

“Given a trifecta of ill tidings—street protests, corruption scandals, and economic worries—perhaps the most surprising news is Dilma’s resilience as a candidate for reelection.”

## Brazil’s Ebbing Tide

MATTHEW M. TAYLOR

Brazil is in a funk. The past year has brought violent protests, a new wave of corruption scandals, and wariness about the country’s economic future. Former President Luiz Inácio Lula da Silva was known for his cheerful, tireless repetition of the message that “never before in the history of this country” had Brazil accomplished so much. The contrast with his handpicked successor, Dilma Rousseff, was epitomized at the final match of the Confederations Cup, a major soccer tournament in June 2013, when Rousseff visibly stiffened as the crowd loudly booed her.

Even the World Cup, which galvanized the public into euphoric outpourings of national pride when seven years ago Brazil was chosen to host the 2014 championship, is now a source of bitter recriminations over misspent national treasure. Brazilians are on pins and needles in anticipation of the June 12 opening game, and many are apprehensive about a variety of potential embarrassments, such as incomplete stadiums and airports, public protests, and criminal violence. For the first time, the national team seems the least of people’s worries.

Even so, in contrast to other moments of recent Brazilian history when dreams of greatness crashed to earth—such as the economic “miracle” of the 1970s or the 1992 impeachment of the first directly elected president, Fernando Collor de Mello—a sober and reflexive realism abounds in today’s popular zeitgeist. Rather than despair, the prevailing sense is that Brazil is doing better and should continue to improve,

propelled by the economic conquests, social gains, and institutional reforms produced by a generation of democracy. Although the Rousseff administration seems to be suffering an inordinate spate of bad news, Dilma (as she is called by most Brazilians) remains at the top of the polls for the October elections, with a better-than-even chance of reelection.

### PROTESTS AND VIOLENCE

The protests that began in late June 2013 in São Paulo were stunning in their scale and diffusion throughout the country, but remarkably amorphous in their demands. Beginning as a youth protest against bus fare hikes, the unrest morphed within days into marches by hundreds of thousands against police violence, the high costs of the World Cup, and widespread political corruption. Placards denounced the nexus of “public money, private gain” and demanded “FIFA-class health care,” referring to the soccer federation that is profiting from government expenditures for the World Cup.

The fluid agenda of the protests reflected a disconnect between the traditional political parties and the protesters. Those who raised party banners at the demonstrations were shouted down and aggressively sidelined, accused of attempting to exploit popular dissatisfaction for partisan gain. Perhaps most symbolically, the ruling Workers’ Party (PT), which survived during its early years with support from urban middle-class college graduates in southern and southeastern states, was shunned by protesters largely drawn from that same group. Opposition parties, especially the Party of Brazilian Social Democracy (PSDB), fared little better, as they were held responsible for the dismal public services and appalling police violence in the states they control, most notably São Paulo.

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The lack of party leadership to channel societal discontent meant that no clear demands emerged from the protests. By mid-July, the fever seemed to have passed: The largest of the demonstrations tapered off, and reform proposals hastily pulled together by a panicked Rouseff administration at the height of the protests—to upgrade public transit, improve the government’s fiscal position, strengthen education and health care, and reform electoral politics—largely languished for lack of support from coalition partners.

Like a low-grade fever, however, smaller protests persisted in a fragmented and violent form through the end of the year. Especially in Rio de Janeiro and São Paulo, mass protest was replaced by smaller but much more dangerous local conflagrations. Even ostensibly peaceful marches, such as a demonstration by teachers seeking better working conditions in Rio, were infiltrated by self-styled “black blocs,” whose destructive tactics led to broken storefronts, looting, vandalism, and violent police repression. In São Paulo, an October march against bus fare increases gained YouTube notoriety when hooded protesters isolated a uniformed colonel—the highest rank in the state police force—and beat him severely. The victim, Colonel Reynaldo Rossi, declared perceptively the next day: “It is very clear that only legislative changes and a series of actions that go beyond police action will be able to solve this problem.”

