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Addicted to Bad Governance
How to Fix Brazil

Eduardo Mello and Matias Spektor

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Brazil has rarely had it so bad. The country's economy has collapsed: since 2013, its unemployment rate has nearly doubled, to more than 11 percent, and last year its GDP shrank by 3.8 percent, the largest contraction in a quarter century. Petrobras, Brazil's semi-public oil giant, has lost 85 percent of its value since 2008 thanks to declining commodity prices and its role in a massive corruption scandal. The Zika virus has infected thousands of Brazilians, exposing the frailty of the country's health system. And despite the billions of reais Brasília poured into the 2014 World Cup and this year's Olympic games, those events have done little to improve the national mood or to leave a legacy (Rio de Janeiro Mayor Eduardo Paes called the games "A missed opportunity for Brazil"). Especially since so many of the country's longstanding problems have proved stubbornly persistent: half of all Brazilians still lack access to basic sanitation, 35 million of them lack access to clean water, and in 2014, the country suffered 59,600 gun-related deaths — more than Afghanistan, Iraq, and Syria combined.

But Brazil's biggest problems today are political. Things first came to a boil in the summer of 2013, when the police repressed a group of students protesting bus and subway fare hikes in São Paulo. Within days, some 1.5 million people took to the streets of Rio de Janeiro, São Paulo, and Brazil's other big cities to protest over a much wider set of woes, including the government's wasteful spending (to the tune of some $3.6 billion) on the construction and refurbishment of a dozen stadiums for the World Cup. Starting then, each time Brazilian President Dilma Rousseff appeared on television to soothe the unrest, Brazilians across the country drowned out her voice by rattling pots and pans from their balconies. In 2014, after promising to increase public spending and bring down unemployment, Rousseff managed to win reelection by a thin margin. But she quickly backtracked on her major pledges, announcing a plan to cut state spending and rein in inflation. The public's anger mounted.

The real death-blow to Rousseff's government came from another source, however: a corruption investigation that had been brewing even as she campaigned for reelection. In March 2014, Brazilian prosecutors exposed a scheme under which business leaders and government officials had been colluding to generate kickbacks worth some $2.8 billion since 2004 —the single largest corruption scandal ever, anywhere. Operation Car Wash, as the investigation came to be known, found that private companies had been sending politicians cash through intermediaries at Petrobras in exchange for juicy contracts with the oil giant—the board of which Rousseff had led before becoming president. As new revelations involving high-ranking officials hit the Brazilian media over the course of 2015, Rousseff's reputation suffered irreparable damage; in August of that year, her approval rating sank to eight percent—a historical low. Even Luiz Inácio Lula da Silva, Rousseff's once wildly popular predecessor, was drawn into the vortex: in March 2016, prosecutors started investigations against him for owning an undeclared property in the beachside city of Guarujá built by a construction firm implicated in the Petrobras scheme —among other offenses.

In May, as the congressional coalition led by Rousseff's Workers' Party crumbled, legislators voted to suspend her from office and began impeachment proceedings on the charge that she'd manipulated the budget to hide a gaping deficit. (No one has suggested that she personally profited from the graft at Petrobras.) Her vice president, Michel Temer—a savvy operator who'd cut his teeth in the Chamber of Deputies (the legislature’s lower house)—took over as acting president despite the fact that he too was the target of an investigation. Just one week before he stepped in on May 12, Eduardo Cunha, a lawmaker in Temer’s Brazilian Democratic Movement Party (PMDB), was removed from office as the speaker of the Chamber of Deputies on charges of obstructing justice, lying to prosecutors, and hiding millions of dollars in a Swiss bank account. Temer soon lost three other close associates to Operation Car Wash and might face charges as the investigation of his own party’s operatives moves forward in coming months.

All these revelations seem to suggest that Brazil’s current crisis is the product of widespread criminal behavior by its leading politicians. But the real source of the trouble goes deeper. The chaos roiling the country is not the product of individual malfeasance, but of flawed political engineering. At the heart of Brazil’s problems with corruption and inefficiency lie the rules that govern the relationship between the country’s executive and legislative branches, which encourage exactly the kind of graft that the Petrobras scandal has revealed. To return their country to political solvency, Brazilians therefore have a might task ahead of them: they must make sweeping electoral and political reforms that eliminate the incentives that lead so many officials to break the law in the first place.

