

How Bad Is the Brazilian Crisis?

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Brazil is going through a rough patch, to put it mildly. The country is suffering its largest economic contraction since the 1930s and high inflation to boot. The ongoing corruption scandal involving the state-run oil company, Petrobras, may be the largest in democratic history. The Brazilian government has been paralyzed since 2014. The political establishment has been discredited; at present, only a fourth of Brazilians say they identify with a party. In recent months, more Brazilians have mobilized in anti-government protests than ever before. The president, Dilma Rousseff, and speaker of the lower house of congress, Eduardo Cunha, have been suspended from office and are likely to be removed permanently within the year. Ex-president Lula da Silva, once the most celebrated politician in Brazil's history, is under investigation for corruption. His Workers' Party (PT), the most robust of Brazil's parties, faces a reputational crisis unprecedented in its history. In society and government, polarization between supporters and opponents of the Rousseff administration has reached unsettling levels. Leaders in all three branches of government have manipulated or flouted institutions in order to advance their conflicting, sometimes obscure agendas. Major international publications have begun to characterize Brazil as a quasi-banana republic. And international investors have grown jittery about a country that, not long ago, was the darling of the global financial community.

Clearly, Brazil's crisis should worry us all. But how worried should we be? And what, precisely, should we be worried about? The daily and weekly news commentary on Brazil, while informative and valuable, has been of limited use for those seeking to place the crisis in context, or to understand its root causes and long-term implications.

This article argues for cautious optimism. Brazil's descent into stagflation exposes longstanding structural inefficiencies in its economy. Voter dealignment and revelations of endemic corruption raise questions about the country's future governability. But Brazil's crisis should not be exaggerated. The country has many strengths, due in large part to the remarkable political, economic, civic and social policy advances it has made since its crisis-ridden first decade of democracy (1985-1995). The crisis does not erase, or even erode, most of these strengths: democracy is stable in Brazil; the established parties are bleeding but alive; party leaders have not forgotten the value or mechanics of power-sharing and coalition-building; Brazilian society is highly participatory; mass media are independent and vibrant; state and society are increasingly holding top political and economic elites accountable for illegal acts; the Brazilian economy is industrialized, diversified and technologically advanced; the risk of runaway inflation is virtually nil due to effective inflation targeting; an incipient social democratic welfare state has been institutionalized; and poverty and inequality, despite the economic downturn, remain well below the levels of the 1990s.

Moreover, while the crisis has shaken and debilitated Brazil in the short term, it also reflects the enormous recent progress of Brazilian democracy and, crucially, promises to drive further progress in critical areas. The Petrobras investigations and prosecutions showcase the increased vigor of Brazil's public accountability institutions. Recent street protests illustrate the mobilizational capacity of Brazilian civil society outside of election season. The recession may impel needed economic reforms. And the Petrobras scandal could be a "game changer." Brazil's political and economic titans, long untouchable, are beginning to pay a serious price for corruption, in the form of multimillion dollar fines, voter flight, and even prison time. Brazilian

citizens and watchdog organizations may have permanently altered elites' corruption calculus. Given the vital importance of clean government and efficient public administration in the developing world, the significance of this unfolding process is hard to overstate.

The article will proceed in three sections. The first section details the crisis in its various aspects. The second section takes measure of the crisis, placing it in the context of twenty years of political, economic, civic and social policy progress, and arguing that, in important ways, the crisis both reflects Brazil's progress and will contribute to further progress. The final section outlines Brazil's key challenges for the future.

The Crisis

In early 2015, Brazilians learned that executives of Petrobras, the state-run oil company and one of the world's largest corporations, had been awarding exorbitant government contracts to private firms, taking massive kickbacks in return, and using some of the proceeds to bribe and reward politicians. The graft scheme was unprecedented both in monetary scale (multiple billions of dollars) and in the number of top political and economic elites implicated. Hundreds of figures, from Petrobras executives to construction magnates to federal lawmakers, have been imprisoned or indicted or are under investigation.

The scandal has come at a bad time. In early 2014, Brazil descended into its worst economic crisis in nearly a century. Millions of Brazilians have lost their jobs and fallen from the middle class into poverty. By the end of 2016, Brazil's GDP will have contracted by nearly ten percent in a span of less than three years. Households are cash-poor due to the bursting of Brazil's real estate bubble and a recent tightening of credit. Inflation hovers around the double digits. And, in light of Brazil's ballooning public debt, the Big Three credit rating agencies (Moody's, Fitch, Standard and Poors) have downgraded Brazilian government bonds to junk status.

