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Hearing on

“U.S. Brazil Trade and Investment Relationship: Opportunities and Challenges”

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This statement was prepared at the request of the House Ways and Means Subcommittee on Trade, and submitted on June 26, 2013, as Brazilian society and leaders confront the consequences of an unexpected and unprecedented widespread wave of street protest in more than one hundred cities. Although the initial protests were motivated by bus fare increases in Brazil’s largest city, São Paulo, they quickly mushroomed into a national movement after police used excessive force against protesters.

Fuelled by multiple grievances and causes, from poor quality of public services and wasteful public spending of millions of dollars in construction and renovation of football stadiums to a general revulsion against a political class seen as largely corrupt and self-serving, rallies conveyed above all a deep sense of exasperation with the country’s slow pace of change. The sentiment is especially strong among the young emerging middle class that took to the streets. Beneficiaries of two decades of democracy with economic stability, they bought the dream of a more prosperous and equitable Brazil drummed up by their leaders, and after experiencing some of it, they are now saying they want more and want better. Their ample access to cell phones and social media, a result of their social ascension, allowed them to circumvent traditional means of political intermediation and mobilize massive rallies throughout the country, to the astonishment of the political establishment, the media and even themselves.

In this sense, the protests can be viewed as a cathartic manifestation of a nation fed-up with the disconnection between the positive image of a prosperous nation, promoted by the government, and the harsh realities millions face in their daily life in congested, dangerous cities, precarious health services and bad schools. The frustration was made worse by repeated acts of arrogance by an entitled elite of politicians increasingly aloof to the people’s plight. Workers Party (PT) Senator Lindbergh Faria, a 43-year old politician who twenty years ago led street rallies to impeach president Fernando Collor de Mello on charges of corruption, acknowledged in an interview to the *Folha de São Paulo* newspaper that his party, once the champion of popular causes, ethics and transparency in politics, has “distanced itself from society and from the young generations.” Most critics would agree that this took place after the party assumed control of federal power in 2003.

The street protests, that turned violent at times, have left Brazilians both apprehensive and hopeful about their future. The government's response started to take shape on Monday June 24, after what presidential aides described as "days of perplexity". An attempt by President Dilma Rousseff to embrace the protesters, in a nationally televised speech delivered as street protests were unfolding, was followed with a five-point proposal, including a suggestion for Congress to call for a plebiscite on a constitutional assembly with the specific purpose of reforming Brazil's discredited political system of representation. These efforts were not well received.

Protesters ignored the president's warnings against acts of violence that "damage Brazil's image abroad" and continued to demonstrate. A national day of protest has been called for July 1.

The problem for Ms. Rousseff is that the growth model based on consumption rather than investment initiated and pursued by her predecessor and mentor, Luiz Inácio Lula da Silva, is exhausted. A stalled economy with rising inflation and deteriorating fiscal and external accounts in a challenging global environment limits what she can do. There is little room to negotiate agreements necessary to deliver on the promises she made, such as a national reform of urban transport and "a profound reform" needed to add "oxygen to our old political system." These promises and people's demands cannot be delivered as fast as reducing bus fares. Some are controversial. Ms. Rousseff's plan to bring thousands of foreign doctors to Brazil to improve public healthcare services was strongly rebuffed by three national medical associations. They reminded the president she was successfully treated for cancer by doctors trained in the country.

Adding to the difficulties, Ms. Rousseff's centralized decision-making and her lack of taste for the give-and-take of politics is now seen by her allies as part of the problem. According to media reports published as the protests raged, leaders of the president's coalition and members of the business community are complaining about her governing style to Mr. Lula da Silva. The talkative former leader has remained out of view and conspicuously silent.

A cabinet reform, including a change of the discredited economic team led by finance minister Guido Mantega, which could take the form of a new beginning, seems unlikely but inevitable. It will be interpreted as an admission of responsibility for Brazil's mediocre economic performance under Ms. Rousseff and may do little to quiet the streets. The president's late and unimpressive response to the protests raises doubts about her own standing. There is no longer a sense of inevitability over Ms. Rousseff's re-election in October 2014.

With leaders showing little inclination to speak and act in a political landscape altered in ways they do not seem to understand, proposals involving tax, regulatory and trade reforms that could help Brazil address issues of economic productivity and competitiveness, such as those highlighted by other who offered testimony in his hearing, have little chance of being addresses. Former president Fernando Henrique Cardoso expressed doubts in an interview to the *Folha de São Paulo* newspaper about "the capacity of political parties to capture [the meaning of the protests] and change their message and connection with social media". The irony is that the effective use by organizers and protesters of Facebook, Twitter and instant messaging has mobilized enormous popular pressure on a government proud of having expanded the access of millions of formerly poor and middle-class Brazilians to mobile phones and internet services.

On a hopeful note, a group that in 2010 successfully pushed the approval of a law that banned politicians convicted of corruption from running for office, started collecting the 1.5 million signatures needed for Congress to vote on a political reform intended to reduce the number of parties and politicians and make both accountable to voters. The proposed initiative would ban all forms of corporate contributions to political campaigns. For now, and until political leaders from various parties come together and agree on a minimal agenda on the political system reform, traditional forms of mediation will not be effective and the pressure from the streets will manifest in direct forms of democracy. Meanwhile, on June 25, under intense pressure generated by the protesters, the Chamber of Deputies (House of Representatives) overwhelmingly rejected a constitutional amendment to reduce the investigative powers of federal and state attorneys in criminal cases involving political corruption.

As far as Brazil and United States relations, and in view of the upcoming state visit of President Rousseff to Washington, D.C. in October, members of the U.S. Congress would be well advised to see the current popular protests in Brazil as indicative of political vitality of a society that has become more prosperous and democratic in the past three decades and is saying loud and clear that it wants to remain on that course.