



Brazil seeks stability and justice

## The Web of Fear

Norman Gall



### 1. The vibrant anarchy

In the middle of the 19th Century, the Emperor of Brazil, Dom Pedro II, made a ceremonial visit to an American warship anchored in the spectacular harbor of Rio de Janeiro, with its sugar-loaf hills of granite rising from the sea. “He came in a splendid barge, rowed by 30 African slaves, who, after the Brazilian manner, in concert rose upright to their oars at every stroke; then sank backward again to their seats with a simultaneous groan,” observed a young sailor, Herman Melville, later to write the classic novel *Moby Dick*. “He reclined under a canopy of yellow silk, looped with tassels of green, the national colors. At the stern waved the Brazilian flag, bearing a large diamond figure in the center, emblematical, perhaps, of the mines of precious stones in the interior. . . . In the suite of the youthful Emperor came a princely train, so brilliant with gems that they seemed just emerged from the mines of the Rio Belmonte. You have seen cones of crystalized salt? Just so flashed these Portuguese Barons, Marquises, Viscounts and Counts. Were it not for these titles, and being seen in the train of their lord, you would have sworn they were eldest sons of jewelers all, who had run away with their fathers’ cases on their backs.

“ ‘Que gosto!’ cried a Marquis, with several dry goods samples of ribbon, tallied with bright buttons, hanging from his breast.

“ ‘Que gloria!’ cried a crooked, coffee-colored Viscount, spreading both palms.

“ ‘Que alegria!’ cried a little Count, mincingly circumnavigating a shot box.

“ ‘Que contentamento he o meu!’ cried the Emperor himself, complacently folding his royal arms, and serenely gazing along our ranks. . . .

“In ascending one of the narrow ladders leading from the berth-deck to the gun-deck, the Most Noble Marquis of Silva, in the act of elevating the Imperial coat-tails, so as to protect them from rubbing against the newly-painted combings of the hatchway, this Noble Marquis’s sword, being an uncommonly long one, had caught between his legs, and tripped him head over heels into the fore-passage. “ ‘Onde ides?’ (where are you going?) said his royal master, tranquilly peeping down toward the falling Marquis; ‘and what did you let go of my coat-tails for?’ he suddenly added in a passion, glancing round at the same time, to see if they had suffered from the unfaithfulness of his train-bearer.”

The incongruities of Brazil, linked to its size and potential wealth, produce prodigies of men and nature. One prodigy of nature is a sprawling expanse of some 200 million termite mounds, up to 4,000 years old, roughly equal in number to the current population of Brazil. The conical mounds, 2.5 meters tall, are spaced at regular intervals, covering interconnected tunnels beneath hundreds of thousands of square miles of rolling countryside in the drier regions south of the Amazon Basin. Scientists exploring this termite domain found no command structure, no royal chamber, discovering that “the mound structure exhibited none of the complex architecture normally associated with termite mounds.” The anarchy and accretions spread and somehow remain intact, as in much of Brazil’s human history.

The vibrant anarchy of Brazil’s political structure, never consolidated and never disintegrated, stands in contrast to the vast, interconnected network of termite tunnels and mounds spread over its continental interior. While the termites have developed a kind of civilization over the past 4,000 years, with clear rules and patterns of behavior, their human compatriots are threatened with endemic disorder that, lacking institutional controls, threatens survival of political structures and communities. If termites can organize and survive on a continental scale for thousands of years on the same territory, why can’t more evolved and intelligent humans, endowed with more choices, create more stability in their lives? So Brazilians face these questions:

Why has our economy remained stagnant for so many years? Why are personal incomes so unequally distributed? Why so little public investment? Why so much corruption? Why so many murders? Why do schools teach so little? Why do so many talented young Brazilians abandon Brazil for other countries? Why does the society and its political class fail to propose ways of facing these challenges? Why does Brazil resist structural changes in a political system weakened by perverse incentives and endemic corruption?