Responding to protests poses a conundrum for law enforcement. The police have long relied on violent tactics to quell unrest and criminality on the peripheries of major cities. This leaves them woefully unprepared to use the milder “democratic” forms of control expected of them when they are asked to restrain middle-class protesters in downtown areas, in full view of the media and ubiquitous amateur cellphone videographers.

When looking to quell protests, government officials have typically reached first for the most aggressive police units, which have little training in peaceful crowd control. Underpaid, undertrained, and murderous (Human Rights Watch estimated that the police in Rio and São Paulo kill suspects at 1,500 times the rate of their US counterparts), the police seem to have few tricks other than the deployment of massive force. Law enforcement is unaccustomed to dialogue, and

many protesters do not consider the government officials who might help guide such talks as legitimate interlocutors.

## CORRUPTION CRACKDOWN

Adding to the unsettled mood is continued acrimony surrounding the long-anticipated jailing of the kingpins from the so-called *mensalão* scandal, a vote-buying corruption case that surfaced in 2005. After eight years of drawn-out legal proceedings, the Supreme Federal Tribunal convicted and imprisoned Lula’s former chief of staff José Dirceu, former PT president José Genoino, and many of their nearly two-dozen accomplices. Few Brazilians had seriously believed that their nation’s courts would dare to sentence, much less imprison, such powerful and historically important figures. Genoino and Dirceu, after all, had fought against the former military regime and suffered exile and arrest. They then founded the PT and led it through the wilderness for two decades until Lula’s 2003 inauguration. To many, they remain icons of the Left and its heroic resistance against the authoritarian proclivities of the conservative, backward oligarchies that long dominated Brazilian politics.

Furthermore, the PT and its sympathizers claimed that the case was nothing more than a routine campaign finance scandal: Nobody got rich from it, nor was it any different from scandals that routinely beset every other political party. The government had merely sought to bind together some of Brazil’s more fractious small parties to create a political coalition that could support Lula’s legislative agenda. Paying a monthly allowance (the “*mensalão*”) to ensure the legislative support of smaller coalition partners was merely the cheapest and most efficient means to that end.

The high court, with eight of its eleven justices appointed by PT administrations, came to a different conclusion. The tribunal’s president, Joaquim Barbosa (by turns the hero or the villain of the case, depending on one’s partisan perspective), coaxed the court into adopting a laxer evidentiary standard that would permit racketeering charges to stick. The trial was a watershed: It was one of only a handful of cases in which the Supreme Federal Tribunal had sentenced sitting federal politicians to jail time since the country’s return to democracy in the 1980s, and it marked the first

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time the court heard charges against such a large set of high-ranking defendants.

Other aspects of the trial, however, pointed to inadequacies in the legal system: the astounding amount of procedural formality and delay; the trial's immobilization of the high court's docket, including many important constitutional cases; and the fact that even after the court had reached a sentence, the defendants were able to appeal some of the convictions using a rule that allows for challenging verdicts decided by a narrow vote. These procedural appeals added months of deliberations to the trial, even after "final" sentences were handed down in late 2012.

So it came as a shock when Justice Barbosa announced in November 2013 that the defendants were to be imprisoned immediately. The jailings evoked a quiet, cautious satisfaction among many Brazilians, who had been highly skeptical that any punishment would be forthcoming. But the sentences were also subject to the realities of Brazilian legal institutions. One defendant, a former Bank of Brazil director sentenced to nearly 13 years in jail, fled the country to Italy, where he has dual citizenship. Critics were also troubled that Dirceu and Genoino would serve their sentences under semi-parole: Because their current terms are less than eight years, they are permitted under Brazilian law to work outside jail during the day, returning only at night.

Meanwhile, the PT found plenty to criticize. As he turned himself in to the police, José Genoino raised his fist and shouted "*Viva o PT!*," citing himself as a party stalwart brought low by a partisan vendetta. Supporters argued that imprisoning Genoino was cruel punishment, given his ill health, and clamored for the court to permit him to serve his sentence under house arrest. Party members vociferously repeated their long-standing argument that they were being treated differently than the norm. They argued that the *mensalão* was no different from a campaign-finance kickback scheme allegedly operated by the opposition PSDB when it governed the state of Minas Gerais—a case that the high court has not yet heard, even though it dates to 1998, years before the *mensalão* scandal erupted.

