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Issue Brief

The Protracted Brazilian Crisis

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S*ummary*

This brief takes a close look at the emerging political scenario in Brazil, tainted by several corruption scandals cutting across the political spectrum, in the run up to the October 2018 presidential and assembly elections. With mainstream political parties having lost much of their credibility among the people, it is difficult at this juncture to fully ascertain the likely outcome of the elections next year. While opportunistic pacts among disparate but established political forces cannot be completely ruled out, the emergence of new actors in view of growing public resentment against institutionalised corruption remains a distinct possibility.

On June 26, Brazil's acting President Michel Temer was formally charged of passive corruption, weeks after the JBS SA bribery case was leaked to the public. Headquartered in São Paulo, JBS is Brazil's leading agri-business company and the world's top meat processor and packer. President Temer's indictment comes on top of his controversial austerity measures - budget, labour and pension reforms - that were put to vote in 2017. Temer's popularity level has since fallen to seven per cent and more charges are expected to be pressed against him in the near future. This is the lowest popularity rating of any Brazilian president since the democratic transition in 1989.

In fact, all major political parties in Brazil today stand discredited because of their implication in cases of corruption. Following more than three years of investigations by the Federal Police, very few mainstream politicians have managed to maintain a sound reputation. This seems to be opening the way for alternate leadership to emerge from among the country's influential judicial, corporate and even conservative religious elite. The ongoing leadership crisis has exposed the several fault lines in the country's political system. Thus, the next general elections scheduled in October 2018 will be held amidst a deepening legitimacy crisis in the Brazilian politics.

The Crisis

The formation of broad-based coalitions with multiple and divergent interests has been a common feature of Brazil's multi-party system. In general, the leading party seldom has a majority even within the coalition, and alliances are not based on political ideologies but bargaining and quid pro quo measures. One of the traditional ways of gathering support is to distribute key positions in ministries and public companies. Until 2014, political pacts were respected and usually remained outside the public domain. A notable exception was the Mensalão scandal (2006). It can be translated as "big monthly payment", which was given by the central government to allied Congressmen to get the proposed bills approved.

From 2003 to 2016, Brazil was ruled by a left-centre coalition led by the Workers' Party (Partido dos Trabalhadores - PT). Luis Inácio Lula da Silva's government (2003-2010) led during a period of sustained economic growth, improved social standards and high popularity ratings. Unlike his successors, Lula was able to conciliate the interests of the executive and the legislative, although it came at the expense of his ambitious economic and political reform programmes. After the 2008 global crisis, Dilma Rousseff's government (2010-2016) could not sustain the same levels of economic growth, with public debt and inflation rising in the last years of her rule.

Since June 2013, the Workers' Party's popularity was on decline in view of growing charges of corruption and political impunity coupled with a huge spending amounting to more than USD seven billion for hosting the 2014 World Cup. Meanwhile, the student protests in São Paulo over the rise in transportation fares were harshly repressed by the government, leading to an escalation in violence and popular demand for political change throughout the country. This provided an opportunity for the national media, opposition parties and conservative groups to further propagate their own agenda, blaming the Workers' Party for institutionalising corruption and indulging in high public spending. The plebiscite on electoral reforms proposed by President Rousseff was also rejected by Congress, which preferred a more moderate anti-corruption bill. The Federal Supreme Court, however, declared funding of election campaigns by private companies as unconstitutional. This new rule came into force during the 2016 municipal elections.

In 2014, the Brazilian Federal Police began to investigate cases of corruption under *Operation Lava Jato* (or Car Wash). They found that executives of Petrobras SA were overpaying in contracts with all major construction companies such as Odebrecht, Camargo Correa, Andrade Gutierrez, and OAS. This extra-profit was being distributed to key people involved in the scheme, including mainstream politicians from all major parties, who used the money to fund their electoral campaigns.