*Norman Gall is executive director of the Fernand Braudel Institute of World Economics and editor of Braudel Papers. Illustrations are by the great French artist Jean-Baptiste Debret, from his 15 years in Brazil (1816-31), reproduced in the book Debret e o Brasil by Julio Bandeira and Pedro Correia de Lago (2008).*



**Fernand Braudel Institute of  
World Economics**

Associated with Fundação  
Armando Alvares Penteadó (FAAP)  
Rua Ceará, 2 – 01243-010  
São Paulo, SP  
Tel.: 11 3824-9633  
e-mail: ifbe@braudel.org.br  
[www.braudel.org.br](http://www.braudel.org.br)

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## 2. The political class

Brazil is strange in many ways, exhibiting the promise of the tropical world, with its cornucopia of natural resources, its romance of hope mixed with the bitterness of success gone awry. Until recently, Brazilians have been sinking into a web of fear, with election after election, with transition after transition, bringing little change and little hope for improvement, not knowing what to do. The political class remains in place, with excessive legal protections, their positions guaranteed by exotic judicial devices. Fears deepened with the eruption of *Lava Jato*, named for a car-wash at a gas station in Brasília where stolen money was laundered, becoming one of the biggest corruption scandals anywhere in modern times. Brazilians seemed to be learning slowly that the only way out of this mess is the strengthening of institutions. However, these hopes faltered under a Supreme Court decision in November 2019 that provided for freedom of 38 politicians, businessmen and executives of Petrobras, the state oil company, and other officials jailed for corruption in these scandals.

### The magic of language and belief

The strengthening of institutions still has far to go in creating confidence and stability. The magic of language and belief cannot evoke recognition of what democracy has achieved amid this continuing torrent of accusations and shame. Feeding this torrent is the erosion of modern infrastructure, sustaining and tying together some 5,000 towns and cities spread over an ancient, sprawling land mass. Can Brazil mobilize the political purpose and resources to sustain the infrastructure of civilized life over a continental territory occupied by some 210 million people?

Since ancient times, with the growth of urban societies, infrastructure and civilization have been inseparable and dependent on each other. “Urbanization was accompanied by rapid progress in the technology of large-scale construction, transport and agriculture,” wrote the great Danish economist Ester Boserup in her study of *Population and Technological Change* (1981). “The need to organize the urban economies and to keep accounts led to some of the most important inventions in the history of humanity, those of written language and numbers.” Nevertheless, neglect imposed heavy costs, leading to what Boserup described from the past as “an urban economy relapsing into ruralism,” often related to neglect of critical infrastructure, such as in the maintenance of roads and irrigation canals. Many examples come from ancient Mesopotamia, Egypt, Rome, China and India, among other civilizations. Now, in Brazil and elsewhere, this negligence plagues the vital infrastructure of complex societies with the erosion of maintenance, skills and capital investment.

This year’s wildfires in Amazonia, aggravated by dry-season burns to clear forest land, beclouded a wave of lesser catastrophes bred by neglect. In the mining town of Brumadinho in the central state of Minas Gerais, the collapse of earthen dams containing waste material, including poisonous chemicals, from nearby iron mines produced hundreds of deaths from flooding. It destroyed an important regional economy and inflicted massive financial damage and humiliation for one of Brazil’s flagship compa-

nies, Vale, a leading minerals exporter, with 82,000 workers. There remain hundreds of Brumadinhos in Brazil, scattered mining towns living in extreme danger, abandoned by weak institutions.

Brazil has seen many infrastructure failures in recent years due to corruption and distorted priorities, with lack of investment in maintenance and human capital. Brazil now invests only 1% of GDP in infrastructure, including maintenance, compared with 5% in the 1970s. Infrastructure stock is deteriorating. The waste is enormous. Some 13,000 public works lay incomplete and abandoned throughout Brazil. They include several major road projects, electricity transmission lines, failing urban infrastructure, irrigation and collapsing cultural monuments, such as the National Museum in Rio de Janeiro, which burned down last year. Meanwhile, violence continues. The winning presidential candidate, Jair Bolsonaro, was stabbed and nearly killed by a madman at a provincial street rally in the weeks before the 2018 election, then saved by multiple surgeries that delayed his assuming official duties. The disorder inspired the French newspaper *Le Monde*, in an editorial headlined “the sinking of a nation,” to describe “a society that feels abandoned. Stray bullets massacre children in favelas dominated by criminal gangs. Civil society leaders murdered in broad daylight. An old and pitiful political class hollowed by corruption. In this noxious environment, the fire that destroyed the National Museum in Rio on September 2 appears as a symbol of negligence by the State. Some people speak of the suicide of a nation.”