The combination of economic crisis and corruption scandal has spelled disaster for President Rousseff. Her approval ratings first plummeted in 2013, following mass street protests over low-quality public services and corruption, and plummeted further in 2015 due to a perfect storm of stagflation, corruption revelations, and perceptions that Rousseff had broken campaign promises by embracing austerity as a remedy for public debt and inflation. Rousseff has lacked a working legislative majority for the entirety of her second term; soon after she won reelection, the legislative coalition between her Workers' Party (PT) and the Brazilian Democratic Movement Party (PMDB) broke down, paralyzing the government.

A movement to impeach Rousseff began shortly after the commencement of her second term. Lower house speaker and former Rousseff ally, Eduardo Cunha (PMDB), first filed an impeachment motion in early 2015, charging Rousseff with masking the true extent of Brazil's budget deficit during her reelection campaign. Although the motion died due to lack of political support, conditions changed the following year. In early 2016, the home of Rousseff's predecessor, mentor and co-partisan, Luiz Inácio Lula da Silva (2003-2010), was raided by federal police, and "Lula" (as he is widely known) was detained for questioning on corruption allegations. In order to shield Lula from prosecution, Lula named him her chief of staff. The appointment provoked mass outrage, and Cunha, correctly sensing an opportunity, refiled impeachment charges. By this time, roughly two thirds of Brazilians supported Rousseff's ouster, and in mid-March, millions of protesters mobilized across the country, pressuring undecided legislators to vote for impeachment. In mid-April, the lower house impeached

Rousseff, and in mid-May, the senate suspended Rousseff's presidency. Currently, Rousseff is on trial in the senate and appears likely to be removed from office later in the year. Her vice president, Michel Temer (PMDB), has assumed presidential responsibilities in the interim.

To the dismay of many observers, both the Petrobras investigations and the impeachment movement have led to institutional manipulation, abuse and volatility. Federal judge Sérgio Moro, who initially spearheaded the Petrobras investigations, released to the public a taped phone conversation between Lula and President Rousseff on questionable legal grounds; he also released taped conversations of Lula that had little or no relevance to the investigation and seemed intended to sully his reputation. President Rousseff attempted to convert the important position of chief of staff into a means of immunizing her ally, Lula. Pro-impeachment legislators are using the charge of accounting chicanery, a common practice among Brazilian presidents, as a pretext to remove an unpopular, politically isolated president. Most recently, the acting lower house speaker, Waldir Maranhão, annulled the lower house's impeachment vote on the ground of procedural irregularities, only to backtrack when senate leaders declared their intention to ignore the annulment, and the supreme court stated that the annulment was probably illegal.

The impeachment struggle has also generated high levels of social and elite polarization. Supporters of impeachment question Rousseff's legitimacy and (as noted) have mobilized in the millions. Rousseff, Lula and their supporters characterize the impeachment movement as a "coup" orchestrated by a partial judiciary, a biased media, economic elites and opportunistic lawmakers. They regard Temer, the acting president, as illegitimate and a usurper, and the Workers' Party, capable of mobilizing millions, has sworn "total" opposition to the Temer government. On the day of the impeachment vote, police in the capital city of Brasilia, as a precautionary measure, erected a barrier between the nearly 100,000 pro- and anti-impeachment activists gathered outside the congressional palace.

Public mobilization and outrage, however, extend well beyond the impeachment issue. In the last fifteen months, between five and twelve million Brazilians have taken to the streets in protest. A significant fraction of these protesters have directed their ire at the entire class of political elites, who, they charge, have lined their pockets with public money while the population suffers historic levels of economic hardship. The list of leading government figures currently implicated in corruption scandals borders on the surreal. Michel Temer, the acting president, has been cited in association with the Petrobras scandal and an illegal ethanol-purchasing scheme. Eduardo Cunha, the lower house speaker who spearheaded the impeachment movement, is suspected of taking up to \$40 million in bribes from Petrobras. The supreme court recently indicted Cunha after suspending him from the lower house on charges that he intimidated fellow lawmakers and obstructed justice. Cunha's acting replacement, Waldir Maranhão, is under investigation for involvement in the Petrobras scheme. So is the majority leader of the senate, Renan Calheiros, whom prosecutors suspect of accepting \$6 million in kickbacks from an oil rig supplier. In total, over fifty members of the lower house of congress have been indicted or are under investigation by Petrobras prosecutors. Nearly two thirds of Brazil's 594 upper and lower house members face some type of corruption charge or allegation.

