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# Latin America's New Turbulence

## CRISIS AND INTEGRITY IN BRAZIL

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For Brazil's young democracy, this might seem to be the worst of times. The country's once-booming economy has taken a nosedive along with global commodity prices; a monster public-corruption scandal is engulfing much of the political class and infuriating millions of ordinary Brazilians; and a president who barely won reelection only to abandon her basic fiscal-policy approach now teeters on the brink of impeachment and expulsion from office.

Yet these storm clouds have a silver lining. For, grave as they are, they have put on vivid display the strength, independence, and public trust enjoyed by the country's web of judicial and public-accountability institutions and highlighted the free and energetic nature of the media in a country that only three decades ago was held under lockdown by a military dictatorship. Politics and the economy are in a crisis, but looking beneath the turmoil we can glimpse the power of the rule of law and see Brazilian constitutional democracy's institutional resilience and fortitude.

The "headline story" of the several-sided crisis is the impeachment controversy, which at the time of this writing in February 2016 looks as if it will not be resolved before the end of the year. Almost a quarter-century after the 1992 impeachment of President Fernando Collor de Mello, the bicameral National Congress of Brazil must once again decide the fate of a beleaguered chief executive. This time it is Dilma Rousseff, the second Brazilian president from the left-of-center Workers' Party (PT), and the first woman to hold the post. She stands accused of spending public funds without congressional authorization, a violation of Article 85 of the 1988 Constitution as well as the Law of

Administrative Probity. She is also facing an opposition suit in the Superior Electoral Court (TSE) that charges her with having used ill-gotten money from padded public contracts in the 2014 elections. If successful, this suit alone could cost her the presidency.

Impeachment's chances took a sharp blow when the Supreme Federal Tribunal (STF), Brazil's highest court, suspended the proceedings in late 2015. Ruling on procedural grounds, the STF nullified the 272-to-199 vote of the 513-member Chamber of Deputies that had authorized the creation in that body of a special impeachment committee. This committee was controlled by Rousseff's opponents and members of the Party of the Brazilian Democratic Movement (PMDB), the largest party in the governing coalition, who favored impeachment.<sup>1</sup>

After having been dissolved and then formed anew under overhauled rules consistent with the STF ruling—the Tribunal ruled that the Chamber would have to choose the committee's members through a public rather than a closed process—the committee is supposed to vote on impeachment in March, with a vote in the Chamber at large to follow in April (delays are expected, however, because appeals to the STF are likely). Impeachment will require a two-thirds vote of the Chamber, after which would come a 180-day trial in the 81-member Senate. In the event of such a trial, Rousseff would be suspended from the presidency and her vice-president, Michel Temer of the PMDB, would become acting president. Rousseff's support is higher in the Senate than in the Chamber, making the scenario of a suspension followed by an acquittal likelier than her actual ejection from office.

On paper, the TSE trial should be quicker, though here too procedural delays seem almost certain. Should the TSE rule within two years of the most recent presidential inauguration (in other words, by 31 December 2016) that the Rousseff-Temer ticket broke the law on its way to winning the 2014 contest, a new popular election to fill the presidency will have to be held within three months. (Should the TSE ruling come down after that two-year deadline has passed, a joint session of Congress will choose the new president.) The TSE trial could lead to Rousseff's removal before the impeachment process has finished, thereby rendering impeachment moot. The complicated situation and its accompanying political turbulence no doubt bewilder many international observers: Is this the same country that commentators and international institutions were only yesterday holding up as a model of how a new democracy can achieve steady, inclusive governance?

How did things come to this pass? The story of Rousseff's impeachment goes back to the period just after her October 2014 reelection. Her bid to win a second term in the October 5 first round failed when she finished with 42 percent, eight points below the majority that she needed to obviate a second round. Her October 26 runoff against the second-place finisher, Aécio Neves of the Brazilian Social Democratic Party

(PSDB), was extremely competitive and her margin of victory was slim (51.6 to 48.4 percent).

The year before, Brazil's fast-growing economy—it had been expanding by a robust 4 or 5 percent annually since 2000—had begun to flatline and skid toward recession. The economic downturn has now become the worst to hit Brazil since 1930. In the first half of 2015, public outrage at a massive corruption scandal called the *Petrolão* (because it revolves around Petrobras, the giant state-owned oil concern) sparked gargantuan protests in dozens of cities. Key indictments had come down in late 2014, after the runoff but in time to cast a shadow across Rousseff's second inauguration on New Year's Day 2015. Not long after, she made a drastic policy change, trying to address Brazil's economic woes (including a calamitous, job- and growth-killing drop in foreign investment) by embracing precisely the kinds of debt-reducing austerity measures that she had attacked her opponent for advocating during the presidential campaign. Her popularity, a stratospheric 70 percent just a few years ago, was on the way down to the single digits—an abysmal depth from which it has yet to emerge. She has truly been pounded by a perfect storm.