Adding fuel to the fire were new revelations of corruption in São Paulo, in both the state (governed by the PSDB) and city (governed at the time of the alleged malfeasance by Dilma ally Gilberto Kassab, leader of the Social Democratic

Party [PSD]). The allegations included significant kickbacks in a public subway contract, as well as a tax embezzlement scheme that defrauded the city of nearly a quarter of a billion dollars over five years. Together, these scandals demonstrated quite clearly, if it were ever in question, that corruption is not solely a malady of the PT.

But a cross fire of charges and countercharges has left the underlying political responsibility murky, and the slow court system means that establishing any sort of truth about the breadth of the corruption will take years. Under these conditions, accusations of graft are seen as mere political maneuvers. The general assumption is that most if not all politicians are rotten to the core.

## UNEQUAL BEFORE THE LAW

Indeed, a central concern that has reemerged as a result of the protests, police violence, and seemingly endless corruption scandals is that, despite important improvements in recent years, Brazilian democracy has not yet found a salutary balance between protecting defendants' rights and promoting societal well-being through vigorous accountability, especially when the defendants are from the elite. The judiciary's formalistic respect for human rights is famously two-edged: generously preserving the rights of those who can afford lawyers, while harshly treating the poor, who are subject to arbitrary arrest and even unjust imprisonment.

These unequal rights have fused with what the anthropologist James Holston has memorably labeled "irresolution as a form of rule" within the criminal justice system. The result is *de facto* impunity for members of the middle and upper classes who are effectively protected from consequences for vandalism, corruption, or other assaults on society at large—even as those on society's lower rungs often suffer brutal treatment.

This impunity is exemplified in the routine invasions of public universities like the elite University of São Paulo, where a similar script plays out every two to three years. Small radical student groups announce a strike, demand that classes be suspended, and "invade" the university's administrative offices, where they camp out for weeks until a settlement is negotiated. The "invasion" is inevitably destructive, and the university regularly shells out large sums to replace destroyed and vandalized office equipment. Yet in the name of democratic civility, the police are

usually not called in, and even if they are, it is rare for the middle-class protesters to be imprisoned or compelled to pay fines for the damage they cause.

All of these phenomena were in evidence during the events of the past year. Several members of the “black blocs” were arrested but then released. Corrupt politicians benefited from the legal prohibition against imprisoning any citizen until he or she receives a final, unappealable conviction in a court of law, a feat that is extraordinarily hard to consummate against anyone with a decent lawyer, given the law’s many potential paths for appeal and delay.

Politicians are further protected by professional solidarity, as demonstrated by Congress’s tin-eared secret vote in August not to expel one of its members, Natan Donadon, sentenced to 13 years in jail for misappropriation of funds in the state assembly of Rondonia. The “irresolution” evident in all of these cases has contributed to the discrediting of both judicial and political institutions.

Despite the problems revealed by the corruption scandals, one of the most hopeful and tangible outcomes of the past year has been continued civil society mobilization in favor of change. A strong public reaction has led directly to the repudiation of congressional efforts to weaken prosecutors’ investigative powers; to changes in the congressional rules governing secret voting (which led to Donadon’s expulsion from Congress late in 2013); and to approval of a new law that holds companies liable for executives’ corrupt acts. Progress along these lines had been slow in coming, and thus represents a silver lining to the cloud of corruption scandals and protests that marred so much of the past year.

## WARNING SIGNS

Yet another source of malaise in Brazil is the sputtering economy, which has been constrained by low investment, modest productivity gains, and a downward trend in disposable incomes since late 2010, notwithstanding impressive gains at the lower rungs of the social structure.