It is no surprise, thus, that Brazilians currently rate corruption rather than crime or healthcare as their leading concern, or that politicians widely considered corrupt, such as Cunha, are even more unpopular than Rousseff. An ominous recent survey indicates that nearly half of Brazilians would support a military coup if it helped to combat corruption.

The combination of rampant corruption and deteriorating economic conditions has provoked millions of citizens to reject Brazil's established parties. Nationally, the number of

Brazilians who identify with a political party plummeted from roughly 45% of the population during the 1989-2013 period to just 25% in 2015. Most strikingly, the PT, the Brazilian party with by far the most partisan supporters since the beginning of the new millennium, has hemorrhaged partisans in the last three years, closely paralleling Rousseff's precipitous decline in public approval. One fifth of the PT's sitting mayors have defected in advance of the October 2016 municipal elections, and dozens of PT congress members are openly contemplating defection as well.

Taking Measure of the Crisis

Needless to say, times are difficult in Brazil. But it is important to keep the current crisis in perspective. Brazil's political and economic troubles are coming on the heels of two decades of remarkable progress. Circa 1990, few observers would have predicted such progress. For a full decade after Brazil's 1985 transition from military rule to democracy, the country was considered virtually ungovernable. The party system was extremely fragmented and volatile, divided government was permanent, and crisis was frequent. The decade produced zero net economic growth, chronic hyperinflation (peaking at 2948% in 1990), and the impeachment and resignation of a president (Fernando Collor in 1992).

Yet, beginning in the mid-1990s, Brazil's economics and politics took sustained and mutually reinforcing positive turns. Improvements in the political sphere followed, in part, from the failed presidency of President Fernando Collor (1990-1992). Collor was an anti-establishment party system outsider elected president in 1989 amid economic crisis. After taking office and finding few legislative allies, he resorted to governing by executive decree, but when his economic reforms failed to deliver growth, his approval ratings plummeted. Collor's opponents in the legislature and judiciary went on the attack: both bodies restricted his decree usage, and the legislature began to investigate Collor for corruption. After evidence surfaced that Collor had siphoned large sums of donated campaign money for personal use, citizens mobilized in mass protests, leading to Collor's impeachment and resignation.

By reining in and removing Collor, the legislature and judiciary gained prestige and emerged from the political crisis with newfound strength and self-confidence. Collor's fall also taught national political leaders that it was risky, even impossible, to govern Brazil without constructing legislative majorities. Thus, following the interim presidency of Itamar Franco (1992-1994), President Fernando Henrique Cardoso (1995-2002) set a precedent of working through congress rather than around it. He built a two-term legislative majority by dispensing pork and patronage to coalition partners, and his presidency proved reasonably productive and successful. Cardoso's successors followed his precedent. His immediate successor, Lula, forged a majority legislative coalition by allying with moderate parties and governing from the center, despite his party's left origins. President Rousseff (2011-present) did the same during her first term.

These improvements in governability accompanied major improvements in the economy. Before winning the presidency, Cardoso served as finance minister under President Franco and, in an effort to curb inflation, spearheaded the design and implementation of the orthodox Real Plan. The plan brought down inflation from 50% in early 1994 to just 2% in late 1994. As the economy stabilized, Brazil entered a golden economic era. For two decades, from 1994 to 2013, there were no protracted economic crises; inflation remained under control (averaging 6-7%); the economy grew at a healthy, relatively steady clip (averaging 3-4%); and the middle class nearly

doubled in size, coming to constitute a majority of the population. Moreover, Brazil retained a solid industrial base, which made its economy more complex and diversified than others in Latin America (e.g., Chile's, Argentina's). In addition to minerals (e.g., iron ore, petroleum, natural gas, gold), agricultural goods (e.g., soy, sugar, poultry) and modern services (e.g., financial), Brazilian firms produced top-of-the-line airplanes, military equipment, computers, and cars.

The same period produced major gains in social welfare. Primary school, secondary school and college enrollment sharply increased, universal health care was instituted, and infant mortality declined. Brazilian AIDS policy led to a two thirds reduction in AIDS deaths and became an international model. Social rights and opportunities for economic advancement were granted to women, Afro-Brazilians, and disabled persons. Most importantly, poverty and inequality fell dramatically, due to a combination of economic growth and social policies designed to raise the incomes of poor households (e.g., conditional cash transfers, institutionalized minimum wage increases). During Lula's presidency alone, nearly 20 million Brazilian escaped poverty. The Lula administration's multibillion dollar annual investment in the federal conditional cash transfer program, *Bolsa Família* (Family Grant Program)—which provided poor families with monthly cash transfers conditional on their children attending school regularly and receiving annual medical checkups—benefited over ten million households and virtually eliminated abject poverty in Brazil.