Under Rousseff's PT predecessor Luiz Inácio "Lula" da Silva (2003–10), Brazil was apparently Latin America's showcase of the "left turn" done right.<sup>2</sup> Lula's two terms as president were widely believed to have combined socioeconomically inclusive policies that lifted millions out of poverty with sober fiscal administration under stable multiparty governments. The combination seemed highly congenial to growth. Building on the institutional foundations laid by the 1990s reforms of President Fernando Henrique Cardoso from the PSDB, the PT administrations seemed poised to help Brazil finally take off into a future of sustained development. When Brazilian-government bonds attained investment-grade status in 2009, it seemed that a new level of accomplishment had been reached—that Brazil had finally arrived. Good governance and a growing economy were in hand at last. Since Rousseff's reelection, however, Standard and Poors, Fitch Ratings, and Moody's have all downgraded Brazilian bonds to junk status. The perfect storm, it seems, batters all in its path.

Rousseff's reversal of fortune is clearly intertwined with the sharp deterioration of Brazil's economy since 2013. One reading of the crisis suggests that the main cause of the economic debacle is the current global bust in commodities: The president's fortunes fell along with world prices for the oil, natural gas, minerals, and soybeans that Brazil exports. There is no question that dropping commodity prices have been a huge problem for Brazil, yet a view which lays all the blame at their door misses some things. The truth is that Brazil had been having serious problems with the functioning of its coalition governments, with corruption, and with policy instability *before* the recession, and these troubles have all made the recession worse. Together all these factors

### BRAZIL'S OCTOBER 2014 LEGISLATIVE-ELECTION RESULTS

Parties	Chamber		Senate	
Pro-Government Coalition – With the Strength of the People				
	Seats	% of Seats	Seats	% of Seats
Workers' Party (PT)	68	13.3	12	14.8
Brazilian Democratic Movement Party (PMDB)	66	12.9	18	22.2
Progressive Party (PP)	38	7.4	5	6.2
Social Democratic Party (PSD)	36	7.0	3	3.7
Democratic Labor Party (PDT)	19	3.7	8	9.9
Other (parties that won less than 7 percent)	76	14.8	7	8.6
<b>Pro-Government Coalition Total</b>	<b>303</b>	<b>59.1</b>	<b>53</b>	<b>65.4</b>
Opposition Coalition – Change Brazil				
Brazilian Social Democratic Party (PSDB)	54	10.5	10	12.4
Other (parties that won less than 7 percent)	74	14.5	9	11.1
<b>Change Brazil Coalition Total</b>	<b>128</b>	<b>25.0</b>	<b>19</b>	<b>23.5</b>
Opposition Coalition – United for Brazil				
Brazilian Socialist Party (PSB)	34	6.6	7	8.6
Other (parties that won less than 7 percent)	19	3.7	0	0
<b>United for Brazil Coalition Total</b>	<b>53</b>	<b>10.3</b>	<b>7</b>	<b>8.6</b>
Non-Coalition Parties				
<b>Non-Coalition Total</b>	<b>29</b>	<b>5.6</b>	<b>2</b>	<b>2.5</b>
<b>TOTAL SEATS</b>	<b>513</b>	<b>100</b>	<b>81</b>	<b>100</b>

knocked down Rousseff's approval rating and her authority within the PT and as a coalition head. Rousseff's perfect storm is also (to change the metaphor) a black swan; it has resulted from a very rare combination of events.

### The Impeachment Game

The impeachment trial is the culmination of a tug of war between Rousseff and Eduardo Cunha of the PMDB, the speaker of the Chamber of Deputies. The PMDB is the second-largest party in the Chamber (with 66 deputies compared to the PT's 70) and the PT's most important coalition partner. Cunha leads the largest PMDB faction, having managed to defeat the government's candidate for the speakership in early 2015. Taking "enhanced autonomy for the legislative branch" as his watchword, Cunha has actively sought to undermine the executive branch's policy initiatives (including Rousseff's U-turn toward fiscal austerity) and has introduced his own conservative agenda on a number of topics including election laws and the legal age for criminal prosecution.

In August 2015, Cunha declared himself formally in opposition to the government when the chief public prosecutor moved to indict him for taking bribes worth US\$1.8 million in connection with the Petrobras scandal (which at bottom involves charges that public officials took payoffs in return for awarding inflated contracts to supply various goods and services to the huge state-run company). The Chamber's Eth-

ics Committee is currently considering Cunha's case. If it recommends his expulsion and a simple majority approves that finding in a floor vote, he will lose his seat. As a lesser penalty, the Committee and the Chamber could also strip Cunha of his speakership but let him remain as a member of Congress.

Worried by Cunha's willingness to use impeachment as a bargaining chip in his own political-survival bid, PT legislators were at first willing to back him. In November 2015, however, that changed when PT Senate-delegation leader and key Rousseff ally Delcídio do Amaral became the first-ever sitting senator to be arrested, also on charges of having taken Petrobras-related kickbacks. Seeing the intense public scrutiny involved, PT leaders realized that the political calculus had changed. They suspended Amaral and canceled their tacit deal with Cunha, whom they now accused of carrying out a "constitutional coup" against the administration. This has had an effect in delegitimizing the impeachment process and reducing its popular support.

