Brazil institutions react well to crisis

Country’s economy looks bad but some things have turned out better than expected, writes Lee Alston

Bullish on Brazil — really? The Brazilian currency has fallen more than 30 per cent in a year. Interest rates are at 15 per cent, 9 percentage points of which are gobbled up by inflation. Unemployment is climbing. The economy is shrinking. And if that were not enough, Brazil is also suffering its biggest-ever corruption scandal.

Petrobras, the state-owned energy company, admitted to losses of R$6bn ($1.6bn); the federal police puts the figure far higher. The affair has weakened an already indecisive president. Since her re-election last year, Dilma Rousseff has lost control of her government coalition and of much of her own Workers’ party, too. Her approval rating has sunk to 8 per cent — lower even than the 9 per cent rating of former president Fernando Collor de Mello just before he left office under duress in 1992. Ms Rousseff may yet face a similar fate; in a move that could presage impeachment, the federal budget watchdog, the TCU, rejected the government’s 2014 accounts.

Brazil’s condition does look bad. Yet some things have turned out better than expected. The government has made a credible move to stabilise markets, appointing as finance minister Joaquim Levy — a no-nonsense fiscal conservative. His aim is to return Brazil to policies that support social inclusion without imperiling public finances. Rumours abound that Henrique Meirelles, former head of the central bank, may replace Mr Levy. Mr Meirelles may be more effective because he has former president Luiz Inácio Lula da Silva’s blessing. No matter how much Ms Rousseff, her party or their coalition dislike the idea of a painful fiscal adjustment, the view that this is the only way to go has prevailed.

True, there have been mass street protests. But all manifestations of dissatisfaction have taken place within institutional and constitutional rules. Any suggestion of coups, military takeovers or violence is more or less universally rejected. Just three decades since the dictatorship ended, democracy is the only game in town.

That is a considerable achievement.

Best of all has been the response to the crisis by those in charge of holding the government to account, especially the judiciary, public attorneys, the TCU and the federal police. They have investigated, prosecuted and even imprisoned previously untouchable business leaders and politicians involved in corruption. The old Brazilian dictum that most investigations and prosecutions “end in pizza” — a convivial feast that gave the lie to a supposedly adversarial trial system — has not applied.

What next though? Here are three plausible scenarios. First, stagnation or “muddling through”. Lacking clear leadership from either the president or congress, Brazil could suffer
three years of drift until the next election. This would be painful, leading to rising unemployment and high inflation. Second, a populist leader could emerge and win the election in 2018, promising much but delivering little. In some ways, it would mark a return to the economic volatility and hyperinflation of the 1980s.

Finally, Congress could force Ms Rousseff out of office (or she might resign first, just as Mr de Mello did). That might hasten the return to fiscally sound but socially inclusive policies.

Brazil has been here before. In December 1992 Itamar Franco assumed the presidency after Mr Collor’s impeachment. He quickly turned the economy over to Fernando Henrique Cardoso, finance minister, and his team of advisers, who tamed inflation. Two terms of institutional deepening under the presidency of Mr Cardoso paved the way for Mr Lula, who stayed the course of fiscal and social inclusion, enabling Brazil to enjoy two decades of economic prosperity and political development.

In Brazil, the perennial country of the future, history really can repeat itself.

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