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Brazil's Age of Extremes: The Disputed Institutional Legacy of the Crisis

By João Moraes Abreu

Abstract

The economic crisis that started in 2014 was the worst in Brazil's history. Simultaneously, a succession of dramatic political events took place, including a president's impeachment and the current president under investigation by the Supreme Court. The meaning and long-term consequences of these unusual events, however, are fiercely disputed. Two competing narratives have emerged. One sees a highly independent, powerful judiciary successfully challenging a corrupt political elite; the other sees institutions exercising power only against specific people and parties.

"The rise of Brazil since the 1970s was not engineered by economists of international institutions instructing Brazilian policymakers on how to design better policies or avoid market failures. . . . Rather, it was the consequence of diverse groups of people courageously building inclusive institutions."¹

The statement is from the last chapter of *Why Nations Fail*, the best-selling book that popularized the idea of institutions as the main engine to economic growth and development. Since 2012, when the book was published, Brazil's economic and political situation has changed so much that the sentence may sound like a not-so-funny joke to a current Brazilian reader. The economic crisis that started in 2014 is the worst in Brazil's history. And a succession of dramatic political events has taken place, which included a president's impeachment, a former president's conviction, and a current president under investigation by the Supreme Court.

The meaning and long-term consequences of these unusual events, however, are fiercely disputed. Two competing narratives have emerged. One sees a highly

independent, powerful judiciary fighting corruption as an example of what Acemoglu and Robinson would call "pluralistic" institutions.² Hence for the "institutional optimists," once the political and economic crisis is finally over, democracy will emerge stronger and growth will return to its 2002-10 path. The alternative narrative sees the same events through a rather opposite lens: the same powerful institutions work only for specific people and political parties. For the "institutional pessimists," laws are used only to force convenient changes in power, and the fight against corruption will stop short of affecting the core of the corrupt political elite.

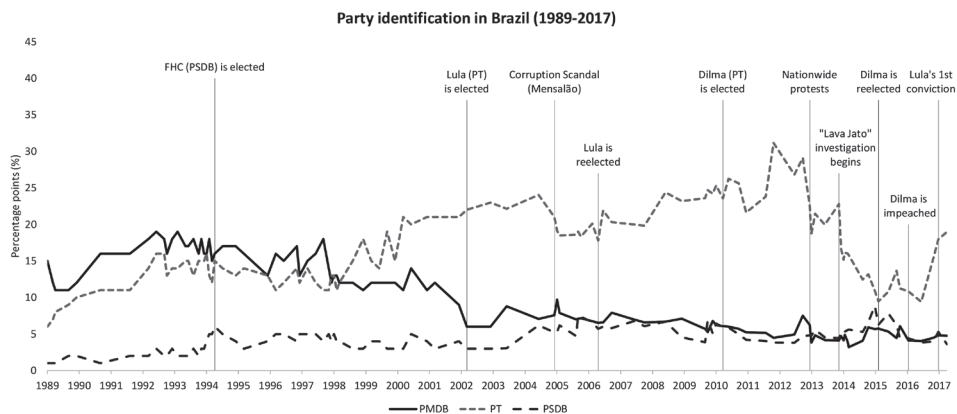
To understand how each narrative describes the current situation in Brazil, it is useful to describe the evolution of electoral national politics in the past two decades, with special attention to the last four years.

The Party System in Brazil since 1998

In 2014, Brazilians went to the polls to vote for president. Dilma Rousseff, from the incumbent Labor Party (PT), was elected with 51.6 percent of the valid votes in the

tightest election since the country shifted to democracy in 1989. Three days later, the defeated candidate Aécio Neves from the Social Democracy Party (PSDB) formally requested the results to be reviewed, citing fraud allegations on the internet.

The graph below illustrates how Brazil arrived at its current political scene. It shows party identification in the country for three major parties, together with the dates of selected relevant events. Other parties are omitted as they never reached 2 percent in the historical trend.