Disbelief among people brings few surprises. The staff of the Fernand Braudel Institute of World Economics engages in continuing dialogue among the 20,000 teenagers participating in our Reading Circles in public schools of Greater São Paulo and in back country towns of the drought-prone state of Ceará in the Northeast. We talk with students training to lead classroom groups in reading and discussion of the classics of world literature. In one session, we focused on the figure of the Cowardly Lion in *The Wizard of Oz*. We ask: Why do cowardly lions lead Brazil’s political class? Why can’t new leaders take their place? The answers from the kids came fast: “Nothing can be done. Elections are shameful, without proposals or purpose. No reason to vote.” Then what future awaits you? “Leave Brazil.” “Useless to enter politics, because you either steal or die.” Nevertheless, millions of young people work and study in the same daily routine, spending hours in crowded buses on journeys between jobs and classrooms.

The democratic regime created by the Constitution of 1988 showed resilience and vitality, after 21 years of military dictatorship (1964-85). Over the past three decades, Brazilians carried out eight elections for president, state governors and legislative bodies and, in other years, seven nation-wide elections to choose municipal authorities, a period of democratic stability never before achieved in Brazil. Over these three decades, annual inflation fell from over 5,000% in 1992 to 4.5% in 2018, while the value of Brazil’s currency, the real, stabilized. Stability created new chances for gains in consumption patterns, life expectancy and schooling.



The number of high school students nationwide jumped from only 56,000 in 1932 to 15 million today, but they learn little. The blackest holes of neglect are in the middle school years (sixth to ninth grades), with little strategy and content, when pupils lose what they learned in the primary grades and fail to prepare for high school, where many are bored, lose hope and drop out. There are no schools for talented and dedicated adolescents, as in all advanced countries, undermining institutional quality that shapes the future of democracy. Poor quality of education denies complexity and feeds the web of fear that paralyzes Brazil.

The distortions in Brazil's political economy rise from deep roots. The culture of fiscal parasitism is old, weakening the economy and the political system, expanding radically in recent decades. In his classic history, *Os Donos do Poder [The Owners of Power]*, Raymundo Faoro observed of colonial society: "Popular sovereignty works in reverse, in obscure and impenetrable backroom maneuvers, without effective involvement of the majority as spectators who either shut up or applaud."

#### Seven civilian presidents failed

Over the past six decades, beginning with the suicide of Getúlio Vargas in 1954, four of seven civilian presidents failed to complete their elected term. The Senate ousted two of them, Fernando Collor (1990-92) and Dilma Rousseff (2011-16), after impeachment trials in Congress. Of the three survivors, only Lula, involved in several corruption schemes, was able to get Dilma, his chosen successor, elected. The most brilliant of the survivors was Juscelino Kubitschek (1956-60), who audaciously built the new heartland capital of Brasília and a network of highways and hydroelectric power stations in the interior. The charming and visionary Kubitschek failed to identify a successor capable of preserving institutional stability, leaving behind exotic figures such as Jânio Quadros (1961) and Joao Goulart (1961-64), whose erratic failures led to two decades of military rule. Kubitschek died in a mysterious car accident in 1976, a sick and broken man but still a symbol, after his self-imposed exile and imprisonment by the military.

No magic of language or belief enshrines the advances conquered by democracy, dimmed by the torrent of accusations against politicians. In

a pause in the accusations, the governor of Rio de Janeiro, Sérgio Cabral, enjoyed a moment of triumph in 2009 when the credit rating agency *Standard & Poor's (S&P)* awarded the former capital of Brazil its coveted investment grade rating. Famous for its glistening beaches and spectacular Carnival, Rio lost jobs and economic vitality in the 1960s as the federal government moved to Brasília, the new capital. Then came the deluge. Rio sank into crime, disorder and endemic corruption, no worse than in some other Brazilian cities, but more striking because of Rio's size, social contrasts, physical beauty and legendary past.