From a geopolitical angle, there was also interference from the United States (US). On September 2013, the US National Security Agency (NSA) was caught spying both on President Rousseff and Petrobras. Later in 2015, the Federal Bureau of Investigation (FBI) exchanged some information with the Brazilian Federal Police. Soon thereafter, US courts began to prosecute Brazilian companies under the Foreign Corrupt Practices Act. In December 2016, the biggest engineering and petrochemical companies of South America - Odebrecht and Braskem, respectively - pleaded guilty in a USD three billion deal with the US Federal Court in Brooklyn.

At the end of 2014, Rousseff was re-elected as president amidst looming political uncertainty. This time she won by a smaller margin, with her party securing lesser number of seats, making her government more dependent on coalition partners than before. With the Brazilian Democratic Movement Party (Partido do Movimento Democrático Brasileiro - PMDB) being the biggest coalition partner, Eduardo Cunha of PMDB was elected as president of the Chamber of Deputies (or the Lower House) in February 2015. Cunha resented President Rousseff's way of pushing and implementing policies through decrees rather than building consensus in the National Congress. Though Rousseff tried to pacify Cunha and smaller coalition partners by giving more powers to them, the lack of dialogue continued to widen the rift within the coalition. Cunha subsequently was able to shift the opinion within PMDB in favour of leaving the coalition, thus opening the door for further political instability.

Rousseff's Impeachment

Amidst corruption charges and investigations, the impeachment process was finally initiated by Cunha against President Rousseff in December 2015. His decision to put the impeachment to vote was in retaliation to attempts by the Workers' Party to have him removed from the presidency of the Chamber of Deputies by instituting a parliamentary inquiry commission. However, the allegations levelled against Rousseff during the impeachment process were not related to charges of corruption but delay of payments to public banks in order to avoid larger primary deficits. Apparently, the National Congress was more worried about the growing public demand for action against politicians involved in the Car Wash scandal than financial mismanagement. It saw an easy scapegoat in Rousseff, whose position was greatly weakened by the withdrawal of PMDB from her coalition. A significant section of the business class, represented by the Federation of Industries of the State of São Paulo (FIESP), which had expected more liberal economic policies, was also actively campaigning for Rousseff's impeachment.

Interestingly, in May 2016, during the course of the impeachment process, a leaked conversation between Romero Jucá, former PMDB senator and planning minister, and Sérgio Machado, former Petrobras executive, revealed a plan to replace Rousseff with the then Vice-President Michel Temer from PMDB. As per the leaked conversation, Temer's group was to be part of a larger political pact to limit the Car Wash investigations in order to "staunch the bleeding".¹

In May 2016, Rousseff was suspended from office and Vice-President Temer was appointed as interim president. In August 2016, Rousseff was finally impeached and Temer was confirmed as president. As per the constitutional provision in this regard, Temer is supposed to serve until the end of the ongoing presidential term (January 01, 2019). However, in case he is impeached or he resigns, the next in line of succession would be the president of the Chamber of Deputies (currently Rodrigo Maia) or president of the Senate (currently Eunício Oliveira) or president of the Federal Supreme Court (currently Carmen Lucia). Temer's successor would also have to contest an indirect election in the National Congress.

Temer's Woes

As delations moved forward in the courts, it became clear that all major parties were involved in corruption, including many top politicians. In April 2017, a list of investigations being conducted was released by the Federal Supreme Court containing the names of eight ministers in Temer's government, 24 senators, 39 deputies and three governors. Among former presidents, José Sarney, Fernando

¹ Rubens Valente, "[Em diálogos gravados, Jucá fala em pacto para deter avanço da Lava Jato](#)", *Folha de São Paulo*, May 05, 2016

Collor and Lula are being investigated, while Rousseff and Fernando Henrique Cardoso have been cited in the delations. The current president of the Chamber of Deputies, Rodrigo Maia, from the Democrats party or DEM, who would be the next in the line of succession after Temer, is also under investigation in Car Wash.²

