

Brazil: The Corruption of Progress

Kenneth Maxwell

Dilma Rousseff of the Workers' Party (PT) was narrowly reelected president of Brazil in the second round of the presidential election on October 26 last year. She won with 51.6 percent of the votes. Aécio Neves, her opponent from the Brazilian Social Democracy Party (PSDB), received 48.4 percent of the votes. The result revealed a country deeply split by region, class, wealth, and race. In the north and northeast, the poorer part of the country, Dilma, as she is called in Brazil, received over 60 percent of the vote. Yet in the more prosperous south, southeast, and center west, Aécio won.

In São Paulo State, where one fifth of the Brazilian population lives, and which represents one third of Brazil's economy, Aécio gained 64 percent of the votes to Dilma's 36 percent. But he lost his home state of Minas Gerais just north of São Paulo, which he represents as a senator, and where he had been governor for two terms. He is also the heir apparent to his maternal grandfather, Tancredo Neves, one of the great heroes of Brazilian democratization who was elected president by an electoral college after military rule came to an end in 1985. Neves represented for many the opposition to the military regime, but he died before he could assume office. While Aécio had represented the state for years, his cuts to public expenditures were unpopular. Losing Minas Gerais lost him the election.

It had been a very bitter presidential campaign. The candidacy of the socialist Marina Silva had posed a serious challenge to Dilma from the left. Like former president Luiz Inácio Lula da Silva, Marina was born into poverty. She was illiterate until her late teens, and went on to become an environmentalist and heir to the legacy of Chico Mendes, the forest rubber tapper and worker's party activist who was assassinated by ranchers in the western Amazonian town of Xapuri in 1988.

Marina had become the principal challenger to Dilma after Eduardo Campos, the socialist presidential candidate and the former governor of Pernambuco, died in a plane crash in Santos in August 2014. But Dilma attacked Marina, a Christian pentacostalist, with ferocity, accusing her of being an agent of the bankers, and of threatening to "take food off the tables" of the poor. It was untrue; but it worked. Marina was knocked out of the competition in the first round of the presidential elections. Yet the calculation that Marina's voters would then support Dilma proved inaccurate. The main beneficiary was in fact Aécio Neves.

Disenchantment with Dilma had been growing well before the presidential election. Mass demonstrations throughout the country before the World Cup took place in Brazil in 2014 had shaken her government. Millions took to the streets in every part of Brazil to protest the vast expenditures on World Cup facilities and the poor state of public services. Dilma's personal popularity, which had reached 79 percent in March 2013, fell by 13 percent. Soon 62 percent disapproved of her. The 2005 Mensalão scandal, in which leading members of the Workers' Party, in-

cluding Lula's chief of staff, José Dirceu, were convicted of vote-buying in Congress (the "Mensalão" or "big monthly payment" referred to the monthly bribes paid), also sapped confidence in the honesty of the PT, which was one of its great assets. Dirceu had helped Lula calm the fears of the business and financial communities in Brazil, and most importantly in New York and Washington. But he was convicted of buying the support of small political parties and spent time in jail. The "Mensalão" crisis came to a head during Dilma's first term and damaged the credibility of her



Brazilian President Dilma Rousseff with German Chancellor Angela Merkel and Russian President Vladimir Putin before the final match of the FIFA World Cup, Rio de Janeiro, July 2014

government. More importantly, it demonstrated that leading politicians could, and would, be convicted.

The lessons of the crisis were not learned, for a much larger scandal emerged soon afterward. It involved Brazil's largest state corporation, the oil company Petrobras, South America's largest enterprise and the pride of Brazilian nationalists. Founded by Getúlio Vargas in 1953, Petrobras held a legal monopoly of the oil industry until 1997. The Brazilian government now directly or indirectly owns 64 percent of what has become a vast multinational corporation, with assets in South and North America, Europe, Africa, and Asia. The repercussions of the Petrobras scandal are still unfolding, but unlike the Mensalão scandal, they are international in scope and in their consequences.