Even though Brazil has the world's highest degree of party fragmentation,⁴ only three parties are preferred by a relevant number of citizens and, between 2001 and 2014, Labor Party (PT) support exceeded support for PSDB and the Brazilian Democratic Movement Party (PDMB). Even more recently, as PT support declined, its competitors have not replaced it; rather, the share of the population that reports no preference for a political party has risen sharply.

This helps understand why in the political debate there seems to be two sides: PT supporters and PT critics, with the latter group's political preferences not

translating into consistent support for any alternative party. Even in 2014, the tightest election in history, less than 9 percent of the population identified with PSDB, yet the party's candidate got roughly half of the votes. This is a relatively new phenomenon. When Lula's second mandate ended, in 2010, his approval ratings reached 84 percent – an all-time high. It allowed the party to elect Dilma Rousseff, a relatively unknown public figure until a few months before the polls, with 56 percent of the valid votes. The country was not polarized by then. What happened in the four years that followed?

2014 to 2018: Political and Economic Collapse

Politics and economics played a key role. In June 2013 the country experienced its biggest public demonstration up to that moment, even as the economy was still growing (the year ended with 3 percent GDP growth) and the unemployment rate for the year was the lowest ever recorded at that point, 5.4 percent.⁵ Protests started as local dissatisfaction after public bus fares were raised. But they rapidly expanded geographically and to other topics, such as corruption and quality of public services. The government's approval rate, as measured by the Datafolha Institute, fell 27 percentage points

in one month, reaching 30 percent, and never fully recovered.

Then, in 2014, the economy started its downward trend, leading to the worst crisis in history. Unemployment reached 12.7 percent, a record high in 2017.⁶ GDP contracted 7.2 percent in two years, ending 2017 at the same level of 2010.⁷ The reasons for the crisis also motivated heated political debate between PT supporters (who emphasize external factors) and critics (who focus on economic policy mistakes by the government).

From 2014 onwards, it is hard to disentangle the political consequences of the economic crisis from the impact of the corruption investigation known as “Lava Jato.” Brazil’s biggest corruption investigation started in March 2014 and, until early 2018, had been responsible for putting in jail several high-profile politicians and businesspeople in Brazil. The former president of the House of Representatives, Eduardo Cunha (PMDB), was arrested, as well as the presidents and vice presidents of three of Latin America’s largest construction firms (Odebrecht, OAS, and Camargo Correa). Three former presidents (Fernando Collor, PTC; Lula, PT; and Dilma Rousseff, PT) and the current president (Michel Temer, PMDB) were charged with corruption. Government Senate speaker Delcídio do Amaral (PT at the time) was arrested during his term in office – the first time in Brazil’s democratic history that a Senate member was arrested while in office.

The consequences of the Odebrecht investigations are not restricted to Brazil’s borders. The company now admits having paid bribes of US \$59 million in Panama, US \$35 million in Argentina, US \$98 million in Venezuela, and US \$92 million in the Dominican Republic.⁸ Brazilian prosecutors say bribes were also paid in Mexico, Ecuador, and Colombia. Peru was

among the most affected, with three former presidents and the current president under national investigation.

Formally speaking, the reasons behind the impeachment of former president Dilma Rousseff in August 2016 had nothing to do with the corruption investigations; rather, it was about “creative accounting” in public expenses.⁹ Nonetheless, the investigations and the economic crisis naturally had a significant impact in the government’s and the party’s popularity, which in turn allowed the impeachment to happen.¹⁰

What Really Happened Since 2014?

