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## Three Things to Watch in Brazil

by Samuel George

When I met with former Brazilian President Luiz Inácio Lula da Silva in Sao Paulo earlier this month, he seemed tired and apprehensive. Two days later, in scenes that played out on live television, federal police raided his house and detained him for hours of questioning regarding percolating corruption charges stemming from his period as president. A federal indictment followed days later, and the opposition to the Workers' Party (PT) government – both elected officials and regular *Joãos* in the street—smelled blood. Da Silva is inexorably linked to his protégée and successor, President Dilma Rousseff, who herself faces impeachment charges regarding fudged fiscal figures.

The situation continues to unravel as if out of a telenovela; not an altogether uncommon characteristic of Brazilian politics. With competing [street protests as a backdrop](#), Rousseff offered da Silva the opportunity to join her administration as a chief of staff, a position that entails broad legal protection from prosecution. However, just as he formally accepted the position, a federal judge in Brasilia issued an injunction that would prevent the realization of the appointment. Since then, injunctions and counter-injunctions have further muddled the situation. Most recently the Brazilian Democratic Movement Party (PMDB), a critical (if fair-weather) ally of the PT, decided to exit the governing coalition. This leaves Rousseff increasingly exposed.

Forecasting what could happen next is a fool's errand. However, there are a few underlying trends to watch. While these issues may not foretell tomorrow's headline, they can help us understand the trajectory of the perennial country of the future.

### I hope you like jamming

Regardless of what happens in the coming weeks, the Brazilian political system has hit a log jam. As a result, any policy implementation is unlikely, and critical reforms will remain sidelined.

Identifying corruption is one thing; eradicating it is quite another. Both the brazen nature and the scope of the [Petrobras scandal](#) underscore the deep-seated roots of graft, fraud and bribery in Brazil's public sector—a pedigree not unique to any one party.

The scandal involved billions of dollars of contracts awarded by Petrobras, the state oil company, with a few percentage points tacked on top for kickbacks. But such

institutionalized malfeasance does not occur in a vacuum. Since transitioning to democracy in the late-1980s, political parties have been unable to consolidate power. Instead, Brazilians tend to vote for individuals as opposed to platforms, and party affiliation is tenuous. For years, the best way to maintain a coalition (or support on a given issue) was through favor-granting, or, in more vulgar moments, cash.

Even opposition partisans admit that the first one and a half terms of da Silva's presidency were largely successful. From 2003 through 2010, Brazil averaged over 4 percent annual growth, while conditional cash transfer programs helped lift around 40 million people from poverty. Only later did it come to light that the congressional coalition that supported da Silva's reforms was funded by monthly bribes – hence that scandal's nickname, *mensalão* – or “the big monthly”.

The scheme was effective, but hardly original. Many in the upper echelons of Brazilian politics can and are being implicated in corruption scandals. Rousseff faces impeachment, but the House speaker bringing the charges, Eduardo Cunha, himself faces charges of receiving upwards of \$40 million in bribes.

No cow is sacred. Da Silva—the man behind Brazil's “rise”—faces federal charges. His predecessor, Fernando Henrique Cardoso, a darling of Washington technocrats, has [his own dirty laundry](#) aired in every newsstand along Sao Paulo's Avenida Paulista.

As a result of finger-pointing, the already tenuous coalitions have fragmented, undermining anyone's ability to implement economic reform. This is unfortunate because the country badly needs it. Brazil's fiscal deficit has surpassed 10 percent. Inflation, a pest that has plagued the country long before anyone heard of Zika, is back above 10 percent. Joaquim Levy, the market-trusted finance minister appointed by Rousseff in February 2015, has left the government having been unable to reign in the country's spending.

Rousseff may remain in power, but she will lack a mandate. Even if she could push through reform, the incentive to do so is unclear. She needs her core constituency now more than ever; slashing the budget in the midst of a recession carries significant risk. If Rousseff can save her presidency, the current government will likely muddle on until general elections in 2018. The alternative is not much better. A great success of the PT governments has been to give a voice to millions of poorer Brazilians who previously had none in the political realm. An impeachment would undermine that voice, and create deep fissures in increasingly divisive political discourse.

A Rousseff-led government will struggle to implement reform – especially given the recent splintering of her coalition. A government instituted via impeachment will have dubious legitimacy and would struggle as well. Either option is unlikely to break the impasses in Brazilian politics. Thus far, financial markets have reacted positively to increased

pressure on President Rousseff. These markets may be disappointed to find that even a replacement government will be hard-pressed to address the economic conundrum.

### **Who is in the streets?**

In the coming weeks, Brazil followers will be treated to an impressive array of protest photos – iconic avenues throughout the country packed with protesters, both for and against the government. But these are not the first protests of the Rousseff administration. In 2013, a modest hike in bus fares [sparked lingering frustration](#) with the country's economic management. Millions took to the streets in the run-up to the 2014 World Cup as the country erected world-class football stadiums in the shadows of third-world favelas.

But in the end, nothing changed.

Could this time be different? The consequences could depend on who and not how many are in the streets. Anti-government protesters tend to be middle class and upper middle class. They are well educated. In a country of tremendous diversity, they are often light-skinned. Pro-government protesters also come from a reliable base: The PT government remains strong with unions, for example (fueling the persistent rumor that they are paid to participate). If these trends hold true, the government could well survive the current uproar—after all, it has done so before.

To date, the extremely rich and the extremely poor (and there are both in Brazil) have not taken part in the street protests. Greater involvement by either could put significant pressure on Brazil's congressmen and senators to pursue impeachment. If the poor were to join the protests, Rousseff would likely lose her job.

### **Rousseff, da Silva and the PT – Stuck in the middle with you**

Finally, dynamics between current and former presidents Rousseff and Silva will hint at the future not only of both politicians, but also the Workers' Party. Both figures have a lot at stake. Rousseff – who has indicated that she will not resign – must walk a careful tightrope to avoid having her potential impeachment upheld by the senate and congressional plenary. For da Silva, the outcomes could be even more dramatic – if he can galvanize his waning support, he could still make a run at the presidency in 2018. Alternatively, if charges against him proceed and he is stripped of immunities, he could well end up in prison. What becomes of the PT hinges on the fate of its two flag-bearers. In early March, insiders felt Rousseff was on the verge of leaving the PT. With the fog of corruption scandals engulfing the party, political analysts believed the prospect of her survival would improve if she cut ties with the embattled group. Her decision not to attend March meetings of National Directorship of the PT only increased speculation.

This calculus changed, however, when a high-ranking PT senator close to Rousseff was arrested for his role in the Petrobras scandal. As part of a plea bargain, Senator Delcídio Amaral implicated the president in his testimony. This deposition made it much more difficult for Rousseff to present herself as above the fray, and independent of the corruption plaguing the PT. No longer able to sever ties with the party, her best chance for survival was to double down on her affiliation with da Silva, and throw the ex-president a life jacket by way of a cabinet seat.

At the moment, it appears likely that a senate subcommittee will recommend Rousseff's impeachment in late April. Da Silva may be the only person capable of shoring up enough support in the Senate and the Chamber of Deputies to prevent that impeachment recommendation from being upheld. In this case, de facto power would shift into da Silva's hands, implying that Rousseff could be out either way: by impeachment or by internal and informal displacement.

Cue the ominous piano riff...this soap opera is about to get interesting.

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