Sérgio Cabral began his adult career as a beach playboy and social charmer, always trying to find his way in politics, succeeding brilliantly. Cabral now faces decades in prison after conviction on multiple charges of corruption, along with three other former governors of Rio and several members of their entourages. Synergies emerged between behavioral codes of career politicians and the young bosses of drug gangs who rule the favelas, or hillside communities surrounding the asphalt streets of the conventional city, outlined here by Gabriel Basilio, a 19-year-old research intern at our Institute:

*Many people believe that these are two completely different worlds, but their inhabitants show similar traits. They protect themselves inside their physical or moral communities to avoid public exposure. Both worlds have their own bosses and inventors of schemes. Even in their absence, the process continues, strengthened by some changes, involving many people to manage lots of money for their own purposes, under the pretense of public or community use. To maintain security of status if imprisoned, they activate a bureaucracy focused on judicial delay, providing bail, privileges and bribes. The biggest bosses disperse, in both the political system and the favelas, forming a corruption network. Even if you arrest one of them, so many people are involved that it is hard to find just one boss and destroy the scheme.*

Brazil is a violent country, but most violence is not in Rio nor in São Paulo, the biggest cities, where the number of killings fell over the past decade. The biggest increase in homicides was in states of the interior,

where murders doubled in eight of Brazil's 27 states and tripled in two other states in 2007-17. This surge of violence in the interior is neglected by official policy. According to a BBC survey of the 50 most murderous large cities in the world, as measured by homicides per 100,000 population, one third of those with the highest murder rate are in Brazil. Of these most violent cities, 17 are Brazilian, 12 are Mexican, five are Venezuelan, four are in the United States and three are Colombian. By these calculations, the Americas form the most violent region of the world.

The frequency of homicides reflects the quality of institutions. Brazil and Latin America defy the long-term trend in the reduction of peacetime civil violence in the West in recent centuries, reducing murder rates in Europe from around 60 per 100,000 population at the dawn of modern times to roughly 2 per 100,000 today. Within the Americas, and within every country, contrasts arise. Brazil and Colombia are famous for violence, with around 27 deaths per 100,000, but occupy the middle ground between extremes. El Salvador in Central America suffers from 108 killin-

gs per 100,000 population, while Peru and Argentina record low rates of roughly 7/100,000, according to United Nations statistics. In Brazil, 200 of the biggest *municípios* suffer from high murder rates, above 40 per 100,000, while thousands of other towns and cities are relatively peaceful. In daily life, most killers and victims are young men who are marginalized in a society that invests little in the quality of public education. The suicide rate among adolescents in Brazil's six biggest cities rose by 24% in the decade to 2015. In 2017, Brazil recorded 65,602 murders, averaging 180 per day, or 32 per 100,000 population, a rate one-fourth higher than Mexico's (25) and six times more than in the United States (5). Among these killings in Brazil, 5,144 were at the hands of police. Detailed reporting by Leonencio Nossa of the newspaper *O Estado de S. Paulo* concluded that of 1,269 political assassinations between 1979 and 2018, two-thirds occurred in the Northeast and Amazonia, involving candidates in municipal election campaigns.

### 3. The Loose Cannon

While he recovered from the pre-election stabbing that nearly killed him, 58 million voters chose Jair Messias Bolsonaro as president of Brazil. A handsome 56 year-old retired army captain who served inconspicuously for three decades in the back benches of Congress, Bolsonaro emerged as an Avenging Angel, with no clear program or strategy, promising to rid Brazil of crime and corruption and to relax controls on gun ownership.