The PMDB's interest in toppling Rousseff is limited. It is not a presidential party, having not run a viable candidate for that office since democracy returned in 1985. Yet it is a popular and more or less centrist formation that controls seven of Brazil's 26 state governorships and more than a thousand municipal governments, far more than either the PT or the PSDB. The PMDB is a classic clientelistic party that cares less about dispatching Rousseff than about milking her troubles for more cabinet seats. This is in keeping with the PMDB's traditional "swing" role in Brazilian politics: Dwelling mainly in the ideological center and having a custom of *governismo* (automatically seeking to line up with whoever is in power), it is the natural coalition partner *par excellence* for governments of left and right alike. It will probably not go all the way in supporting impeachment unless it looks as if matters are headed in that direction anyway, at which point the PMDB can be expected to throw its loyalty to the opposition in order to end up on the winning side.

The PSDB, which is the leading opposition party, is taking a similar tack. "I don't want her to leave," said senator and 2014 PSDB vice-presidential candidate Aloysio Nunes Ferreira in September 2015. "I want Dilma to bleed."<sup>3</sup> Grassroots organizations pressing for impeachment find the PSDB's ambiguous stance discomfiting.<sup>4</sup> But former president Cardoso, aged 84 and by far his party's most prestigious figure, compares the procedure to an atomic bomb: "Good for dissuasion but not to be used."<sup>5</sup> Tossing out a popularly elected president is a momentous step that the PSDB fears could hurt its reputation both at home and abroad. In particular, it worries that driving Rousseff from office could hand the PT a victimization narrative that it might use to great effect in the 2018 presidential election.

Thus no party had much real incentive to impeach the president until Amaral's arrest made the cost to the PT of negotiating with Cunha pro-

hibitive, and until Cunha realized the slimness of his own chances for political survival. Put simply, Cunha is likely to fall but wants to take the Rousseff administration down with him.

The PSDB's preferred way out of the impeachment crisis is a fresh presidential election. To this end, the party has taken legal action, formally petitioning the top electoral court to nullify the 2014 result on the basis of evidence that the PT made massive use of Petrobras kickbacks in order to drag Rousseff across the finish line. According to one August 2015 survey, the PSDB candidate would beat Lula (who is expected to run again even though he is now 70) by 48 to 33 percent in a new election.<sup>6</sup> In a February 2016 poll by the Ibope survey firm, only 19 percent of respondents said that they would surely vote for Lula while another 14 percent said that they were leaning that way. If Congress ejects Rousseff from office by impeachment, Vice-President Temer of the PMDB would serve the balance of her term. Conceivably, the PSDB might support this if Temer credibly vowed to forgo running in 2018, but no such promise seems to be available.

The ultimate wild card in the impeachment game is Brazil's ensemble of independent judicial and law-enforcement institutions. By all indications, the agencies involved in the massive Operação Lava Jato (Operation Car Wash) investigations—so called because currency exchanges at auto-service stations were used as part of the corrupt Petrolão scheme—are following where the evidence leads without regard to political implications.<sup>7</sup> The politicians of the PT-led coalition government wield no control over judges and prosecutors, so their willingness to back Cunha was of limited significance from the start. Too much was out of their hands.

## **Institutional Sources of Executive Weakness**

Rousseff is often called weak, but this cannot be true in an institutional sense: The Brazilian presidency is among the strongest in all of Latin America; only Chile's chief executive receives a higher score for powers to both initiate and stop legislation.<sup>8</sup> Under both Cardoso and Lula (a span of years reaching from 1995 to 2010), the presidency's impressive powers were vital to the tasks of managing the coalition governments that are the norm in Brazil. Presidents sought enactment of their preferred policies through the use of their power to set Congress's agenda as well as through their other prerogatives.<sup>9</sup> The president also commands ample "pork" and patronage—as we have seen, cabinet posts are considered especially desirable.<sup>10</sup> Despite these presidential strengths, Brazil is spared from executive dominance by robust federalism, strong check-and-balance institutions, coherent bureaucracies, a welter of contentious parties, and highly competitive elections.<sup>11</sup> Thus the president's paper strength, while real enough, means the most on the ground when

a president is popular, has funds to spend, and can influence the parties. The unique and highly corrosive combination of economic calamity and corruption scandals that Brazil is now living through has been eating away at all these preconditions.

### A “Semipresidentialized” System

For all Rousseff’s vicissitudes, we are not witnessing a “dual legitimacy” tussle between a legislature and a president—each with a separate voter mandate—of the sort that Juan J. Linz famously warned about in these pages more than a quarter-century ago.<sup>12</sup> In fact, Rousseff has handed power to the PMDB, allowing it to handle the tasks of political coordination in Congress and giving PMDB figures the plum cabinet portfolios. In effect, she has informally “semipresidentialized” Brazil’s presidential system. But unlike in a true semipresidential regime, Brazil has no prime minister, so policy making and governance suffer and government coordination falters. Multipartyism in presidential systems has been praised for preventing abuses of power and encouraging concertation and consensus.<sup>13</sup> Yet multipartyism’s effect on governance is not linear: There is a point where party fragmentation and proliferation stop being good things and start reaping diminishing marginal returns. Brazil’s plight suggests that the country has crossed that line.