Brazil's economic and social development reinforced and drove further political progress. Sustained growth and social welfare gains helped to legitimate and institutionalize Brazil's emerging party system, anchored by the PT and the Brazilian Social Democracy Party (PSDB). And two decades of uninterrupted, crisis-free democracy gave presidents, parties, congress and the courts *time*: time to learn to work together, and time to grow as institutions. The legislature and judiciary succeeded in checking and balancing the executive. The legislature developed the capacity to negotiate with the president. Presidents and party leaders mastered the mechanics of power-sharing and coalition-building.

In sum, after the mid-1990s, Brazil's institutions of horizontal accountability strengthened, its party system became semi-institutionalized, and its presidents and party leaders learned to build and sustain multiparty coalitions. Defying the doubters, Brazil became governable.

And there were other key developments. Federal police and prosecutors steadily acquired the budgets, autonomy, expertise, and tools necessary to tackle sprawling, complex cases of corruption and white-collar crime. National media grew in independence and vibrancy. And civil society strengthened. Brazilians became highly participatory, engaging in political activities and joining civic associations at rates similar to Germans. They used their organizational and mobilizational capacities to influence politics and hold the state accountable: pro-impeachment protests in 1992 decisively influenced the legislature; street protests in 2013 spurred the Rousseff government to invest \$25 billion dollars in public services and pass a groundbreaking law allowing public prosecutors to plea bargain; and the Movement to Combat Electoral Corruption, an umbrella association comprising roughly fifty citizen organizations, persuaded the legislature to pass laws prohibiting vote-buying and banning corrupt politicians from seeking reelection.

Most fundamentally, Brazilian democracy took root. Military coups became virtually unthinkable. Congress, the courts and civil society proved themselves capable of reining in the constitutionally powerful executive branch. And Brazilian citizens demonstrated—through their actions, not their words—that they regarded the democratic process as the only legitimate channel for political action.

Make no mistake: Brazil's current crisis is a major setback. But we must not overstate the degree of crisis, or fail to recognize its positive aspects. The removal of Rousseff would not be a "coup." The impeachment movement has been opportunistic but not illegal. Impeachments leave democratic institutions intact; coups do not. In fact, in contemporary Latin America, impeachments have become somewhat similar to parliamentary votes of no confidence: they provide a peaceful, if traumatic and polarizing, means of removing politically isolated executives and ending gridlock.

Further, although Brazilian citizens are currently rejecting elites and established parties, they are not rejecting the constitution. Millions have mobilized in the streets, and language between pro- and anti-impeachment groups has been inflammatory, but polarization has not given way to violence. On the day of the impeachment vote, tens of thousands of protesters assembled peacefully outside the congressional palace, and when the votes were in, the anti-impeachment crowd accepted the result, and the protesters dispersed without incident. Subsequently, no anti-impeachment figures or organizations have called for the use of force to revoke the lower house's decision. Polarization is being channeled through the democratic process.

Moreover, Brazil's institutions, despite recent instances of manipulation, abuse and volatility, have remained relatively strong and depoliticized. It could be emphasized, for example, that the supreme court, despite having a high proportion of PT appointees, did not challenge the lower house of congress when it impeached President Rousseff. And, generally speaking, officials who have bended or carelessly applied the rules have been sanctioned or checked. The supreme court removed Sérgio Moro from the Petrobras inquiry after ruling that he had endangered national security by releasing a phone conversation with President Rousseff to the public. The supreme court invalidated President Rousseff's appointment of Lula as her chief of staff, judging that she did so to grant him immunity. Congress and the supreme court forced acting lower house speaker, Waldir Maranhão, to backtrack on his hasty annulment ruling.

What are the "positive aspects" of Brazil's crisis? The processes currently unfolding in Brazil, as worrying as they are, reflect the country's core strengths and the enormous progress it has made in recent decades. Media and civil society have shown their enormous political influence over the last year; in the absence of a vigorous, free media and a participatory, protest-ready citizenry, both the Petrobras investigations and the impeachment of President Rousseff may not have come. Equally, state accountability institutions have displayed their newfound strength and independence; if Brazil's courts, police, and public prosecutors had not developed the capacity to tackle large, challenging cases, the Petrobras investigations might have fizzled, or the scheme might not have been uncovered.