Competing in the election campaign were 15 presidential candidates and dozens of parties, none of them with coherent proposals as Brazil drifted toward endemic violence and collapse of public finances, threatening bankruptcy of several state governments and the social security system. Bolsonaro's election quickly focused international attention. *The New York Times* observed that the retired captain's "angry rants caught the mood of a Brazilian electorate sick of an endless corruption scandal that has reached to the far corners of the establishment, rampant street violence and economic dislocation." Until his election as president, Bolsonaro rode a wave of resentment and fear provoked by refusal of Brazilians to face their limitations and fix long-term goals, betraying Brazil's great potential, always celebrated in political discourse.

Bolsonaro pursued a zig-zag career in ideology and politics. He has been collecting an army retiree's pension since the age of 33, leaving active service as two decades of military rule was ending. Bolsonaro was not elected as a savior. He was the only choice left, in a second round runoff vote, to avoid a return to power of the Workers Party (PT), whose achievements in social justice were degraded by corruption scandals that dominated the news in recent years. Little is known of the origins of Bolsonaro's candidacy, backed by a diverse constellation of causes known as BBBs: Bible (evangelical Protestants), Beef (agribusiness) and Bullets (gun manufacturers and police), trumpeted by an innovative communications strategy relying on social networks.

Bolsonaro migrated successively among nine political parties since his election to the City Council of Rio de Janeiro in 1988, supported by many fellow military retirees living in Rio's beachfront neighborhoods. In 1990, he ran for Congress and stayed there for nearly three decades as a back bencher, never assuming leadership in any of those nine parties but instead lobbying assiduously in favor of active and retired military personnel. While silent politically, Bolsonaro gained robust media attention

for defending the military regime, ridiculing homosexuals and feminists and advocating free circulation of guns and calling for reinstating torture and the death penalty. He became well-known for these provocations: "The error of the dictatorship was preferring torture to killing." "Pinochet [Chile's military dictator, 1973-89] should have killed more people." "I would be incapable of loving a homosexual son. I would prefer that such a son would die in an accident than wander around like a fairy."

The zig-zags began early. The careers of both Bolsonaro and Luiz Inácio Lula da Silva in Brazil, as well as of Hugo Chávez in Venezuela and Evo Morales in Bolivia, among others, represent the emergence in recent decades of new political leadership in Latin America, of social origins more modest than in leaders of previous generations. The rise of both Bolsonaro and Chávez pursued a path opened by the incapacity of democratic governments to sustain ethical standards during decades of electoral cycles.

Chávez was born in 1954, seven months before Bolsonaro, in the village of Sabaneta in the state of Barinas, on a southern slope of the Andes in Venezuela. Chávez's parents were primary school teachers, living in a thatched hut with mud walls, where doña Elena, his mother, gave birth to nine children, recalling that "I was like a sow, since there was no clinic, no doctor, nothing."

Jair Messias Bolsonaro was born in a village in São Paulo State, a descendant of Italian immigrants. A serious and ambitious boy, Jair quarreled often with his father, Percy Geraldo, whose smoking and drinking

habits were supported by his work as an improvised dentist. Percy improvised so much that, in the 1980s, he joined thousands of wildcat miners at the great Serra Pelada gold rush in Amazonia, around the time that his son, as a young army officer, also panned for gold in the streams of Minas Gerais to feed his family during Brazil's escalation toward hyperinflation. The prospects of Bolsonaro and Chávez improved after they entered the military academies of Brazil and Venezuela as adolescents to train as army officers. Both impressed classmates with their energy and intelligence.

In the 1980s, Hugo Chávez joined other young officers in a series of conspiracies, inspired by the military revolts led by Juan Velasco Alvarado in Peru (1969-75) and Omar Torrijos in Panamá (1968-81). Chávez gained fame by appearing on television after leading the failed coup of 1992, promising new revolts. By that time, Jair Bolsonaro was elected to





the first of his seven terms in Congress, voicing effusive admiration for Chávez, calling him “a hope for Latin America and I would be pleased if his philosophy reached Brazil. He is unique. I want to go to Venezuela and try to meet him....I believe that he will do what the military did in Brazil in 1964, but with much more force.” Chávez died of cancer in 2013 at the height of his popularity, while Venezuela was sinking into disaster, afflicted with hunger, corruption and violence, despite enormous wealth in natural resources.