In the Congress elected in 2014, the government coalition would seem to enjoy a nominally comfortable majority. Its coalition holds 69 percent of the Chamber seats (353 of 513), and 72 percent of the Senate (58 of 81) seats. In reality, however, the PMDB is deeply split into pro- and anti-Rousseff factions, and Congress as a whole is the most fragmented it has ever been. Students of the legislature now count 35 congressional parties, up from 22 during Lula’s second term and 18 under Cardoso.<sup>14</sup> The decline in party identification among citizens—in 2015, only 29 percent of those polled said that they had a party preference, the lowest such finding ever—affects the PT most of all (as the largest party it has the most to lose), while also bespeaking the polity-wide dissolution of partisan coherence and commitment.

Under Lula, the number of parties in the coalition doubled from four to eight. During Rousseff’s first term, the number of parties holding cabinet portfolios remained stable but cabinet posts were added (reaching 39) and the congressional coalition expanded to thirteen parties. Under Lula, the PT had filled 60 percent of cabinet posts; under Rousseff, it filled 46 percent. In both administrations, the president kept a firm grip on the handing out of portfolios, creating discontents that were mollified with “side payments.” This term is not necessarily a metaphor: In the mid-2000s there was a scandal over the *mensalão* or illegal monthly payoff that was commonly going to legislators from smaller parties in the governing coalition.<sup>15</sup> Although Rousseff has shared more ministerial portfolios than



previous PT administrations (including her own first term), this has not implied delegation of authority and tensions have persisted.<sup>16</sup>

Rousseff's attempt to take her largest coalition partner, the PMDB, down a peg backfired when that party mobilized its backbenchers to vote down the government's candidate for Chamber speaker and install Cunha instead. In the first week of the new Congress following the 2014 elections, the government lost several votes, including one on the key bill introducing mandatory budgets as a path to spending control.

This perhaps should not have been surprising. In truth, the PT and the PMDB had been jousting for years going back to the PMDB's original decision to join the governing coalition after Lula's election to the presidency in 2003. As the successor to the old Brazilian Democratic Movement (or MDB, its name till 1980), the PMDB had inherited a large electoral machine and it was better positioned than any of its rivals to benefit from public funding and free broadcast time. It also enjoyed a fair amount of coherence and low levels of conflict among its leading figures—as a purely legislative, state, and local party, the PMDB is not host to presidential hopefuls who are eager to distinguish themselves from one another by jockeying for primacy.

In order to reduce its dependence on the PMDB, the PT pursued a two-pronged strategy. It bolstered existing smaller conservative parties and fostered the creation of new parties, including three between 2010 and 2015—a practice made easier when the TSE ruled in 2007 that switching by legislators to newly created parties was legal. Buying smaller parties' support, the thinking went, would be cheaper than constantly paying to keep a pivotal party such as the PMDB on board. The underlying logic of these "parties for hire" is suggested by what the leader of one of them (and an official in Rousseff's cabinet) had to say about the ideological profile of his group: "The PSD [Social Democratic Party] will not be a party of the right, nor will it be a party of the left, nor of the center."<sup>17</sup>

Building and managing coalitions are crucial tasks in multiparty presidential systems such as Brazil's, but here the PT has failed and Rousseff has failed resoundingly. Under presidentialism, legislative support is not formally required for cabinet formation or termination and there is no provision for a constitutional vote of confidence. Yet governing a complex multiparty system requires stable legislative coalitions. The Brazilian president is constitutionally strong, and can typically put together and hold together such coalitions by allocating ministerial posts to coalition partners as well as by handing out other forms of "pork" and patronage. How large and how ideologically diverse such a governing coalition will be has something to do with the number of parties that hold seats in Congress, but even more to do with the president's skill and choices.

The PT's inability to manage multiparty coalitions is consistent with the

historical experience of communist and socialist parties around the world and their long record of resisting participation in the “bourgeois” parliamentary game. The PT leadership includes Marxist intellectuals and former guerrillas (Rousseff herself is one of the latter) who engage in parliamentary negotiations only with reluctance. Rousseff had never held an elected office before winning the presidency in 2010: She had always had bureaucratic jobs and had been Lula’s chief of staff. Lula, by contrast, had been a longtime labor leader, and Cardoso, though an academic by training, was known as the quintessential negotiator and parliamentary strategist.

Barry Ames has suggested that the Brazilian system works better when the left holds power, but the travails of successive PT governments run counter to this notion.<sup>18</sup> Ames’s idea is based on the reasonable observation that the Brazilian right has little ideological coherence and hence can be easily bought off. Rousseff’s struggles with power sharing, the unanticipated political costs of making sure that those who have been coopted stay that way, and party fragmentation in general underline the problems that the left must cope with in order to do that buying.

Under the PT administrations of Lula and Rousseff, the sheer size of governing coalitions was not the only thing that went up: Their internal ideological heterogeneity increased as well. The average ideological distance between the presidential party and its coalition partners widened by 400 percent from the mid-1990s to the mid-2000s.<sup>19</sup> Critically, the weight of the president’s own party has diminished in both the governing coalition and Congress at large. In October 2014, the PT lost eighteen seats in the Chamber, dropping its share of that body from 17 to just 13 percent.