Even Temer was recently caught in a scandal involving JBS SA. Since May 2017, he has been under tremendous pressure to resign. There are several impeachment processes going on against him, though none have been put to vote in the Congress so far. After the JBS scandal, a *Datafolha* poll in June showed that 69 per cent disapprove of Temer's government, 76 per cent believe he should resign and 81 per cent see his impeachment as a viable option.³

Besides corruption scandals, two other factors explain Temer's lack of popularity: lack of improvement in socio-economic indicators and continuing controversy over austerity measures undertaken to contain the economic crisis. GDP fell by 3.8 per cent in 2015 and 3.6 per cent in 2016, turning into the biggest crisis ever for the country. Industry was the most affected sector, with growth rate falling by 6.6 per cent in 2016.⁴ The unemployment rate went up from 10.9 per cent in January 2016 to 13.7 per cent in the first quarter of 2017.⁵ The public sector's primary deficit reached R\$ 155.8 billion (USD 48 billion), which represented an increase of 40.1 per cent in comparison to the previous year.⁶ Though annual inflation fell to 6.29 per cent from 10.67 per cent, it is still high for an economy in recession.⁷

To deal with the economic crisis, Temer had first proposed to limit government spending for the next 20 years, which was later approved. Social spending on education and health can only be increased to adjust for inflation, but no further investment would be allowed without reorganising the Union budget. Labour reform was also approved in the Chamber of Deputies and the Senate in April and July 2017, respectively. Though the pension reforms bill was earlier cleared by one of the congressional committees, it remains stalled since May in view of the JBS scandal involving Temer. Most of the reforms are being executed against the popular will. In April-May 2017, polls by *Datafolha* showed that 71 per cent of interviewees were

² Breno Pires, [“EXCLUSIVO: A lista de Fachin”](#), *Estadão*, April 11, 2017.

³ Gustavo Simon, [“Maioria dos brasileiros pedesaída de Michel Temer, afirma Datafolha”](#), *Folha de São Paulo*, June 24, 2017.

⁴ Anay Cury and Daniel Silveira, [“PIB recua 3,6% em 2016, e Brasil tem pior recessão da história”](#), *G1 Globo*, March 07, 2017.

⁵ Daniel Silveira and Marta Cavallini, [“Desemprego fica em 13,7% no 1º trimestre de 2017 e atinge 14,2 milhões”](#), *G1 Globo*, April 28, 2017.

⁶ Mariana Branco, [“Setor público consolidado tem déficit de R\\$ 155,8 bilhões em 2016”](#), *Agência Brasil*, January 31, 2017.

⁷ Nielmar de Oliveira, [“Inflação oficial fecha 2016 em 6,29%, abaixo do teto da meta, diz IBGE”](#), *Agência Brasil*, January 11, 2017.

against pension reforms and 64 per cent believed that labour reforms would benefit mostly the companies.⁸

More worrying is the growing tension among the country's key institutions. The Federal Police and the Public Prosecutor's Office have been jockeying to acquire the lead role in the Car Wash scandal, which is hampering the pace of investigation. The Supreme Federal Court too has been mired in controversies this year. First, Teori Zavascki, the presiding judge in Car Wash, passed away in a plane crash in January. Later, in June, there were reports alleging surveillance by the Brazilian Intelligence Agency (Agência Brasileira de Inteligência-ABIN) on Edson Fachin, member of the Supreme Court and presiding judge in the JBS case. Temer's government, however, denied the accusation.⁹

Towards the 2018 Elections

The ongoing political crisis has severely impacted the state structures in Brazil. Between 2012 and 2017, mistrust of both the National Congress and presidency has grown among the people, from 52 per cent and 15 per cent, respectively, to a common 65 per cent. Major political leaders and parties have lost their credibility among the masses. Five years ago, popular mistrust of political parties stood at 52 per cent; now it has risen to 69 per cent.¹⁰ In contrast, only 15 per cent distrust the armed forces, which have made it clear that they will not interfere in the political process as happened in 1964.¹¹