Compared with the exploits of Chávez, Bolsonaro’s political career was less spectacular, but just as insistent, cultivating support of the active and retired military, complaining of low salaries as inflation escalated in the 1980s. He campaigned for better pay and promotion opportunities for corporals and sergeants, earning censure for breach of discipline. In those years Bolsonaro distinguished himself as a parachutist and physical education instructor. He gained his first burst of notoriety after being briefly imprisoned by the army in 1986 for publishing an article in the weekly magazine *Veja* headlined “The Salaries Are Low,” protesting the wage freeze for low-ranking soldiers. Bolsonaro was acquitted in a court-martial for planting small bombs at military installations, leading to his resignation from the army just as Brazil was completing its transition from military to civilian government. His solidarity with comrades continued on retiring from the army in 1990 as Brazil returned to civilian rule, winning a seat in Rio de Janeiro’s City Council, helped by electoral support from Rio’s large community of military pensioners.

The origins of Bolsonaro’s presidential candidacy remain unclear. It merged with the indignation of retired officers, meeting at the Military Club in downtown Rio de Janeiro, at accusations of torture and other human rights abuses during the decades of dictatorship. Today two retired military officers, Bolsonaro and General Hamilton Mourão, lead the new government of Brazil respectively as president and vice-president, naming dozens of retired generals in cabinet posts and other key jobs, one of them serving as his palace press spokesman. This degree of military leadership in an elected civilian regime is without precedent in Brazilian history. Nobody has an idea of how this may turn out. But Bolsonaro’s election as president of Brazil also nourished hope among radical conservatives.

### The Trump of the Tropics

Bolsonaro came to be lionized internationally in right-wing circles as “the Trump of the Tropics.” Dani Rodrik, a Harvard political scientist, argued that “right-wing populists like Donald Trump in the United States, Victor Orban in Hungary and Jair Bolsonaro in Brazil rose to power by capitalizing on increasing hatred of traditional political elites and by exploiting latent nativist sentiment.” When Bolsonaro took office, Trump tweeted: “Congratulations to President@Jair Bolsonaro who just made a great inauguration speech –the USA is with you!” Steve Bannon, strategist for Trump’s election victory in 2016, observed that “social networks revolutionized campaigns. I think that Bolsonaro’s campaign is now the world’s most sophisticated in using social networks in spreading messages.” Bannon saw parallels with the 2016 American election: “In the United States, evangelicals had a central role in Trump’s victory. I think that it’s the same in Brazil. I believe that evangelicals supported Bolsonaro for the same reason: identification with Christian values.” Attempting to

inspire an international movement of right-wing parties, Bannon added that “Bolsonaro, solving the crisis in Brazil, will become a world leader. The world has changed and people see that the political elite is both corrupt and incompetent, bringing decline to their countries.” For now, however, Bolsonaro must confront Brazil’s deep and complex institutional difficulties, with no strategy yet in sight, as he took office heading an unwieldy conservative alliance of factions and special interests.

Trump and Bolsonaro are artists in daily provocations, feeding on discontent in a discordant world, ignoring complexities and solutions, leaving public policy to subordinates whom they feel free to denounce and then dismiss, dominating the media with a continuous flow of shocks and spectacles, stoking anger among their supporters, leaping from one denunciation to another to dominate attention of the media and to energize their followers. Many wonder how long these antics can continue.

Both Trump and Bolsonaro are unsure of continuous support. “Right-wing militants represent values and are neither fanatics nor tied to personalities,” said Leticia Catel, a 30 year-old factory owner from the prosperous city of Jundá in São Paulo State. “Bolsonaro was the only candidate who openly defended family values, but also criticized corruption and leftist inefficiency. If Jair fails, he loses support, mine and everyone else’s.”