The scandal came to light as a result of Operation Lava Jato ("car wash"). Once again the principal part was taken by the federal police and public prosecutors, led by a small team of dedicated and tenacious investigators in Curitiba, where their activities are overseen by Federal Judge Sérgio Mota. They arrested leading businessmen from some of Brazil's largest construction companies for paying concealed bribes to Petrobras in order to be awarded contracts. Among those jailed were officials of the Camargo Corrêa, one of Brazil's biggest private conglomerates, as well as Alberto Youssef, who had worked as a money launderer. Youssef had been arrested nine times in the past, and had spent a year in prison.

Renato Duque, Petrobras's director of engineering and services, was also arrested. Pablo Roberto Costa, the former head of Petrobras's refining unit, signed a leniency agreement with prosecutors in exchange for providing testimony. He accused scores of politicians of receiving bribes in exchange for winning contracts. On April 15, João Vaccari, the treasurer of the PT, was arrested and charged by the federal police with receiving payments from Petrobras suppliers.

The Petrobras scandal is not the only case of corruption unfolding in Brazil.

dividuals and corporations liable and subject to punishment for corrupt practices. The penalties can be severe, up to 20 percent of the company's gross revenues over the previous year. But unlike the US, where the Department of Justice and the Securities and Exchange Commission (and in the UK the Serious Fraud Office) have centralized responsibility for prosecutions, in Brazil twenty-seven states and 5,570 municipalities can interpret the law. Lawyers are warning their clients that they could face numerous charges, especially in view of the corruption of some judges at the local and even the state levels.

Every Brazilian citizen is well aware of the chronic shakedowns of city contractors and street vendors, of violators of the complex zoning regulations, and of restaurants and bars by corrupt officials. There is even a phrase for the process. It is called the "custo Brasil," in other words, part of the "cost" of doing business in Brazil. A World Bank survey of 1,802 Brazilian firms found that almost 70 percent identified corruption as a major constraint. The Federation of Industries of São Paulo State (FIESP) reckons that the cost of corruption in Brazil is something on the order of \$32 to \$53 billion a year.

The consequences of the recent revelations are already beginning to be felt. Maria das Graças Foster, one of Dilma's closest friends and collaborators, has been forced to step down as CEO of Petrobras. In June, the heads of two major construction companies were arrested. But the reach of corruption in Brazil goes beyond the PT and is entirely bipartisan. In São Paulo, which has been governed by successive center-right Brazilian Social Democrat Party (PSDB) governments, the major party in opposition to the PT, scandals have been uncovered in the building and equipment purchases for the Metro and railroad systems, and again the international dimensions have made a cover-up difficult in Brazil.

The part of the Ministry of Justice responsible for investigating anti-trust cases said that eighteen companies were part of a cartel involving fifteen projects valued at \$4 billion in Brasília, Rio de Janeiro, and São Paulo between 1998 and 2013. This cartel was accused of prearranging offers tendered in the bidding process, and paying bribes to dozens of officials.

The overall result of these many scandals has been to weaken Dilma's presidency. But it has also opened up alternatives that are at least as bad or worse for Brazil. The question most Brazilians are asking is, Did Dilma know? Dilma Rousseff has an enviable history. She is from a middle-class family in Belo Horizonte (her father emigrated to Brazil from Bulgaria). She joined a far-left group as a student and was imprisoned for three years and tortured by the military regime. She then lived in Rio Grande do Sul, a large state to the north of Uruguay where she worked in state government, becoming a member of the PT in 2000. She served as minister of mines and energy in Lula's first administration, and was responsible for overseeing the immense (and environmentally damaging) dam

The "Clean Companies Act" anti-corruption law was passed by Dilma Rousseff in August 2013, and came into force in January 2014. It makes in-

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projects in the Amazon basin (over which she had deep disagreements with Marina Silva, at the time Lula's minister of the environment). She was appointed Lula's chief of staff after José Dirceu's involvement in the Mensalão scandal and was Lula's choice as successor. She had also headed the board of directors of Petrobras between 2003 and 2010 until she was elected president. In view of her past role at Petrobras, and at the highest levels of Lula's government, for many Brazilians there seem to be only two alternatives. If she did not know about the corruption at Petrobras she is incompetent. If she did know she is culpable. Still, no official charges have been made against her. According to polls, 84 percent of Brazilians believe that she must have known.