Brazilian democracy, in fact, is currently in the process of scoring its biggest victory to date in the vital domain of state-building. State weakness—defined as the inability of a country's coercive apparatus, legal system, and bureaucracy to provide law and order, dispense justice, and deliver services impersonally and effectively across the national territory—may be the single largest problem in the developing world today. Without an effective state, democracies are less durable, and economies, no matter how market-oriented, are less stable and prosperous.

Patronage, clientelism, cronyism and corruption—all rife in Brazil—directly undermine state capacity. When public functionaries are appointed on the basis of political loyalty, not merit; when public services are delivered selectively to political allies and supporters, rather than impersonally and universally to all citizens; when public contracts go to the highest bidder, not the best bidder; and when a large fraction of the public treasury is siphoned yearly into the

pockets of public officeholders; states have fewer resources, they employ lower-quality personnel, and they provide lower-quality services.

State-building is, in a sense, unnatural. We should not be surprised that politicians who have access to the state reward family members, friends, cronies, co-ethnics, supporters, and co-partisans with public jobs and resources, or that state officials, in order to enrich themselves, take kickbacks or loot the public treasury. What is more surprising is that some countries have largely eliminated these problems. Historically, most of the world's effective states (e.g., China, Japan, England, France, Sweden, Prussia, South Korea, Taiwan, Israel) developed through the regular threat and practice of warfare. The prospect of war, or the fear of it, provided political and economic elites with powerful, even existential, incentives to extract and pay taxes, to build professional armies, and to provide taxpayers with public goods such as law and order.

Constant warfare, of course, is hardly a prescription, or a likely prospect, for today's developing countries. But in the absence of warfare, how can countries build effective states? According to Francis Fukuyama in his 2014 volume, *Political Order and Political Decay*, one answer may be civil society. As the United States modernized in the 19th century, its emerging middle classes grew dissatisfied with low-quality public services. The patronage system initiated by President Andrew Jackson, and continued by his successors, produced a bureaucracy chronically staffed by unqualified political appointees. This "spoils system" only began to erode when the urban middle classes mobilized and called for civil service reform. Citizen pressure played a critical role in the passage of the Pendleton Act, which mandated civil service examinations for federal government workers and constituted a major step toward the professionalization of the US state.

A similar process seems to be unfolding in Brazil. The country's middle classes are driving a process of public sector reform. As already noted, the citizen-organized Movement to Combat Electoral Corruption successfully pressured the Brazilian legislature to prohibit clientelistic practices, and to ban corrupt politicians from running for reelection. The street protesters of 2013, drawn from Brazil's "new middle classes," demanded higher-quality public services, as well as state action against corruption, and elicited a major government response. The 2015-2016 protests, again centered in the middle and upper middle classes, have helped to spur the anti-corruption efforts of the courts, federal police and public prosecutors. In short, middle-class protesters and organizations are helping to make the Brazilian state less corrupt and more effective.

Indeed, from the perspective of Brazil's political and economic elites, the expected material and reputational costs of corruption may finally outweigh the benefits. That would be an unprecedented shift and constitute a major step forward for Brazil. Corruption is endemic in Brazil: according to recent estimates, up to 5% of the GDP is lost annually to graft. Such rampant corruption has been founded, for decades, on a culture of impunity. In a recent study comparing ninety countries, Brazil ranked third from the bottom in elite impunity, behind Paraguay and Uruguay and tied with Argentina. But that culture seems to be changing; Brazil is establishing the rule of law. In 2010, Brazilian courts successfully prosecuted a sitting politician on corruption charges for the first time. In 2012, the two lead participants in a major 2005 corruption scandal received prison terms. And now, with the Petrobras investigations, the country's leading political and economic figures are landing in court or jail. Construction magnate, Marcelo Oldebrecht, one of Brazil's wealthiest citizens, is now serving a 19-year prison term for paying \$30 million in kickbacks to Petrobras. The supreme court has indicted

Eduardo Cunha. Lula is under investigation. No one, it seems, can get away with corruption anymore.

The Road Ahead

But just as Brazil's troubles should not be overstated, its fundamental challenges should not be overlooked. Brazil's impressive, multidimensional progress after the mid-1990s confounded the pessimistic predictions that dominated analyses during its crisis-ridden first decade of democracy. But the same progress generated a "Brazil bubble"—a level of optimism about Brazil's economic and political future that probably was not warranted. The present crisis is leading to a recalibration of expectations—and it should.