The competing “institutional optimist” and “institutional pessimist” narratives start diverging sharply from 2014 onwards. To analyze their contrast, it is useful to first assess the general population’s views on the topic through polls on trust in institutions.¹¹ Results show that the Federal Police – the institution responsible for the corruption investigations – ranked third in public trust, only behind churches and fire corps, in the latest 2017 survey. The regular state-level police forces, on the other hand, were ranked substantially lower. Trust in parliament and political parties historically move together and fell sharply since 2014, from around 30 percent to below 19 percent in 2017 – in line with the evidence from party identification data. Trust in elections and the electoral system also dropped, from a high of 50 percent in the beginning of the decade to around 35 percent in the past three years. Trust in the judiciary system has oscillated around 50 percent since the survey began. These results are remarkably stable across gender, geographical region, income level, schooling, and religion.

Corruption investigations can thus count on significant popular support, as they are viewed as opposing one of Brazil’s “best”

(Federal Police) against one of its “worst” (political parties) institutions. One can also understand “institutional optimism” as an interpretation of the previous events: the past few years of Brazil’s history are seen as an endless fight against corruption that finally managed to reach the most powerful politicians and businessmen, teaching a lesson to the country’s future leaders. This would imply solid institutions, since only a highly independent judiciary and investigation system, strong enough to resist political backlash, would allow for Lava Jato’s accomplishments. Also, substantial structural reforms were undertaken since investigations began: the Supreme Court has made it illegal for private companies to finance electoral campaigns, the confessed source of most of the corruption scandals. It has also allowed for convicted individuals to go to prison before all opportunities to appeal were exhausted,¹² affecting several of those investigated under Lava. These breakthroughs are the ones most likely to be mentioned by institutional optimists as structural achievements of the investigations, with long-lasting positive effects.

Intellectual pessimism, however, provides an altogether different story. Although there is consensus regarding the need to investigate corruption, pessimists would argue that prosecutors were only successful because they hit easy targets at the right moment: that is, a political party on its fourth consecutive mandate, lacking popularity, while a severe economic crisis was underway. This is consistent with the point of view of a hypothetical PT supporter, who would argue that members of other parties are much less likely to be investigated or convicted than members of PT, as the judiciary and elite groups are biased against the Labor Party. According to this view, PT was always the first to be investigated; others, at least as involved in corruption, were spared. Dilma’s impeachment – under a relatively small technicality

and with no corruption charges – was, then, a combined effort of the still-not-convicted politicians of other parties to stop this process and avoid their own political ruin.

A major fact commonly cited to support the institutional “limited independence” was revealed by a secret tape, made public in May 2016. One of the ministers of the current president, Michel Temer (PMDB), was recorded by the Federal Police in a phone call with a former senator (PSDB/PMDB) before the impeachment. In the conversation, the former senator mentioned that he feared being investigated by the General Prosecutor, and that it could further lead to investigations on the minister himself. They discussed the investigations for a while, and then how to stop it, concluding that “we have to change the government to be able to stop this bleeding,” and that “the easiest solution would be to put in Michel [Temer].”¹³ The impeachment, therefore, would be a coup, masked with legal arguments, to stop the investigations. The institutions were indeed independent, but not enough to go beyond PT and reach the rest of the political elite. The secret tape would be the proof.

Another important event concerning the institutional development of Brazil was the decision, by the Federal Senate, to cancel the Supreme Court’s decision that would remove the senator and former presidential candidate, Aécio Neves (PSDB), from office over corruption allegations. A few months earlier, the same Senate decided to comply with the Supreme Court’s similar decision when the accused was PT’s leader in the House. However, even members of PT supported Aécio Neves on the occasion, claiming that the Supreme Court was interfering in Congress. Here, institutional pessimists and PT supporters disagree: the former would explain the episode as an evidence that the political elite is resisting and stopping further consequences of the corruption scandal.

Conclusion

The story that will ultimately prevail concerning the corruption investigations and the economic and political crisis of 2014 onwards remains uncertain. The rhetorical dispute will be determined by facts. In 2017, with approval ratings that reached 3 percent, Michel Temer remained in power as Congress rejected corruption charges against him, blocking a Supreme Court trial that could take him out of office. He was also responsible for appointing a new general prosecutor and a new head of the Federal Police. The Supreme Court has slowed down the pace of its decisions, and no politician was convicted by the highest court for the corruption charges so far. Some of the legal tools of the prosecutors to conduct investigations are currently being discussed in Congress and may be softened in the near future.