Petrobras is not just any other company. It is the crown of Brazil's policy of "national champions," the large organizations that are expected to advance the interests of the nation in exchange for government support. But it has been hurt by factors other than political meddling and the kickback scandal, particularly the fall in the price of oil on international markets as a result of the rise of shale oil production in the US and Saudi Arabia's decision to maintain production levels in order to thwart American competition. The slowdown of the Chinese economy has also had a negative impact on Brazil, since China is Brazil's largest foreign trading partner. Brazil's GDP has fallen by 1.3 percent during 2015 and its commodity boom is over for the time being.

Dilma has also followed a more ideological foreign policy than either of her two predecessors. Fernando Henrique Cardoso was a well-known left-wing academic, and was one of the leading exponents of dependency theory. He was (and is) well respected in both Europe and the US, where he had been a visiting professor during his exile under the military government. He speaks English and French, and his research institute in São Paulo (CEBRAP) was supported by the Ford Foundation. Lula was also respected internationally. He had good relations with the international division of the AFL-CIO in the United States, who saw him as an anti-Communist union leader (which he was).

Lula developed a wide-ranging and active foreign policy as president, particularly in Africa, as well as (unsuccessfully) in the Middle East. But Dilma Rousseff has not had great success in foreign relations. She has, without gaining much for Brazil, favored the group of countries known as BRICS (Brazil, Russia, India, China, and South Africa), and she hosted the 2014 BRICS summit in Fortaleza where the new BRICS development bank was announced. Chinese prime minister Li Keqiang, visiting Brazil in May, did promise major Chinese investment in infrastructure projects, but many in Brazil remember the limited fulfillment of past Chinese promises.

Dilma's relationship with the US has been difficult. It was not helped by the revelation by Edward Snowden that her cell phone was being monitored by the National Security Agency (as was Angela Merkel's). As a result Dilma canceled her planned state visit in 2013 to Washington. Her foreign policy has been largely guided by Professor Marco Aurélio Garcia, Lula's old foreign pol-

icy adviser, who remained in his position after Dilma became president. Professor Garcia is one of the founders of the PT, and a longtime enthusiast for left-wing parties and movements in Latin America and the Caribbean; he has for years been a central figure in the São Paulo Forum where these leaders meet. Dilma, for her part, has not criticized the Russian seizure of the Crimea, and has avoided any critical comment on Nicolás Maduro's regime in Venezuela.

One result of such policies has been that many of the more liberal-minded members of the Brazilian establishment rallied around Aécio Neves's candidacy. He was by far the favorite choice of investors and bankers on Wall Street and in London. Arminio Fraga, who had previously worked with

in eliminating extreme poverty. This has been the result of a stabilized economy (in particular the taming of inflation) and economic growth, a major achievement of Cardoso's, as well as public policies that provided a basic minimal income to encourage parents to keep their children in school. The policy was initiated by Cardoso, but was expanded by Lula as the "Bolsa Família." The number of Brazilians living on the equivalent of less than \$2.50 a day fell from 10 percent to 4 percent between 2001 and 2013, and the income of 60 percent of Brazilians increased between 1990 and 2009, with 25 million Brazilians ceasing to live in extreme poverty.

But the distribution of income in Brazil remains highly unequal, especially among Brazilians of different



FIFA President Sepp Blatter, Dilma Rouseff, Angela Merkel, and German President Joachim Gauck (back row) watching Germany defeat Argentina in the World Cup final, Rio de Janeiro, July 2014

George Soros in New York, and was the central bank president under Cardoso, would have become minister of finance had Aécio won. Rubens Barbosa, the former ambassador in Washington, and the head of international affairs for FIESP, was slated to become the foreign minister. But the antagonism on the streets toward Dilma and Lula and his legacy has been palpable since the election, with large demonstrations against her in São Paulo and Rio de Janeiro. Some of the demonstrations in the more prosperous parts of the country were accompanied by loud banging of pots and pans—recalling protests against Allende in Chile—and by demands that Dilma be impeached and the military intervene.

Behind the current impasse stands the ongoing antagonism between former presidents Fernando Henrique Cardoso and Lula, who have become the perennial grumpy old men of Brazilian politics, each unwilling to credit the other with any achievement. In fact, both were responsible in their different ways for much of Brazil's progress over the past two decades. They both have their political base in São Paulo, Brazil's most developed industrial and financial state. Both opposed the military regime. Both are democrats. They collaborated in the past, but then competed for influence and for power, Cardoso and his Brazilian Social Democratic Party from the center-right, Lula and his Workers' Party, with his strong base in the trade union movement, from the center-left. But their achievements are considerable and both men can, and should, claim credit.