To ensure their political survival, political actors are now increasingly prone to striking pacts across the ideological spectrum, rather than restoring the legitimacy of the political class. Since both Rousseff and Temer have very low popularity ratings, they are not likely to be considered by their respective parties as viable candidates for the 2018 presidential election. Currently, it is not clear what kind of political arrangement will help restore political stability. Nevertheless, all three major political parties - PSDB, PMDB and PT - would be playing a key role in shaping the outcome of the 2018 elections. PSDB has emerged as a leading social-democratic party, though it followed a neoliberal agenda during Cardoso's two presidential terms (1994-2002). It had received strong support from the right-wing Democrats party (Democratas -DEM), the Progressive Party (Partido Progressista -PP) and the PMDB.

⁸ ["Datafolha: 64% dos brasileiros acham que reforma trabalhista beneficia patrões"](#), *Jornal do Brasil*, May 01, 2017.

⁹ Aécio Amado, ["Governo jamaisacionou Abin para espionar Fachin, diz nota do Planalto"](#), *Agência Brasil*, June 10, 2017.

¹⁰ Thais Bilenky, ["Forças Armadas lideram confiança da população; Congresso tem descrédito"](#), *Folha de São Paulo*, June 26, 2017.

¹¹ Eliane Cantanhêde, ["Exército diz que 'malucos' apoiam intervenção"](#), *Estadão*, December 10, 2016.

At the centre of the political spectrum is PMDB, which has been part of various coalition governments with both leftist and rightist leanings. The left in Brazil is led by the Workers' Party (PT), which has always been strongly supported by the Communist Party of Brazil (Partido Comunista do Brasil – PC do B) and by the Democratic Labour Party (Partido Democrático Trabalhista – PDT). When the economy was stable, PT governments received support from some minor conservative parties as well.

The left-centre parties have not followed a single orientation and remain divided on several issues. The Brazilian Socialist Party (Partido Socialista Brasileiro – PSB) and Solidarity Party (Solidariedade – SD) differ over labour reforms. The Rede Sustentabilidade (REDE) has an environmentalist agenda and chose to oppose both the Rousseff and Temer governments. The Socialism and Liberty Party (Partido Socialismo e Liberdade – PSOL) represents the anti-capitalist view and is averse to alliance politics.

Recently, the Brazilian Republican Party (Partido Republicano Brasileiro – PRB) and the Christian Social Party (Partido Social Cristão – PSC) have emerged as notable conservative forces, gathering support especially from among protestant religious groups. There are many other smaller political parties that prefer to remain neutral and bargain for ministerial positions when coalitions are formed. Prominent among them are: Social Democratic Party (Partido Social Democrático – PSD), the Republic Party (Partido da República – PR) and the Brazilian Labour Party (Partido Trabalhista Brasileiro – PTB).

The PMDB has suffered major losses due to the arrest of its leaders Eduardo Cunha and Geddel Lima. Renan Calheiros, leader of PMDB in the Senate, also recently abandoned his role owing to differences with Temer over labour and pension reforms. Another PMDB leader, Roberto Requião, had gone against his party to oppose both Rousseff's impeachment and the austerity measures later undertaken by Temer. Thus, support for Temer's presidency is declining even within his own party. Its major ally PSDB is considering leaving the coalition, basically trying to salvage its image by disassociating itself from an unstable interim government.¹²

PSDB leaders believe that, after losing four elections to PT, they now have a better chance of winning the presidency as their rival's image stands marred by corruption scandals. However, Geraldo Alckmin (PSDB), Governor of São Paulo, who is a pre-candidate, has also been indicted in Car Wash. Similarly, Aécio Neves, former president of PSDB, who lost by a narrow margin to Rousseff in the October 2014 presidential run-off election, was caught in a covert operation by the Federal Police, which led to his removal from the Senate, though he was later reinstated. João Doria (PSDB), the current mayor of São Paulo, is another possible contender for a centre-right coalition. His background as a businessman and a political novice is seen as

¹² [“Líderes do PSDB adiam decisões sobre desembarque do governo Temer”](#), *G1 Globo*, July 11, 2017.

an electoral leverage by his party, since most career politicians are discredited or under investigation. However, both do not enjoy high popularity ratings outside their home region.