No one has seen a sharper decline in disposable income than Eike Batista, the founder of an oil and shipbuilding conglomerate, whose person-

al fortune plummeted from \$30 billion to mere millions in the past year. The collapse of his wide-ranging business empire is in many ways a sign of the times in Dilma’s Brazil. Promoted by Lula in the euphoria over Brazil’s pre-salt coastal oilfield discoveries, and puffed up by generous financing from the state development bank and private investors seeking a channel into the pre-salt boom, Batista’s businesses were the public face of Brazil’s ascendancy. Batista brashly claimed in 2008 that he aimed to soon overtake all six men ahead of him in the world wealth rankings, just as Brazilians were celebrating the fact that the economy had overtaken Britain’s and appeared poised to eclipse France’s.

Like Batista, the country seems to have collided with reality. The commodities bonanza of the past decade may have been piddled away, just as the great engine of growth, Chinese demand, appears to be slowing. Brazil’s state capitalism, marked by significant federal “guidance” of industrial policy—undertaken via development bank credits, targeted subsidies, and government price controls—seems to be hitting the skids. Shares in the state-controlled oil giant Petrobras are down more than half from their peak, in part because the company was barred from raising prices at the pump from 2005 until early 2013.

A combination of frozen fuel prices, shrinking profits, and rising debts was ultimately unsustainable for Petrobras. Yet as the political scientist Greg Michener has noted, when the government raised gas prices early last year it was forced to find a way to offset their inflationary impact; it tried mandating a reduction in electricity rates. Unpredictable interventions such as these have spooked investors and caused the Brazilian stock market to underperform—even as markets elsewhere boomed in the wake of the US Federal Reserve’s quantitative easing.

Long-standing concerns regarding the cost of doing business in Brazil—the “*custo Brasil*” imposed on the economy by weak infrastructure and lackluster government services, high taxes, and creeping inflation—remain largely unaddressed. The protests have drawn attention to the reallocation of investment away from social services and toward the construction of World Cup and Olympic infrastructure.

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The Rousseff administration has largely focused on changes in programs that can be approved administratively, such as the *Bolsa Família* cash transfer program and the *Minha Casa* housing program. It has not taken on deeper legislative and constitutional reforms that would require corraling significant congressional support, such as tax or labor reform. Writing in *Current History* at the outset of Dilma's first term, Johns Hopkins University's Riordan Roett noted that markets would be expecting the administration to tackle the grossly inefficient tax system, continue restructuring the pension system, generate greater flexibility in labor regulations, reduce the debt burden, and address the deficit of physical infrastructure. Of these five objectives, the Rousseff administration has tackled only infrastructure, through projects such as the controversial \$16 billion Belo Monte dam, highway concessions, and World Cup-related construction.

Not surprisingly, annual GDP growth has been middling, with the pump-priming election-year expansion of 7.5 percent in 2010 followed by much more moderate growth rates of 2.7 percent in 2011, 1.0 percent in 2012, and a projected 2.2 percent in 2013. Growth in 2014 is projected to be around 2.1 percent.

## FRAYED POLICIES

The underpinnings of economic policy are also increasingly in question. The Lula government successfully applied a three-pronged policy—a floating exchange rate, fiscal surpluses, and inflation targets—to maintain the macroeconomic stability it inherited from President Fernando Henrique Cardoso's administration. To this foundation Lula added a trio of microeconomic policies, combining the *Bolsa Família* conditional cash-transfer program, regular real increases in the minimum wage, and a strong expansion of personal credit. Together these helped propel the largest expansion of the middle class ever seen in Brazil, with more than 36 million individuals rising out of extreme poverty in the past decade.

Under Dilma, there are signs that both the macro and micro foundations of recent economic policy have been stretched to their limits. Fiscal policy is fraying, with an already high tax burden meaning that new revenues are politically untenable. On the spending side, Dilma signed a pact with congressional leaders in November 2013 to freeze outlays, quashed a proposal to reduce

state and municipal debts, and implemented cuts to current federal government spending. But the upcoming election season will likely put further pressure on public accounts. Despite having cut its original goals for the year, Brazil met the reduced 2013 primary fiscal surplus target (the measure of the fiscal surplus before interest payments, a key signal of the government's ability to service the debt) only because of extraordinary income from the sale of concessions.