[SUBHEAD]

In presidential systems, clashes between the chief executive and the legislature are common currency. In the United States this conflict may take the form of gridlock. Brazil's 1988 constitution prevents gridlock by granting the president extraordinary powers. Brazilian presidents can issue provisional legislation by decree (although all laws must ultimately be approved by congress at a later date), dislodge pending legislation from congressional committees, force congress to vote on urgent measures, and line-item veto bills. Those powers have long helped Brazil's presidents avoid deadlocks and pass many needed reforms. But it would be a mistake to assume the Brazilian president is all-powerful. On the contrary, holders of the presidential office are relatively weak, in the sense that they are hostages to unruly, undisciplined coalitions and the agendas of local politicians. Brazilian presidents may be able to avoid gridlock altogether, but they are minority presidents.

Here is the catch. Because Brazil's Congress has more than two dozen political parties, it's nearly impossible for a single one to ever win a majority. Brazil's presidents must therefore form coalitions in order to govern effectively. And that's where the problems really start. Because parties have no strong ideological agendas-but are rather loosely-knit coalitions of local bosses who have no qualms about forming or dissolving coalitions any time, presidents must strike personal deals with small groups of legislators every time a major bill comes to the floor. Members of Congress constantly renegotiate their political loyalties—and they do so based not on nation-wide commitments to good governance but on the parochial interests of the constituencies they represent.

Making matters worse, Brazil's electoral rules allow candidates to switch parties at low cost, undermining any chance of ideological coherence within coalitions. Also, candidates are elected to Congress based not on the number of votes they receive individually, but on the total number their party pulls in. This creates an incentive for politicians to change allegiances on a regular basis: jumping ship for a party led by a popular candidate can often boost less popular aspirants to office (or keep them there). Brazilian politicians thus tend to ride on the coattails of powerful allies instead of focusing on party loyalty, ideological consistency, and the mastering of policy details. All of which makes it hard for most voters to know what ideas individual candidates—or parties—stand for. As a result, Brazilians tend to pick their leaders based on their personal appeal rather than on commitment to a party program or the quality of policy proposals.

These problems are all intensified by the fact that, once Brazilian lawmakers take office, few rules bind them to their parties. Not only can they switch parties, as mentioned above: legislators can also vote as they wish, and go as far as voting against their own parties or the presidential administration their parties ostensibly support. When they do break ranks, they normally get away with it. It is rare to find a congressperson who gets booted out of the party or a party that gets cut off the coalition for voting contrary to the party whip's recommendations. Since party whips can't control their own congressmen, presidents must bargain with legislators on an individual basis in order to pass legislation. The need to win over so many individual allies—with their own interests and constituencies to please—has led Brazilian presidents to pump vast amounts of pork, patronage, and protection into the system.

In many democracies, of course, logrolling is neither rare nor necessarily bad. But in Brazil, the practice has proved deeply counterproductive. For one thing, it has led to inefficient government spending. In 2015 tax revenues accounted for some 35% of Brazil's GDP—more than they do in a number of wealthier nations, including South Korea and Switzerland. Yet despite this income, the country's public goods are in dire shape. Take education: in an assessment of 65 countries completed by the Organization for Economic Cooperation and Development in 2012 (the most recent year for which such data are available), Brazilian high school students ranked near the bottom in mathematics and reading—below their peers in Jordan, Kazakhstan, and Thailand. Or consider infrastructure: since investing in expensive public goods is seldom a good strategy to win votes, the Brazilian government tends to favor investing in roads designed for private cars over spending money on public transportation. As a result, Rio de Janeiro, a metropolis of 12 million people, has fewer miles of subway track than Lisbon, which is home to just 530,000. Meanwhile, government has provided tax subsidies for well-connected families to hire local musicians to play at their weddings in the name of promoting 'national culture'. Former presidential candidate Aécio Neves invested 14 million reais when he was governor of Minas Gerais in building a landing strip that happened to be located in one of his uncle's farms. And the press has reported several roads and bridges that seem to connect nowhere to nowhere: a common practice whereby politicians and contractors coalesce in promoting useless projects paid for by the public purse for their own financial benefit.

