer. Matthew Taylor provides a more detailed argument on this point, concluding that:

*“Politicians deciding whether to support impeachment are also thinking about the day after. Already, there are allegations pending against every single politician in the line of presidential succession: Vice President Michel Temer, Chamber President Eduardo*

*Cunha, and Senate President Renan Calheiros. Delcídio Amaral's testimony even raises a cloud over the fourth in line, STF President Ricardo Lewandowski, as well Rousseff's rival in the 2014 race, opposition leader Senator Aécio Neves. If the selection of a new president were thrown to the Congress—which it would be unless Temer survived or Rousseff and Temer were removed before the end of 2016—there are very few politicians who are both unsullied by allegations and simultaneously capable of pulling together the governing coalition needed to approve any meaningful reform that might jumpstart the moribund economy.”<sup>15</sup>*

If Dilma is impeached it is not certain that Temer and his party can reboot coalitional presidentialism and jumpstart the economy before the next presidential election in 2018. Unlike the removal of President Fernando Collor de Mello by Congress in 1992, the impeachment of President Dilma and her replacement by the vice president could further undermine congressional legitimacy and lead to even greater disruption and popular mobilization by both sides of the political spectrum, especially if the Lava Jato operation continues to investigate PMDB party members and congressional allies.

The Lava Jato operation promised to strengthen the country's democratic institutions by rooting out corruption, but the discretionary conduct of the operation, led by Federal Judge Sergio Moro of Paraná, now contributes to political disruption and raises questions about the constitutionality of several of the taskforce's investigatory and prosecutorial methods as well as the Supreme Court's supervision of these proceedings. Congress is responsible for the impeachment process, but it is Judge Moro and his taskforce who have taken center stage in the political efforts to prompt popular mobilization in support of impeachment.

The Lava Jato taskforce will continue to investigate, arrest and prosecute. Congress will move the impeachment process forward, but at the risk of expanding political disruption and popular mobilization. The Dilma government will continue to defend itself while trying to seek passage of much needed fiscal reforms and economic stimulus. The crisis will compound to undermine both accountability and governability while the national economy continues to contract by a forecasted 3.5 percent in 2016. The costs of crisis are mounting without any resolution in sight.

***By Mark S. Langevin, Ph.D, Senior Research Fellow at the Council on Hemispheric Affairs***

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<sup>1</sup> For a quick description of the case view “What is the Lava Jato?” at: <https://www.youtube.com/watch?v=lmoVp3PAQIU>. For a review of the major politicians under investigation see Esther Fuentes. “**Who is Who in Brazil's Complicated Lava Jato Corruption Allegations?**” Council on Hemispheric Affairs. March 17, 2016 and accessed at: <http://www.coha.org/who-is-who-in-brazils-complicated-lava-jato-corruption-allegations/>.

<sup>2</sup> For discussions of Brazil's coalitional presidentialism see Timothy Power. “Optimism, Pessimism, and Coalitional Presidentialism: Debating the Institutional Design of Brazilian Democracy.” *Bulletin of Latin American Research*. Vol. 29, No. 1 (2009) and Rafael Silveira e Silva. “Beyond Brazilian Coalition Presidentialism: the Appropriation of the Legislative Agenda.” *Brazilian Political Science Review*. Volume 8, No. 3. 2014:95-135.

<sup>3</sup> For an analysis of the Lava Jato corruption scheme see Monica Arruda de Almeida and Bruce Zagaris. “Political Capture in the Petrobras Corruption Scandal.” *Fletcher Forum Journal*. Volume 39, Number 2. 2015. For a description of those involved in the scandal see Esther Fuentes. “Who is Who in Brazil's Complicated Lava Jato Corruption Allegations?” Council on Hemispheric Affairs. March 17, 2016 and accessed at: <http://www.coha.org/who-is-who-in-brazils-complicated-lava-jato-corruption-allegations/>.