Leticia is a short, lively blonde, fond of guns, whose interest in politics was cultivated by young conservatives she met during street protests in 2013. These new friends invited her to study at a right-wing think tank named for the Austrian economist Ludwig von Mises, a leading advocate of free markets. Then Leticia was invited to join discussions with young heirs to large fortunes at a new Institute for Leadership Development, creating contacts that later enabled her to introduce the little known Bolsonaro to São Paulo’s business elite. At that time his son Eduardo, later named to be ambassador to the United States, was working in São Paulo as a clerk for detectives of the Civil Police while planning to run for Congress. Leticia urged Eduardo to enroll at the Mises Institute for a course in conservative economics that nourished exchanges of ideas with his father. “I was happy to see Jair defending ideas discussed at the Mises Institute, such as less state intervention in the economy, fewer taxes, less bureaucracy,” Leticia said. In mid-2017, Leticia was invited to meetings in Brasília with a group of retired generals who were planning Bolsonaro’s candidacy and who in 2019 assumed key posts in the new government. By then, Leticia and her friends were networking with other young leaders from different regions of Brazil, many of them wealthy, to develop the embryo of a campaign organization.

Yet neither these ideologues of the Right, nor their counterparts on the Left, showed interest in addressing Brazil’s daunting problems of public finance and institutional integrity that threaten to undermine the gains of recent decades. Bolsonaro’s election revived deep divisions among Brazilians over past experiences of military dictatorship.

One of the ironies of Brazil’s politics is that President Jair Bolsonaro, often engaged in frivolous political disputes, never regarded as man of culture and imagination, appointed in Paulo Guedes an extraordinary Minister of Economics with an excellent technical team. Bolsonaro e Guedes were photographed embracing each other as they presented to the most ambitious economic reform program in the three decades since the end of military rule.

## 4. The Atlantic and the Andes

Brazil's great novelist João Guimarães Rosa once wrote that "Brazil and Latin America are like Siamese twins, joined at their back, unable to see each other's face." In this vein, Brazilians like to say that Brazil is different from the rest of Latin America.

As a diplomat in the 1940s, Rosa served in Colombia during the outbreak in 1948 of La Violencia, triggered by the assassination of the Liberal idol Jorge Eliezer Gaitán, provoking an undeclared tribal war between Liberals and Conservatives that cost some 300,000 lives over succeeding decades. "I will not forget Bogotá when a million people exploded in the delirium of a mad stampede, with sackings, burnings, killings, three days without police, with the government retreating to the presidential palace," Rosa recalled years later. "Shots around us. We turned out the lights." The Bogotazo exploded as diplomats from the Americas were meeting at the 20th Pan-American Conference in Bogotá. Rioting mobs roamed the streets armed with dynamite and machetes, setting fire to buses, police vehicles and nearly all the city's trolley cars. "I descended into a world of hate," Rosa recalled later.

The Bogotazo was a singular event in Latin America's history. Never before or after had civic destruction occurred on this scale. But Colombia learned its lesson. The Andean republic recovered slowly, with political stability and low inflation, under a pact enabling Liberals and Conservatives to alternate in the presidency until free elections were held decades later. Millions of rural people migrated to the cities, the economy diversified, living standards improved and old tribal loyalties in politics subsided. Leftist guerrillas and right-wing bandits still roam the countryside on a reduced scale, trading cocaine, despite a new peace pact with the government . . .

Latin America is one of the world's privileged regions, with abundant natural resources in proportion to its population, especially rich in energy and water resources and in fertile land, with few ethnic, religious and linguistic conflicts. It is located far from the main areas of international tension. Since the 1980s, democracy in Latin America flourished in a benign international environment, but these gains are undermined by the weakness of institutions.

I have been reporting on Latin America for nearly six decades. I have seen, with some local exceptions, big improvements in nutrition, life-expectancy, mobility of populations, education, urbanization and control of epidemics. Electoral systems in Latin America showed resilience, despite weakening of political parties—a global trend—and the mediocrity of political leadership. Chronic inflation was subdued in recent decades but, lacking development of human capital, Latin America never achieved the per capita incomes of advanced regions that are less endowed by nature. That frustration masks another: the more recent contrast in effort and achievements within South America between the republics of the Atlantic coast and the Andean countries along the Pacific Ocean.