This has made the business of building and sustaining coalitions all the more crucial. Timothy Power has proposed a measure to capture the necessity of building coalitions that he calls the Index of Coalitional Necessity. By this metric, the current Rousseff government has soared to the highest score (114) since the establishment of democracy in Brazil. By comparison, this score was 58 during Cardoso’s second term and 78 throughout Lula’s two terms.<sup>20</sup> This state of affairs reflects the current government’s political vulnerability and the rising costs of coalition-building.

Rousseff’s response to the growing fragmentation in her legislative coalition and the threat represented by Cunha’s maneuverings was the cabinet reshuffle of October 2015. She cut her cabinet from 39 to 31 members and, more importantly, ceded even more power to the PMDB. In the new cabinet, eight different parties control 23 cabinet posts while the remaining eight posts are held by nonpartisans. The number of ministries held by the PT dropped from thirteen to nine, while the PMDB rose from six to seven, including the powerful Health Ministry. The new cabinet is slightly more ideologically homogeneous than the previous one.

The larger trend of increasing heterogeneity not only takes a toll on efficiency, but exacts political costs as well. Cabinet alliances with ideologically distant parties—including one rightist formation associated with evan-

gical Christians and another led by a former senior member of the military dictatorship—have alienated many PT members. More widely, these alliances have created political malaise and cynicism. Thus they have electoral costs both within the PT's core constituency and among swing voters.

The costs of governing have therefore risen significantly, even if the executive can point to a large nominal majority in Congress. Under the decade and a half of Cardoso and Lula, the power of the executive branch helped the political system to avoid deadlocks despite growing fragmentation. But what worked then appears not to be working now, and the government has become paralyzed. Under Cardoso and Lula, it was electoral incentives rather than ideological or programmatic affinities that drove cross-party cooperation. At a time of economic distress and public outrage over corruption, the presidency is strategically weaker and the price of cooperation is higher. Rousseff appears not to grasp this; her inclination toward confrontation has led to an array of defeats. An example came shortly after the elections, when she failed to gain approval for a loosening of the budget law that would have lowered the required primary-surplus target. Admittedly, the decline in the executive's ability to get its agenda through Congress can be traced back to 1994, but Rousseff's first year as a second-term incumbent went so poorly in this regard as to suggest that a structural break has occurred.

Executive dominance in the initiation of bills in the Chamber of Deputies has been in decline. The share of bills submitted to the Chamber by its members was 38 percent under Cardoso but has risen to 81 percent under both the PT presidents combined.<sup>21</sup> The share of executive-initiated bills submitted through the ordinary legislative process (as opposed to the faster "urgency petition" track) has nearly doubled from 19 to 39 percent. Bills approved at the standing-committee level without further ratification by the plenary (where executive majorities typically predominate) climbed from 52 to 83 percent. In 2015, two-thirds of all bills were proposed not by Rousseff, but by legislators.<sup>22</sup> Roll-call votes, meanwhile, more than tripled, rising from 92 in 2014 to 300 in 2015. This includes major initiatives such as the failed electoral-law reform. Moreover, the government has seen Congress block or undermine its initiatives to tackle the fiscal crisis. A newly assertive legislature is the flip side of fractures in the government coalition.

## A Scandal and a Flip-Flop

Extensive bargaining among ideologically distant partners has undermined the legitimacy of PT governments, since to the public it looks like mere opportunism. For citizens, the virtues of consensus and inclusive institutional arrangements are overwhelmed by all the unseemly horse-trading, back-scratching, and log-rolling. Under Lula and Rousseff, Brazil passed the point where power-sharing becomes a net negative.

Bloated, unwieldy coalitions of strange ideological bedfellows do not look good, especially when corruption is high. This should have been driven home in June 2013, when massive riots broke out over corruption, the high cost of living, and the poor provision of public services. Those disorders took the country by surprise, but perhaps should not have. Interestingly, they broke out at a time when economy was slowing but employment was still at a peak: Discontent was mainly a reaction against corruption and poor public-service delivery. Widespread joblessness had not yet been stirred into the mix.

Less than two years later, the *Petrolão* (or “the big oily,” as many Brazilians have taken to calling it) again brought millions into the streets in widespread protests.<sup>23</sup> August and December 2015 saw demonstrations renewed, albeit with fewer participants. Rousseff’s popularity plunged to 7 percent, the lowest of any Brazilian president since 1985. Even José Sarney (1985–90) did not go that low when inflation was 83 percent a month. In November 2015, 87 percent of respondents told the Ibope polling firm that Rousseff’s government was bad or very bad. And 67 percent said that they approved of her impeachment.