It is too early to say how the period will be remembered, but the 2018 elections are likely to play a major role. The new government and Congress will have the task of putting the country back on the track of economic growth. Perhaps even more importantly in the long run, they will be decisive in determining the outcome of the political crisis and the next steps of the corruption investigations. An updated version of the book *Why Nations Fail* might have to review its claims on Brazil, explaining that the inclusive, pluralistic institutions ultimately failed to fully develop, and an unpopular, corrupt political elite managed to stay in power. Alternatively, Brazil might be one of the first developing nations to seriously and systematically tackle the problem of widespread corruption, unlocking the path to higher development levels.

NOTES

¹ Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown, 2012).

² Acemoglu and Robinson, *Why Nations Fail*, 80. “Political institutions that distribute power broadly in society and subject it to constraints are pluralistic. Instead of being vested in a single individual or a narrow group, political power rests with a broad coalition or a plurality of groups.”

³ David Samuels and Cesar Zucco Jr., *Partisans, Anti-Partisans and Non-Partisans: Voting Behavior in Brazil* (Cambridge: Cambridge University Press, forthcoming).

⁴ William Roberts Clark et al., “A Simple Multivariate Test for Asymmetric Hypotheses,” *Political Analysis* 14, no. 3 (2006): 311-331.

⁵ “Unemployment Rate Was 4.3% in December and Closed 2014 at 4.8%,” Instituto Brasileiro de Geografia e Estatística (IBGE), 29 January 2015, <https://agenciadenoticias.ibge.gov.br/en/agencia-news/2185-news-agency/releases-en/15599-unemployment-rate-was-4-3-in-december-and-closed-2014-at-4-8.html>.

⁶ Instituto Brasileiro de Geografia e Estatística (IBGE).

⁷ “GDP (Constant 2010 US\$),” World Bank national accounts data, https://data.worldbank.org/indicator/NY.GDP.MKTP.KD?cid=GPS_30&end=2016&start=2010.

⁸ “United States of America against Odebrecht S.A., Defendant,” <https://www.justice.gov/opa/press-release/file/919911/download>.

⁹ What the media labeled “pedaladas fiscais” consisted of delaying, for a few days, the government’s payments to public banks that transferred social benefits to the population – like Programa Bolsa Família – artificially avoiding a short-term public deficit at the banks’ expense.

¹⁰ The Senate removed President Rousseff from office by a 61-20 vote in August 2016.

¹¹ “Índice de Confiança Social 2017,” Ibope Inteligência, 28 July 2017, <http://www.ibopeinteligencia.com/noticias-e-pesquisas/confianca-no-presidente-governo-federal-e-congresso-nacional-e-a-menor-em-9-anos/>.

¹² This was a tight, highly controversial decision. The topic is expected to be revisited in future cases. The members of the Supreme Court have changed since the first decision, so it might be reversed.

¹³ Jonathan Watts, “Brazil Minister Ousted After Secret Tape Reveals Plot to Topple President Rousseff,” *The Guardian*, 23 May 2016, <https://www.theguardian.com/world/2016/may/23/brazil-dilma-rousseff-plot-secret-phone-transcript-impeachment>.

João Abreu holds a Bachelor in Economics from University of São Paulo, Brazil, and studied Public Administration for two years at Fundação Getulio Vargas (SP), before joining SP Negócios, the PPP unit of São Paulo City Hall. João participated in the design of several public-private partnerships, from the world's largest public lighting PPP to the regulation of e-hailing apps like Uber in São Paulo - considered the most innovative solution by the World Bank. João is currently pursuing a Master in Public Administration in International Development (MPA/ID) at the Harvard Kennedy School.