The economic crisis has shown (or reminded) us that Brazil must undertake fundamental reforms in order to ensure future prosperity. The current downturn is not just an international story of falling oil and commodity prices and the end of quantitative easing in the United States. Domestically, it is not just a story of overleveraged households and economic mismanagement under Lula and Rousseff. The Brazilian economy has been handicapped for decades by structural inefficiencies. Two bear emphasis here. First, the cost of doing business in Brazil—the so-called *Custo Brasil* ("Brazil Cost")—is excessive. Regulations and taxes are highly cumbersome and convoluted and constitute a major drag on domestic market activity. Second, Brazil's exorbitant and regressive pension system is a huge drain on state resources, diverting public money from more productive uses (e.g., infrastructure, research and development). Remarkably, Brazil spends more on pensions as a percentage of GDP than Germany, Japan, Canada, Britain, and the United States, despite having a much higher ratio of working-age to non-working age citizens. Brazilian governments could afford to delay regulatory, tax and pension reform during the commodity boom of the 2000s. The current economic crisis suggests that they no longer can.

Of course, Brazilian governments will only be able to pass such reforms if the country remains governable. The crisis, however, has forced us to ask an unsettling question: Is Brazil becoming ungovernable again? There are two reasons to worry. First, as corruption becomes more politically and materially costly in Brazil, legislative coalition-building may become more difficult. We should, of course, welcome the erosion of elite impunity and graft in Brazilian politics. But the Petrobras scandal, coming on the heels of another major corruption scandal just a decade earlier, suggests that the coalition-building of recent decades has been *predicated* on, not merely facilitated by, corruption. In the multiparty presidential systems of Latin America, governability depends on legislative coalition-building, and in the last two decades, Brazil has done a better job of coalition-building than almost any country in Latin America. But now it must do so cleanly.

Governability also depends on strong parties. Parties channel political grievances and conflict; they facilitate legislative organization; they socialize elites; and where a few established parties dominate electoral competition, outsiders, novices and demagogues are much less likely to win office. Therefore, it is important to ask: Will Brazil's decomposing party system rebound? More specifically: Is recent voter dealignment temporary or permanent? Will even more voters flee? Or will voters reembrace the established parties after the current crises pass? These questions matter greatly. If Brazil's established parties do not rebound, personalistic electoral vehicles and political outsiders will fill the resulting void. The weakening and fragmentation of Brazil's party system would hinder legislative coalition-building. Disaffected Brazilian voters might even put an anti-establishment political outsider in the presidential palace for the first time

since Collor. Such an outcome, while unlikely to threaten Brazilian democracy, could have negative implications for executive/legislative relations and governability in Brazil. Around the world, even in countries not beset by economic woes, corruption scandals or party system decomposition, populists are contending for national power (e.g., the United States). Conditions seem particularly conducive in Brazil.

But there are also grounds for optimism. Oil and commodity prices will rise in the coming years, which will bring renewed economic growth and, by increasing the tax base, help Brazilian governments to address the country's debt and inflation problems. The economic recovery, in turn, will reduce the risk of continued ungovernability, in two ways. First, when the economy recovers, Brazil's presidents will grow in popularity. Unpopular presidents—especially highly unpopular ones such as Rousseff during her second term—are bad for governability. Because presidents Cardoso and Lula were popular, opposition parties in the legislature had electoral incentives to ally with them. Now the reverse is true: opposition parties, in the last couple of years, have judged it politically costly to cooperate with President Rousseff. Even the PT is distancing itself from Rousseff in preparation for the 2018 presidential election. But when growth resumes, and the corruption scandal fades in the collective memory, Brazil's presidents will have more leverage over congress, and coalitional presidentialism will be easier to restore.

Second, the economic recovery will help to restore citizen confidence in the established parties. In fact, the prospects of Brazil's two main parties, the PT and PSDB, are not as dire as recent news commentary might suggest. The PSDB, for its part, has not suffered significant reputational damage due to the current crisis: it is not the ruling party, nor is it at the center of the Petrobras scandal. And although the PT is out of power, and likely to remain so for years, it will survive. The PT stands as an exception in the Brazilian party system: it has much deeper organizational roots and a much larger core electorate than any other Brazilian party, including the PSDB. We are almost certain to see the PT renovate, rebound and remain a major contender, perhaps the major contender, in Brazilian politics for decades to come.