The main sources of the president’s unpopularity are the *Petrolão* and the social costs exacted by her embrace of fiscal austerity in what she believes is a painful but necessary cure for Brazil’s debt woes. Between April 2014 and December 2015, Operation Car Wash made 116 arrests and secured the conviction of 61 persons. Those found guilty included some of Brazil’s wealthiest financiers and businesspeople as well as some of its most prominent politicians and public-sector executives. Among their number are Marcelo Odebrecht, whose family owns one of Latin America’s largest conglomerates, and André Esteves, the chairman of BTG-Pactual, Latin America’s largest investment bank. The federal public prosecutor formally indicted 173 people and concluded 941 cases related to the investigation. In turn, the federal judge in charge of the operation issued 361 search warrants and formally requested information from judicial authorities from 28 countries. Moreover, he authorized 35 plea bargains, which provided the hard evidence for the convictions. As of late 2014, he had frozen assets worth about \$1 billion in the bank accounts of those convicted.

Media coverage of the scandal hit citizens with an informational tsunami. The level of exposure of corrupt deals has probably no precedent in any democracy except for Italy during the *Mani Pulite* (Clean Hands) investigations of the early and mid-1990s. In Brazil, the detailed testimonies of plea-bargain witnesses received huge publicity. As a former federal energy minister and chair of Petrobras, Rousseff herself has been in the spotlight, though no evidence of her involvement in lawbreaking has yet emerged. Even so, the scandal (together with the economy and the parlous state of public services) has been enough to tumble her popularity into the depths.

The 2005 *mensalão* scandal led to the conviction of two former PT

party presidents along with the party's treasurer, but it did not prevent Lula from winning reelection in 2006. An economy buoyed by a commodities superboom shielded him. As a leading PT political strategist said prior to the 2014 presidential election: "We are in a campaign and the opposition seeks to convert corruption into the major issue, but the population does not care."<sup>24</sup> Rousseff was indeed reelected, but the public would begin to care—a lot—soon enough. The informational tsunami that brought the scandal home and made it real was unexpected, and so was its interaction with the sharp deterioration of the economy.

## The Specter of Negative Growth

When the figures for 2015 are added up and corrected, Brazil's growth rate is expected to be negative 3.5 percent. Growth was slightly negative (-0.4 percent) in 2014 as well, making this the first time since the beginning of the 1930s that the country has seen two years in a row of economic contraction. Nor will the pain end soon: Negative growth for 2016 is currently projected to be 2.9 percent. Across 2014 and 2015, total investment fell 30 percent, depressing the employment rate. In 2015, the global nominal deficit climbed to 10 percent of GDP, up from 2 percent in 2010. Fiscal policy underwent a sharp reversal: Rousseff brought in the University of Chicago-trained banker and economist Joaquim Levy as finance minister for her second term. He announced that he would seek a budget surplus of 1.7 percent of GDP, but the government dropped this target in favor of a new one that involved a deficit, the first since 2004. This prompted the downgrade of the country's debt to junk status, with accompanying harm to Brazil's reputation.

Given all the clouds that were gathering, how did Rousseff secure reelection? It was a classic case of voting while looking backward and hefting one's wallet. Brazilians responded to gains in their welfare associated with previous (yet rapidly declining) growth, relatively low (but rising) inflation, and high (but unsustainable) social spending plus low unemployment. In short, they hoped that the good times could and would keep rolling, and voted for "more of the same."

The so-called New Economic Matrix, adopted by Lula during his second term and continued by Rousseff, created severe macroeconomic imbalances. It altered significantly the macroeconomic "tripod" of flexible exchange rates, primary surpluses, and inflation-targeting put in place by Cardoso and continued under Lula. But the new economic-policy outcomes became visible after the 2014 elections. The government resorted to "creative accounting" to mask the increasing fiscal deterioration—the budget deficit reached 7 percent of GDP in early 2015—that was caused by heavy subsidies to energy, oil, and transport as well as the extensive use of public banks to expand credit. The interventionist turn also affected regulatory policy and decisions on infrastructure building. The negative

impact on foreign direct investment was dramatic, as the government's increasingly interventionist stance led to a crisis of investor confidence.

Rousseff's campaign used the rhetoric of developmentalism and attacked neoliberalism. She also stressed the PT's record of social inclusion under both Lula and herself. She strongly condemned her opponent's ideas about monetary and fiscal policy, but once elected, took her opponent's agenda as her own. In one of the most stunning policy switches that Latin America has ever seen, she proposed measures to eliminate subsidies, implement harsh monetary policies, and cut inflation.<sup>25</sup> Making Levy her finance minister—he was sworn in the same day she was—signaled her commitment to restoring the government's fiscal credibility.

Levy resigned on 21 December 2015, a sign that the "Nixon goes to China" strategy of a leftist president pushing austerity had failed. Rousseff's commitment was not credible.<sup>26</sup> She never gave Levy more than lukewarm support, while her party criticized him vocally. Parallels with Lula are unwarranted. During the 2002 presidential campaign, Lula had famously written a "Letter to the Brazilian People" in which he promised that, if elected, he would honor contracts and secure the country's macroeconomic stability. In addition, Lula inherited a budget surplus equal to 3 percent of GDP. There was no backlash in the 2006 presidential race because the fiscal situation allowed the economy to rebound, and growth and social spending were restored. Importantly, Lula's policy switch occurred not after but *before* his election, and addressed a crisis of confidence that had sprung from polls showing he would win. Rousseff is turning her back on her own legacy in a situation of extreme vulnerability.