Privatization and the sale of public concessions are resented within the governing coalition as unsavory legacies of 1990s "neoliberalism." Even when Dilma has overcome her reluctance and employed such sales in an effort to increase investment, the results have been mixed. Recent sales of airport concessions did quite well, bringing over \$9 billion, but the more anticipated auction of the Libra oil field found only one bidding consortium, reflecting diminishing expectations for the pre-salt oil discovery.

On the microeconomic side, both credit expansion and minimum wage hikes are increasingly constrained by fiscal realities and growing concern over recrudescing inflation. Under these conditions, Dilma will be tested to live up to her reputation as a competent technocrat and tough

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"After the military rule and the ineffectual civilian governments that the country endured from 1964 to 1994, Brazil has turned the corner. We can now expect that it will, in a very Brazilian way, deepen its involvement in global affairs in areas including economics, trade, finance, and of course diplomacy. And most important of all, Brazil is—in a region long plagued by political instability—a stable, predictable democracy. It provokes little worry, if any, that it will radically shift course after the national elections in 2010. As Brazil's political economy moves forward, continuity and ongoing improvement remain the guidelines."

**Riordan Roett**

"How Reform Has Powered Brazil's Rise"

February 2010

manager, guiding Brazil among the shoals of low growth, inflationary pressures, and a seemingly imminent sovereign credit downgrade.

## TWO ELECTORATES?

Given a trifecta of ill tidings—street protests, corruption scandals, and economic worries—perhaps the most surprising news is Dilma’s resilience as a candidate for reelection. As Brazil heads into presidential, gubernatorial, and legislative elections in October 2014, Dilma remains by far the most popular presidential candidate, and her legislative coalition seems unlikely to change significantly.

Dilma’s popularity did suffer a huge hit from the protests, with the percentage of survey respondents who thought her administration was doing good or excellent work declining from 57 percent to 30 percent in the space of three weeks in June 2013. Yet she subsequently regained much of her standing, and an opinion survey by the Datafolha polling group shows that more than two fifths of the population see her government as good or excellent; four fifths see it as average or better. Dilma is also still very much the leader in national polls for the October contest; she leads all opponents in head-to-head polling. She could handily win reelection in the first round of voting if the election were held today.

Dilma has retained her front-runner status in large part because the malaise that took hold of the urban upper-middle classes, and was so evident in the July 2013 protests, has not yet percolated down the social rungs. Members of lower income groups—known in Brazilian marketing circles as Classes C, D, and E, in contrast to the wealthy and upper-middle Classes A and B—are more numerous than members of the traditional upper-middle class, and have been stalwart supporters of the PT for the better part of a decade.

Despite their initial skepticism, Classes C, D, and E became increasingly enamored of Lula during his first term, and they resurrected his political fortunes in 2006 after the upper-middle class in the urban southeastern regions abandoned him in the wake of the mensalão scandal. These groups also flocked to Lula’s hand-picked but little-known successor Dilma in 2010, when the PT was searching for a candidate who could

carry the party flag after Dirceu and other party leaders were drummed off the national stage by the mensalão scandal.

The powerful political grouping that coalesced behind Lula includes the “new” urban lower-middle class, as well as the poor and indigent in the northeast and northern regions. As Cliff Young of the market research firm Ipsos has astutely noted, these groups together have backed a so-called “quality of life” agenda. Under Lula, the combination of rising wages, social programs like Bolsa Família (which benefited a quarter of all Brazilians), and expanding credit to the lower classes (for whom access to loans and credit cards was a novelty) rapidly reduced the poor’s traditional concerns with issues such as unemployment, which remains at record lows. Instead, the rising poor increasingly have focused on issues of education, health, and sustaining their own economic improvement.

This may explain Dilma’s willingness to risk the opposition of powerful medical associations and doctors, pushing forward a controversial program known as “More Doctors” (*Mais Médicos*), which aims to attract as many as 15,000 foreign doctors, many from Cuba, to work with poor and traditionally underserved populations.