Even with the weakening of the Workers' Party, former President Lula remains the leading pre-candidate for the 2018 presidential election. However, he too is being investigated in Car Wash. On July 13, Lula was sentenced to nine years in prison in his first trial. If his conviction is maintained in the next trial by a higher court, he will be arrested and considered ineligible for elections.

Ciro Gomes, former governor of Ceará, has been a strong ally of the Workers' Party for the last few years, and could be the leader of a new left-centre coalition in 2018. Fernando Haddad (PT), former mayor of São Paulo, is another possible name, but he recently lost his bid for re-election to João Doria in the first round. Similarly, Marina Silva from Rede Sustentabilidade could be seen as the potential third force. She had secured more than 20 per cent votes in the 2014 presidential election. She was second to former President Lula in the recent polls. However, Rede probably would not be able to build a strong and cohesive coalition in the National Congress.

There are also potential contenders from outside the political mainstream, such as Joaquim Barbosa (former Supreme Court President), Sérgio Moro (presiding judge of Car Wash) and Jair Bolsonaro (far-right congressman of the Social Christian Party). Marina Silva from Rede is already exploring the prospect of an alliance with Barbosa, who is seen by a section of voters as symbolising the fight against corruption. Some of them have received a positive response in recent polls. They may have been ranked below former President Lula, but are ahead of PSDB candidates.¹³

There is also a conservative wave in the Brazilian social media (which might be an indicator of overall public opinion) after almost two decades of social-democratic governments. The rise of racist and sexist discourse has been highlighted in recent surveys conducted by civil society groups. Increased prejudice against the poor, who depend on social welfare programmes, could also be noted.¹⁴ The growing polarisation between left and right-wing political views is quite palpable, with conservative activists accusing leftist governments of pursuing populist policies and privileging minorities' rights. Observing the growth of conservative anti-mainstream movements in the US and Europe, coupled with lack of options amongst the political class, it is possible that new candidates and alignments might emerge in the run up to the 2018 elections.

Loss of faith in the political class will probably further stratify the plurality of the National Congress, currently made up of 28 out of 35 registered parties. New factions

¹³ [“Lula tem 30%, Bolsonaro, 16%, e Marina, 15%, apontapesquisa Datafolha para 2018”](#), *G1 Globo*, June 26, 2017.

¹⁴ Sérgio Matsuura, [“Brasil cultiva discurso de ódio nas redes sociais, mostra pesquisa”](#), *O Globo*, August 03, 2016.

may emerge from within the traditional political parties, making conciliation among diverging interests a more complicated exercise. In the given environment, forming broader coalitions could lead to even more clientelism and cronyism in Brazilian politics.

No End to Crisis

After three years of intense political turmoil, there seems to be no end to the crisis in Brazil. Since mainstream political parties have largely lost their credibility among the people, the 2018 elections could present a more complex and uncertain scenario. This apparent leadership vacuum could lead to the emergence of new political alignments and actors in the coming months.

As stated earlier, among possible new players could be former or current members of the judiciary, emerging religious conservative groups and powerful business lobbies. The highly influential business class in São Paulo may shift its support from the old leadership of PSDB to João Doria, the current PSDB mayor of São Paulo, who is seen as a business-friendly presidential candidate. Although the Workers' Party has lost much support in the relatively developed parts of the country, it will probably continue to receive strong backing in the poorer regions.

Another possible outcome could be a political pact to “staunch the bleeding” since the judiciary, Federal Police and Public Prosecutor's Office appear set to carry Operation Car Wash forward as part of a broader anti-corruption effort. Thus, in the backdrop of various corruption scandals marring the political scenario, the 2018 general elections in Brazil will probably be marked by uncertainties and contradictions of competing coalition politics.

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