In Latin America, presidents are impeached when unpopular austerity measures come together with street protests and corruption charges that reach the executive mansion.<sup>27</sup> Between 1978 and 2007, 30 percent of all democratically elected presidents worldwide were threatened with losing power before the end of their full terms; 12 percent did lose their posts.<sup>28</sup> In Latin America since 1978, roughly 40 percent of presidents have faced such challenges. Thanks to the PT's control of large trade unions and grassroots organizations such as the Landless Peasants' Movement, violent clashes and riots cannot be ruled out. Unlike in past impeachment episodes in the region, the president of Brazil will be able to count on the (much weakened but still significant) support of such organizations, which can be expected to turn out to confront those who take to the streets to protest in favor of the president's impeachment.

## Taking to the Streets

The magnitude of the Petrolão and the huge social costs of the economic crisis have impelled people to the streets in support of the impeachment. Popular participation has been shaped in significant ways by Brazil's judicial and law-enforcement institutions: In fact, they are

clearly “substitutes” rather than “complements” in the impeachment game. Their impressive efficiency and effectiveness have weakened participation in the protests. Brazilians’ expressed levels of trust in their country’s judicial institutions have soared. Judges and prosecutors involved in carrying out Operation Car Wash have become national heroes. Similarly, Cunha’s leadership in the impeachment process has discouraged activism on the side favoring impeachment: He is too nakedly partisan a figure, and one who is himself dogged by corruption charges to boot.

In the wake of Levy’s fall, Rousseff has incentives to appeal to the PT’s grassroots base in order to fight impeachment. Yet the economy’s calamitous state and the risks involved in pursuing a strategy of macroeconomic populism also give her reasons to keep her current policies. These conflicting incentives may produce indecisiveness and paralysis; in that case, she will try to muddle through in order to buy time until the projected impeachment trial in the second half of 2016. This is the second-worst scenario: a weakened president trying to muddle through lost years of economic decline. The worst would be a paralyzing (or possibly combustible) Linzian showdown in which the president pursues a unilateral agenda to the point of triggering an institutional crisis. Such a showdown is unlikely, but the likelier scenario is bad enough.

In early 2016, significantly, PT leaders began openly criticizing Rousseff’s announced reform agenda. The goal was to distance the party from the unpopular Rousseff, with a view to saving Lula’s chances in 2018. Popular rejection of Lula, however, climbed from 55 percent in November 2015 to 61 percent in February 2016, according to Ibope surveys. Further denting Lula’s reputation have been his manifold legal troubles. He has been implicated in three different cases (including one connected to the Car Wash scandal), and has been under active investigation by the Federal Police on suspicion of influence-peddling.

Brazil’s grave political misfortunes may lead pundits to overlook the enormous institutional improvements in governance that the country has made.<sup>29</sup> The independence and overall effectiveness of the Brazilian web of accountability institutions—including the Federal Public Prosecutor’s Office, the Federal Police, and the Federal Audit Tribunal—are unparalleled in new democracies and probably even in a host of older democracies.

Despite the daunting challenges that face President Rousseff during her second term of office, Brazil is on the right track as far as good governance is concerned. Although the economy is in dire straits, the silver lining is that the rule of law is strong. The key lesson is that reasonably strong political competition and check-and-balance institutions have prevented the kind of power abuses that have become all too common in Latin America despite democracy’s return a few decades ago (Chile and Uruguay stand as honorable exceptions in this regard). Another important lesson is that the return to macroeconomic populism has failed.

Outcomes have not matched expectations and voters increasingly see social inclusion *within* the bounds of fiscal responsibility as the way forward. In fact, fiscal responsibility has acquired enormous salience in public discourse in Brazil. The strengthening of the rule of law is no small accomplishment and Brazil's democracy will probably come out stronger. Eventually, the economy will recover, and it too will be seen to have benefited from law-based rule in the long run. Yet things will have to get worse before they get better.

## NOTES

1. Following an injunction request by the Communist Party of Brazil, the Court ordered that the vote would have to be open and the committee members appointed by party leaders rather than by factions within parties.

2. Steven Levitsky and Kenneth M. Roberts, eds., *The Resurgence of the Latin American Left* (Baltimore: Johns Hopkins University Press, 2011).

3. See [www.valor.com.br/politica/3944096/nao-quer-o-impeachment-quer-o-ver-dilma-sangrar-diz-tucano](http://www.valor.com.br/politica/3944096/nao-quer-o-impeachment-quer-o-ver-dilma-sangrar-diz-tucano).

4. Fernando Limongi, "O passaporte de Cunha e o impeachment," *Novos estudos cebrap* 103 (November 2015): 3–16.

5. See <http://politica.estadao.com.br/noticias/geral,nao-e-hora-de-afastar-dilma-nem-de-pactuar-diz-fhc-imp-,1647649>.

6. See <http://politica.estadao.com.br/noticias/geral,ibope-atesta-volume--morto-do-lulismo-,1723349>.

7. For background on the Lava Jato investigations, see Matthew M. Taylor, "Brazil in the Crucible of Crisis," *Current History*, February 2016.

