Brazil

Following the money trail
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The payola and party financing scam that has rocked Lula's government shows that Brazil has been less good than it thought at defeating graft

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“FIGHTING corruption and upholding ethics in the public sphere will be central and permanent objectives of my government.” So intoned Brazil's president, Luiz Inácio Lula da Silva, on taking office in January 2003. To many Brazilians, those words are starting to ring hollow. Barely eight weeks have passed since a
postal-service bureaucrat in Brasília was filmed pocketing 3,000 reais ($1,270) from a would-be government contractor. That bit of graft looks like mere mischief now, as Brazil's worst political scandal for fifteen years swells to cinematic proportions.

Much of it has been scripted by a single snitch, Roberto Jefferson, a rogue former government ally. He has accused some of Lula's closest aides of commanding an epic scheme of bribes. Suitcases stuffed with cash, shadowy lobbyists, espionage, public servants whose fortunes bloom overnight, and bottomless campaign slush funds; each day's revelation outdoes the last and seems to back Mr Jefferson's claims, despite the denials of those involved. Two separate congressional panels are investigating whether senior figures in the government and the ruling Workers' Party (PT) bought off federal lawmakers, squeezed contractors for kickbacks and bankrolled the party from the public till.

Shopping for votes is hardly news in Brasília, where presidents must routinely barter for support among fickle lawmakers. Yet the breadth of the alleged scams, which may have cost taxpayers $1 billion, is a heavy blow to Lula, who had built his reputation on honesty. He has fired a dozen officials, reshuffled his cabinet and arranged for a clean-out of his party's leadership. The latest companheiro to stumble was Luiz Gushiken, Lula's enigmatic communications wizard. On July 12th, he was stripped of ministerial status after reports that his former business partners have been blessed with fat federal contracts.

"The PT will have to be reinvented," says Tarso Genro, who moved from education minister to become the party's caretaker president. So far, Lula himself remains untainted. But there is much speculation as to whether he can rouse his government from the political paralysis that has beset it, much less win a second term in October 2006.

Brazilians have never been innocents in politics. Rouba mas faz (he steals but gets things done) was the shameless reputation of Adhemar de Barros, a former São Paulo governor. The voters shrugged. Just as inflation was thought to fuel growth, kickbacks were long seen as a lubricant greasing the wheels of public business. Crookedness flourished under Brazil's long military dictatorship (1964-1985). Yet with the return of democracy, an unmuzzled press and the rebirth of Congress all this was to have changed.

In many ways it did. When a shifty presidential moneyman was caught harvesting kickbacks from businessmen, students painted their faces black and took to the streets, convincing Congress to impeach Fernando Collor de Mello in 1992. That led to scores of anti-corruption laws and congressional probes, tighter rules for spending and moving money, and many civic watchdog groups. "Society no longer tolerates politicians who steal in the name of getting things done," says Mailson da Nóbrega, a former finance minister.

So why is corruption seemingly still so pervasive? One reason is that government has become too bulky and too opaque to control. Lula declared that he wanted to "rescue" public service: he created half-a-dozen new ministries and some 120,000
new government jobs, many of them given to PT loyalists. Partly as a result, Brazil's tax burden has risen to 37% of GDP, up from 25% a decade ago and twice the Latin American average. "The bigger the bureaucracy, the less transparent," says Guilherme Afif Domingos, head of the São Paulo commercial association, who is pressing for tax reform.

This has added to the roll of political appointees, who now total 25,000. Many top jobs are awarded as spoils, some to Lula's ravenous coalition allies. Scores of political appointees are lodged in the richest ministries (health, social security) and state-owned companies (Petrobrás, the postal service), where looting is common.

Ironically, since the Collor scam, Brazil has created some of the developing world's most powerful tools to punish profligacy and catch budget pirates. With data banks and digital tax identification cards, the tax authority can track even the fanciest financial transactions. By law, banks must notify the central bank of all deposits of more than 100,000 reais, and budget overspenders can be jailed.

In practice, there is little enforcement. Because public-sector auditors are overworked or beholden to the bureaucracies they inspect, pilfering often goes undetected. "This scandal came to light not because of Congress, central-bank auditors, or the efforts of the federal police," says Gilberto Amaral, a tax consultant. "We know because someone involved in the corruption scheme talked. These are gangsters settling scores."

Much has been made of how the current crisis has been the PT's come-uppance, a party impaled on the banner of ethics it brandished for 25 years. More startling is that Brazilian law and society were supposed to have been better prepared to detect and prevent such scandals. Instead Brazil has been served up another chapter of one of its oldest soap operas, but this time with the PT cast as the villain.

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