Above all, as the World Bank recently reported, Brazil has been the world leader over the past two decades

economic and racial backgrounds. Brazil remains a country where the majority of the population is nonwhite, and where silent racism and poverty remain an obstacle to full citizenship. As a result of the downturn in the Brazilian economy, the number in extreme poverty rose again in 2013, though the statistics were not released by the government's Institute of Applied Economic Research (IPEA) until after the presidential election was over. But the government's social programs that help the poor, especially in the north and northeast, go a long way in explaining Dilma's victory and the continuing resilience of her support among the poorer nonwhite population in the marginal areas of the larger cities, and in the poorer regions of the countryside. This was Lula's great strength, and it continues to be Dilma's.

The problem facing those who wish to impeach Dilma is the question of who will succeed her. The line of succession runs through the vice-president to the head of the lower house of Congress, to the president of the Senate, to the head of the Supreme Court. The political paralysis of Dilma's presidency has certainly increased the power of the Brazilian Democratic Movement Party (PMDB), which has been a permanent force in Brazil's political equation, always with its eyes firmly fixed on the uses of power and the spoils of office. It holds the central ground. The head of the Senate, Renan Calheiros, and the president of the lower chamber of deputies, Eduardo Cunha, as well as the vice-president, Michel Temer, who acts as an intermediary between the presidency and the Congress, are all from

the PMDB, which has been the permanent party in all government coalitions since democratization.

The PMDB threw its support to the right when it formed part of the parliamentary coalition that supported Cardoso for two terms; it then turned left to support Lula for two terms, and supported Dilma Rousseff in her first term, and then again in her reelection last November. Eduardo Cunha is from Rio de Janeiro, and is a neo-Pentacostal evangelical Christian. He is among the most conservative members of the Congress, opposed to gay marriage, abortion, and marijuana. An economist and radio presenter, he has been accused of involvement in numerous corruption scandals. Renan Calheiros is from Alagoas, and was president of the Senate from 2005 until 2007, when he was forced to renounce his position as a result of accusations of tax evasion and corruption. Calheiros was minister of justice during Cardoso's presidency. In 2007 *Veja* magazine accused him of accepting funds from a lobbyist to pay for the child support of a daughter from an extramarital affair. An investigation of his business dealings found income tax fraud, and a Senate disciplinary inquiry took place. But by secret ballot the Senate declined to impeach him. He stepped down as president of the Senate, but was elected president again in February 2013.

Vice President Temer, who is also president of the PMDB, is a lawyer of Lebanese origin from São Paulo. He has served three times as president of the chamber of deputies and is a constitutional scholar. The common view is that Temer, Cunha, and Calheiros prefer to

keep a severely weakened Dilma in the presidency rather than impeach her.

The Congress has only 11 percent public approval according to the most recent opinion polling from Datafolha. Both Calheiros and Cunha have taken to obstructing and stalling the austerity measures proposed by Dilma's new finance minister, Joaquim Levy, a graduate of the University of Chicago, to whom Dilma has, in effect, delegated economic policy making. But Levy is facing the sharpest downturn in the Brazilian economy in seventeen years, and the worst recession since 1990.

The PT's congress, held in the northeastern state of Bahia in June, found the party severely split. Many longtime PT militants worried that the government was playing with fire in its economic policy, and they are very hostile to Levy and his austerity policies, even though Dilma, who returned early from a trip to Europe to attend, assured them that that the social programs for the poor would not be undermined.

Cunha and Calheiros have opposed Dilma's government appointees, and the newly emboldened Congress seeks to deprive Dilma of the right to appoint new judges to the Supreme Court and other higher courts. Members of Congress are also trying to severely limit the president's right to appoint officials to state enterprises without Senate confirmation. The Brazilian president has great power because of her right to make these appointments, as well as to appoint thousands of officials throughout the federal government including to the state corporations such as Petrobras, Eletrobras, the Banco do Brasil,

and BNDES (the Brazilian National Development Bank, which has a portfolio larger than the World Bank and is involved in many overseas financing operations).