8. Matthew Soberg Shugart and John M. Carey, *Presidents and Assemblies: Constitutional Design and Electoral Dynamics* (New York: Cambridge University Press, 1992); UN Development Programme, "Democracy in Latin America: Towards a Citizens' Democracy," 2005.

9. Fernando Limongi and Argelina Cheibub Figueiredo, *Executivo e legislativo na nova ordem constitucional* (Rio de Janeiro: Editora Fundação Getúlio Vargas, 2001).

10. Eric D. Raile, Carlos Pereira, and Timothy J. Power, "The Executive Toolbox: Building Legislative Support in a Multiparty Presidential Regime," *Political Research Quarterly* 64 (June 2011): 323–34.

11. Marcus André Melo and Carlos Pereira, *Making Brazil Work: Checking the President in a Multiparty System* (New York: Palgrave Macmillan, 2013).

12. Juan J. Linz, "The Perils of Presidentialism," *Journal of Democracy* 1 (Winter 1990): 51–69.

13. Carlos Pereira and Marcus André Melo, "The Surprising Success of Multiparty Presidentialism," *Journal of Democracy* 23 (July 2012): 156–70.

14. A more meaningful metric of the high degree of party fragmentation is the Effective Number of Political Parties (ENPP), which weighs the count by the relative strength



of parties (measured by the percent of votes obtained or the seat share in the parliament). Brazil's ENPP score is 13.2 in 2014—the highest of any democracy in the world. See Michael Gallagher's Elections Indices Dataset at [http://www.tcd.ie/Political\\_Science/staff/michael\\_gallagher/EISystems/Docts/ElectionIndices.pdf](http://www.tcd.ie/Political_Science/staff/michael_gallagher/EISystems/Docts/ElectionIndices.pdf).

15. Amaury de Souza, "The Politics of Personality in Brazil," *Journal of Democracy* 22 (April 2011): 75–88.

16. On the "coalescence rate," which measures the space between the share of legislative seats that a party holds and its share of cabinet posts, see Octavio Amorim Neto, "Presidential Cabinets, Electoral Cycles, and Coalition Discipline in Brazil," in Scott Morgenstern and Benito Nacif, eds., *Legislative Politics in Latin America* (New York: Cambridge University Press, 2002).

17. See <http://politica.estadao.com.br/noticias/geral,kassab-psd-nao-sera-nem-esquerda-direita-ou-centro,698756>.

18. Barry Ames, "Advance Praise," in Melo and Pereira, eds., *Making Brazil Work*.

19. We used data from Cesar Zucco, Jr., and Benjamin E. Lauderdale, "Distinguishing Between Influences on Brazilian Legislative Behavior," *Legislative Studies Quarterly* 36 (August 2011): 363–96.

20. See Paul Chaisty, Nic Cheeseman, and Timothy J. Power, "Rethinking the 'Presidentialism Debate': Conceptualizing Coalitional Politics in Cross-Regional Perspective," *Democratization* 21, no. 1 (2014): 72–94.

21. The figure is for nonbudget bills. See Acir Almeida, "Poder legislativo: Mudanças recentes e desafios," *Boletim de análise político-institucional* 7 (January–June 2015): 45–50.

22. Available from [estadaodados.com/basometro](http://estadaodados.com/basometro).

23. Paulo Prada, "Update 2—Nearly a Million Protest Brazil's President, Economy, Corruption," Reuters, 16 March 2015, at <http://in.reuters.com/article/brazil-rousseff-protests-idINL2N0WH0EG20150316>.

24. Defense Minister—designate Jacques Wagner as quoted in *Folha de São Paulo*, 13 October 2014.

25. In Latin America generally and Brazil in particular, U-turn policy switches are more the rule than the exception. See Daniela Campello, *The Politics of Market Discipline in Latin America: Globalization and Democracy* (New York: Cambridge University Press, 2015). In the past, electoral promises have been broken—for example in 1998, when Cardoso committed to the Real Plan and subsequently devalued the currency. Under Collor (1989) and Sarney (1985) there were similar events, but in all three cases voters punished the incumbents.

26. Alex Cukierman and Mariano Tommasi, "Why Does It Take a Nixon to Go to China?" *American Economic Review* 88 (March 1998): 180–97.

27. Kathryn Hochstetler, "Rethinking Presidentialism: Challenges and Presidential Falls in South America," *Comparative Politics* 38 (June 2006): 401–18.

28. Kathryn Hochstetler and David Samuels, "Crisis and Rapid Reequilibration: The Consequences of Presidential Challenge and Failure in Latin America," *Comparative Politics* 43 (January 2011): 127–45. See also Leiv Marsteintredet, Mariana Llanos, and Detlef Nolte, "Paraguay and the Politics of Impeachment," *Journal of Democracy* 24 (October 2013): 110–23.

29. Martin Langfield, "Brazil's Crisis May Have a Silver Lining: Rule of Law," *New York Times*, 25 November 2015.