The schism in perceptions between higher and lower income groups is also evident with regard to corruption. Ipsos data show that the upper classes are much more concerned about corruption than are the lower classes: by a more than two-to-one margin against Class C, and more than three-to-one when compared with the poorest. Surveys of the July protesters also showed that they were predominantly members of the educated middle class, suggesting that the protests’ direct effects on Dilma’s broad electoral support may be limited.

In sum, the protests, disgust with corruption, and apprehension about the World Cup that have dominated Brazilian media coverage for so much of the past year are in many ways a reflection of upper-middle-class malaise, much like the booping that Dilma faced at the Confederations Cup. It would be far more damaging to the electoral prospects of Dilma and the PT if the economic slowdown weighs on workers’ incomes and weakens the newly emergent lower-middle class’s perceptions of its economic security. Although polling

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shows increasing concern with economic issues and declining real incomes, as well as a strong desire for change among nearly two-thirds of voters, the situation is not yet so dire as to provoke anxiety among Dilma staffers. For better or worse, Brazilians are likely to be transfixed by the World Cup for much of the year, which will limit the public's attention to core campaign themes and candidates until late July.

## WEAK OPPOSITION

Adding to the positive outlook for Dilma is the weakness of her opponents. The PSDB, which held the presidency under Cardoso from 1995 to 2002, has struggled to shake its association with the traumatic neoliberalism of the 1990s. And the party is still groping for a core message and messenger to convince voters that it represents an inspiring new direction, rather than a rollback of recent social gains. When the PSDB convenes in March, Minas Gerais senator Aécio Neves will be the party's presumed presidential nominee, if he can stave off a challenge from the perennial PSDB candidate José Serra. Neves has had trouble finding a message with traction, and overcoming his image as a scion of privilege (he is the grandson of Brazilian democracy's beloved first leader, Tancredo Neves, who tragically died in 1985 before he could take office as president).

Eduardo Campos, a charismatic governor of Pernambuco and president of the Brazilian Socialist Party (and also the grandson of a historic leader), is openly challenging Neves for leadership of the opposition. This is difficult for Campos because he was until recently an ally of the Dilma government, but he gained some momentum in October 2013 with the announcement that his ticket would include Marina Silva, a popular former environment minister who broke with the Lula government in 2008. She garnered nearly one-fifth of the vote in the 2010 presidential election as the Green Party's candidate.

Perhaps the opposition candidates' biggest hurdle, though, is overcoming the tendency of the party system to coalesce around the incumbent in the quest for resources and political appointments. Under Brazil's system of coalitional presidentialism, parties such as the centrist

Democratic Movement Party routinely ally themselves with the party in office, with consequences that trickle down to federal, state, and municipal contests.

Finally, Dilma has a remarkable trump card at her disposal should she need it: Lula. The former president remains a power broker behind the scenes, dishing out his trademark charisma to assuage allies impatient with Dilma's perceived insensitivity to the nuances of coalition politics, or glad-handing factory workers and banking executives eager for a brush with the most versatile politician of his generation. Lula appears to have won a bout with cancer, and remains Dilma's strongest backer within the PT, as well as within the ever-shifting party landscape of Brasília. His intentions for 2018 are still uncertain, but it is clear that Lula will be a central influence in that election. He could be either the leading candidate or a kingmaker introducing a new generation of politicians.

## DISTANT DREAM

Beyond this year's election, Brazilian democracy faces a number of challenges. Over the past two decades the country has overcome its traumatic history of hyperinflation and begun the difficult work of alleviating long-standing economic inequalities. Against the odds, Brazil has done quite well economically, in part because of the good fortune of surging external commodities demand, but also because of the consensus in favor of pragmatic macroeconomic policies. Now that the commodities tide is ebbing, the fiscal accounts are tightening, and industrial stimulus appears to have run its course, the picture is no longer as rosy as it once seemed, and consensus on macroeconomic policies is fraying.

There is also much hard work remaining in the social realm, especially with education and health care, where returns on investment are notoriously poor, even though Brazil spends at rates similar to better-performing middle-income peer nations. The hardest work—institutional reforms that might fix the problem of judicial impunity, enhance the electoral responsiveness of the notoriously fluid party system, or boost Brazil's low international economic competitiveness—remains a distant dream. ■