Such inefficiencies stem directly from Brazil's dysfunctional political process. Legislators and the president alike regularly raise taxes not so that they can invest in better public services, but so that they can replenish the war chests they use to please the special interest groups that help them stay in power. With government spending benefiting thin slices of the electorate rather than the majority of Brazilians, the discrepancy between revenue and the quality and spread of public services is enormous. To be sure, many other countries are home to tugs of war between narrow interests and the public good, but because Brazilian electoral rules are so beneficial to the former rather than the latter, the situation is particularly egregious.

And yet, bad as they are, public policy inefficiencies pale in comparison to the other big problem engendered by Brazil's flawed rules of the game: endemic corruption. In many cases, pork and patronage prove insufficient to win Congress's support; presidents therefore often sweeten the pot by allowing legislators to appoint their allies to jobs in Brazil's powerful state-owned companies and regulatory agencies. Once in these posts, the new officials gain a say over what companies will receive lucrative government contracts. And many of them have proven all too happy to make those decision based on bribes, which they then share with their patrons in congress.

Operation Car Wash has exposed just how widespread this kind of corruption has become. According to prosecutors, numerous Petrobras executives were political cronies who saw their main job as charging illegal fees on deals with private-sector contractors—and then channeling those fees to their backers in government (after pocketing a portion for themselves).

As for the contractors in question, they included many of Brazil's mightiest corporations, including construction giant Odebrecht and multinational conglomerate Andrade Gutierrez. Estimates suggest that since 1997 these companies secured subsidized credit by Brazil's National Development Bank at the tune of $20 billion, at the cost of the taxpayer. To ensure continued access to this gold mine, the companies in question lavished gifts and other favors on cooperative politicians and contributed large sums, both on and off the books, to their reelection campaigns. Corruption was the rule, and Congress had strong incentives to ensure that public spending remained high and poorly regulated.

[SUBHEAD]

The state of Brazilian politics has not always seemed so bleak. From 1995 to 2010, two social democratic presidents, Fernando Henrique Cardoso and Luiz Inácio Lula da Silva, managed to cut inflation, grow the economy, and lift millions of people out of poverty. But they never set out to fundamentally change the rules of the game, even if they did bring about a good deal of reform. Rather than tackling the system's structural problems, they cleverly worked around them, enacting policies that benefitted most Brazilians while allowing the wheels of the patronage system to turn undisturbed. For a while, this worked well for most Brazilians, since both Lula and Cardoso were careful to insulate their pet economic and social policies from pressure from interest groups and their representatives in Congress. Unlike congresspersons and local bosses, presidents' large and diverse national constituencies make them less enthusiastic about distributing particularistic benefits and more inclined to favor public goods.

In order to deal with Brazil's corrupt and inefficient National Health System, for example, Cardoso expanded a parallel Family Health Strategy, sending doctors into poor neighborhoods to provide preventive care and reduce pressure on Brazil's public hospitals. For his part, Lula launched Bolsa Família, a conditional cash-transfer program that cut poverty in Brazil by 28 percent and cost a mere 0.8 percent of the country's GDP. The program was so cheap, and its benefits so obvious, that it eventually won widespread public support—even from Brazil's conservatives, who initially opposed it. Both Cardoso and Lula also protected Brazil's Central Bank and Finance Ministry from political pressure by imposing an informal presidential shield on these institutions, giving them a free hand to pursue policies that helped the economy stabilize and then grow.

Cardoso and Lula weathered their fair share of corruption scandals as well, but their public-oriented policies and the strong economic growth the country enjoyed under their tenures convinced voters to look the other way. At their peak they were popular enough that lawmakers found it hard to openly oppose them to extract fat concessions in exchange for their support. But Lula and Cardoso could get away with it in part because the quality of social policy at the time was at such a low starting base. There was a lot of low-hanging fruit to be picked, and both leaders could bring about major improvements by making relatively small changes to the existing system. As things improved and Brazilians became more demanding of their politicians, theirs was a tough act to follow—as Rousseff learned the hard way when she became president in 2010.