<sup>4</sup> For an analysis of the June 2013 mobilization see Alfredo, Saad-Filho. Mass Protests under 'Left Neoliberalism': Brazil, June-July 2013." *Critical Sociology*. Vol. 39, No. 5. 2013:658.

<sup>5</sup> For more on national developmentalism in Brazil see Ian R. Carillo. "The New Developmentalism and the Challenges to Long-Term Stability in Brazil." *Latin American Perspectives*. Vol. 41, No. 5. (September 2014:59-74).

<sup>6</sup> Datafolha. "Avaliação da presidente Dilma Rousseff." February 24-25, 2016 and accessed at: [http://media.folha.uol.com.br/datafolha/2016/02/29/avaliacao\\_dilma\\_rousseff.pdf](http://media.folha.uol.com.br/datafolha/2016/02/29/avaliacao_dilma_rousseff.pdf).

<sup>7</sup> For more on the Petrobras debt see Mark S. Langevin. "The Petrobras Debt Challenge." BrazilWorks Briefing Paper. January 2014 and accessed at:

<http://static1.squarespace.com/static/559484e4e4b0359276bd82c0/55aba212e4b02272b0069226/55aba20ce4b02272b0069005/1389055828000/The-Petrobras-Debt-Challenge-pages.pdf?format=original>.

<sup>8</sup> For more analysis of the intersection between the economic and political dimensions of the crisis see Joe Leahy. "Brazil scandals: Closing in." *Financial Times*. March 14, 2016.

<sup>9</sup> See Vem Pra Rua at: <http://www.vempraruia.net/> and Movimento Brasil Livre at: <http://mbl.org.br/>.

<sup>10</sup> Câmara dos Deputados. "Filiação a novos partidos altera composição de bancadas na Câmara. January 8, 2016 and accessed at: <http://www2.camara.leg.br/camara/noticias/noticias/POLITICA/502443-FILIACAO-A-NOVOS-PARTIDOS-ALTERA-COMPOSICAO-DE-BANCADAS-NA-CAMARA.html>.

<sup>11</sup> These include most of Brazil's largest construction firms, such as Camargo Correa, OAS, UTC, Odebrecht, Mendes Junior, Engevix, Queiroz Galvao, Iesa and Galvao Engenharia.

<sup>12</sup> For more on the September 2016 political reform see Clara Langevin and Mark S. Langevin. "Towards Accountability? Corruption and the September 2015 Political Reform in Brazil. BrazilWorks Briefing Paper. November 2015 and accessed at: <http://static1.squarespace.com/static/559484e4e4b0359276bd82c0/t/564b427ce4b03447e6283964/1447772796010/BrazilWorks+Briefing+November+2015.pdf>.

<sup>13</sup> Folha de São Paulo. "Partido com mais investigados na Lava Jato é beneficiado por troca-troca na Câmara. March 18, 2016 and accessed at: <http://www1.folha.uol.com.br/poder/2016/03/1751730-partido-com-mais-investigados-na-lava-jato-e-beneficiado-por-troca-troca-na-camara.shtml>.

<sup>14</sup> Matthew Taylor raises the issue of legitimacy with respect to the congressional impeachment process. "**Do Brazil's Street Protests Spell the End for Rousseff?**" Council on Foreign Relations March 17, 2016 and accessed at: [http://blogs.cfr.org/oneil/2016/03/17/do-brazils-street-protests-spell-the-end-for-rousseff/?cid=nlc-public-the\\_world\\_this\\_week--link24-20160318&sp\\_mid=50951289&sp\\_rid=bWFyay5icmF6aWx3b3Jrc0BnbWFpbC5jb20S1](http://blogs.cfr.org/oneil/2016/03/17/do-brazils-street-protests-spell-the-end-for-rousseff/?cid=nlc-public-the_world_this_week--link24-20160318&sp_mid=50951289&sp_rid=bWFyay5icmF6aWx3b3Jrc0BnbWFpbC5jb20S1).

<sup>15</sup> Ibid.