Meanwhile many workers, especially in the oil sector and in Rio de Janeiro, where Petrobras has its headquarters, have been laid off, as credit dries up and construction projects are put on hold. The cynics already believe the politicians will look after one another, and the big construction companies are too big to fail. They are needed to build the stadiums for the Rio de Janeiro Olympic Games next year. Petrobras will survive the crisis. When the company's new CEO, Aldemir Bendine, released the first Petrobras audited financial statements, they showed that the value of the company had decreased by \$17 billion because of losses from the recent scandal, but it is still worth over \$55 billion. (In 2008 it was worth \$300 billion.)

Brazilians are not at all surprised by any of this. But if the Petrobras scandal was not enough, now there is the growing scandal at FIFA, particularly troubling to a country where soccer is so popular.* At the end of May, fourteen top soccer officials from eleven countries were indicted, with seven of them arrested in Zurich, on charges of racketeering, wire fraud, and money-laundering following an FBI investigation into corruption in the organization.

*For a longer discussion of the FIFA scandal, see the Web version of this article at www.nybooks.com.

They had, for example, accepted bribes from companies that wanted to sponsor teams or broadcast games. Several Brazilians were implicated in the scandal, including José Maria Marin, president of the Brazilian Football Confederation from 2012 until April 2015, and a former governor of São Paulo. His successor, Marco Polo del Nero, left Zurich precipitously the next day to return to Brazil.

Brazilian soccer officials had been accused of corruption before. Newspapers had alleged that Ricardo Teixeira, Marin's predecessor, had taken £8.4 million in kickbacks for the sale of broadcasting rights for the 2002 and 2006 World Cups. But since the payments were made in the 1990s, before it issued ethics rules, FIFA said that it would not take action against him.

The new revelations of FIFA's behavior, however, show that corruption may be even more pervasive than previously thought. The scandal extends to Brazilian business. According to the US Department of Justice, José Hawilla, founder of the sports marketing company Traffic Group, paid \$60 million in bribes to South American FIFA officials involving sponsorship of teams and television rights.

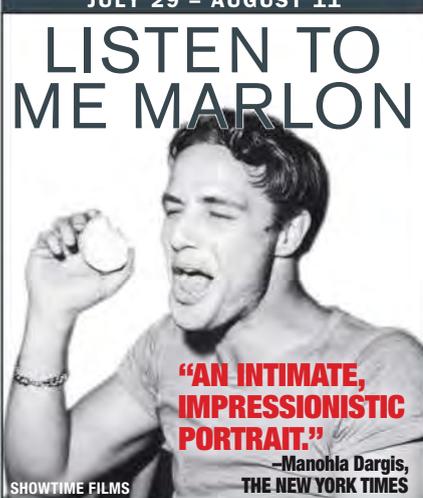
Dilma has said about the FIFA scandal, "I do not think the problem is here," adding that "Brazil is not just any old country. We do not need to pay anyone to host the most lucrative Cup." But she also had said that the Petrobras scandal was the result of the actions of a small number of corrupt officials. She was quite wrong. The clouds of corruption continue to hang heavily over Brazil. □

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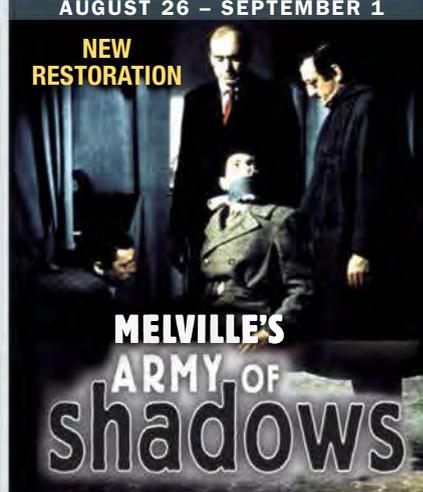


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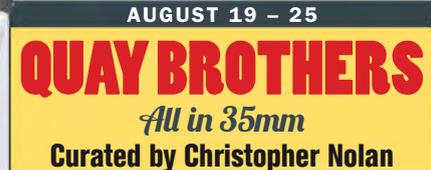
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