Having never held elected office before, Rousseff had a hard time navigating the give and take of Brazilian coalition building. She also had to weather the difficult aftermath of the global financial crisis and preside over an economy that was shrinking, due in part to falling commodity prices. Wedded to mercantilist and interventionist economic theories, Rousseff tried to stimulate Brazil's sagging economy by increasing public spending. This turned out to be a bad bet, since it encouraged members of Congress to chase more pork and kickbacks as government intervention in the economy grew. The combustible mix of rising unemployment and growing scandal that resulted would eventually seal her fate.

[SUBHEAD]

Unlikely as it may seem, Brazil’s current troubles might just contain a silver lining: business as usual has become so costly that many Brazilians understand that the system has to change. Operation Car Wash has laid bare the misdeeds of the country's political class, and for the first time ever, dozens of Brazilian politicians and business leaders have gone to jail. In the past, Brazilian politicians were able to shrug off corruption investigations by appealing to a lenient justice system, a weak congressional ethics committee, and a public that seemed inured to graft. That has now changed. The judges, investigators, and prosecutors running Operation Car Wash are a young generation of civil servants who are using a new set of tactics and rules, including the threat of serious sentences and leniency deals, to break the silence that Brazilian politicians and businesspeople have maintained for decades. Just as important, according to polling service Datafolha ordinary Brazilians now believe corruption is the top national problem affecting their country, and have begun taking to the streets to force their leaders to listen. While social protest up to 2014 was mostly about irrational government spending rather than corruption, the Car Wash operation seems to be influencing public attitudes. In the run-up to the vote in Congress that opened impeachment procedures against Rousseff last May, for example, weekly protests developed the distinctive anti-corruption tone that they had lacked before.

For all his shortcomings, President Temer seems to understand the need for change. He is pushing for Brazil’s first-ever cap on public spending, a measure that would limit expenses to current levels for the next 20 years, thereby forcing contending interest groups to compete for a fixed amount of resources instead of just pushing for more tax hikes or larger deficits. He has also introduced measures that will allow government to reward efficient bureaucrats across the vast expanse of the Brazilian state. And crucially, he is talking about Constitutional reform to reduce the number of political parties in Brazil and restrict their ability to merge their electoral lists, measures that might reduce the cost of doing business in Brazilian politics.

Getting Brazil back on track, however, will take even more sweeping reforms. In short, lawmakers must radically rewrite the rules of the game so that elected officials stop working only for their backers and start focusing on good governance for the majority of the people. Brazilian academics, policymakers and pundits have offered a number of ideas on how they might do so. One radical proposal would have Brazil drop its presidential system in favor of a parliamentary one akin to the United Kingdom’s. By fusing Parliament and the Executive, this would make legislators directly responsible for the success or failure of the government—and since legislators would have to consider the possibility of having to face the electorate again if they challenge the government’s major decisions, this reform might reduce the opportunities for graft and encourage the development of stronger political parties. Other politicians have argued for a semi-presidential system similar to those of France and Portugal, in which a prime minister accountable to the legislature conducts day-to-day politics and a president retains the power to dissolve parliament and call for elections. Shifting to such a system could in theory also work to make lawmakers more accountable to the people for the results of policy decisions, while still retaining the figure of the president as a national leader. Yet another proposal would keep Brazil’s current presidential system as it is, but reduce the number of existing parties to six to eight, and push them to commit to coherent policy platforms by changing the country’s arcane electoral rules.

Whichever proposal succeeds in the end, and it is early days to know, Brazil sorely needs to reduce the number of parties in Congress while also empowering them to discipline their own lawmakers in the name of a coherent party platform. As long as managing the governing coalition looks like herding cats, the system will remain dysfunctional. The Car Wash investigation, Rousseff’s demise, and economic collapse have opened an opportunity for Brazil to reform the rules of the game in ways that ensure better governance for its people. Whether the political class will be willing and able to implement the necessary reforms will largely depend on them sensing that business as usual will no longer do.