All these republics were afflicted by the plagues of military dictatorship and chronic inflation, but Brazilians seem readier to forget these tragedies. In Chile, inflation reached 500% in 1973. Brazil, Argentina, Bolivia and Peru suffered episodes of hyperinflation, with consumer prices rising by at least 50% monthly in the 1970s and 1980s. In those decades Venezuela was South America's most stable democracy, rich in oil and other natural resources, a refuge for political exiles while military dictatorships prevailed in most of the other republics. Today Venezuelan refugees flee to Brazil from hunger, violence and the world's worst hyperinflation.

Venezuela and Argentina took prosperity for granted and never learned the lessons of stability. Argentina used to be one of the world's richest republics, a stable democracy when much of Europe lived under autho-

ritarian rule. Its system of public education was so highly developed that Argentina became the world leader in abolishing illiteracy. Since then, the traumas came in chronic succession, alternating populism with austerity, with neither succeeding. Binge economics began with the election in 1946 of Col. Juan Domingo Perón, remaining the pivotal figure in Argentine politics long after his death in 1974. His social programs and nationalization of key industries became a model for other Latin American republics until they became unsustainable and a driving force for chronic inflation. In Argentina, average annual inflation escalated from 23% in the 1960s to 107% in the 1970s and to 319% in the 1980s. President Raul Alfonsín suddenly abandoned his office in 1989 as monthly inflation reached 197%. Amid the panic bred by hyperinflation, a new Peronist president, Carlos Menem, who was governor of the remote Andean province of La Rioja, warned in his inaugural speech:

*Argentina has failed. All of us, in greater or less degree, are responsible for Argentina's failure. Our heritage is like a burning coal in our hands, a reality that burns, mortifies, haunts us and demands solutions. Inflation reaches shocking heights. The culture of speculation devours our work. Investment is negative. Pain, violence, illiteracy and marginality knock on the doors of nine million Argentines. Either all us Argentines give health to Argentina or else Argentina will die.*

Yet Argentina still lives, continuing to zig-zag between episodes of stability and new crises. Recently, the latest anti-Peronist president failed

at the polls, leading to yet another financial panic and annual inflation surging to 50%. In 2018, Argentina received its twenty-second bailout in six decades from the International Monetary Fund, at \$57 billion the biggest in IMF's history, only to seek renegotiation months later. Argentina defaulted on foreign loans eight times since gaining Independence in 1822. The story continues.

Stopping or avoiding a hyperinflation involves a conscious choice in favor of a community's survival. The fear and desperation inspired by the threat of institutional collapse dramatized the announcements of emergency programs by democratic governments in the 1980s and 1990s to stop hyperinflations in South America. In 1985, inflation in Bolivia reached an annual rate of 23,464%, causing widespread panic. President Victor Paz Estenssoro, who three decades before decreed reforms that ended serfdom, provided universal voting rights and nationalized the tin mines, announced on the radio a program to end hyperinflation:

*Our country is dying. We cannot refuse emergency treatment to avoid this outcome. There is no formula for solving the terrible crisis shaking Bolivia without joining moral force and constant effort permitting an increase in exportable wealth; to manage with care our scarce economic and financial resources; to agree on a pause in social strife and to convince ourselves that there will be no rebirth of the Republic if we fail to understand the scale of this catastrophe and the few effective remedies that we have to reverse this situation.*

The Atlantic and Pacific republics of South America chose different paths to emerge from chronic inflation. The Atlantic republics (Venezuela, Brazil and Argentina) preferred debt-financed consumption over investment and stability, repeatedly abandoning fiscal discipline, while the Pacific republics located along the Andes (Chile, Bolivia, Peru, Ecuador and Colombia) chose stability, balanced public finance and deeper integration

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### Venezuela and Argentina took prosperity for granted

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with the world economy. The Atlantic republics stagnated economically while the Pacific republics gained strength through trade and investment.

#### **Tolerance of error failed.**

The spontaneous disintegration of nations in times of peace are rare events, difficult to explain. Bolivia, Chile, Colombia and Peru experienced periods of trauma and deep reflection before they were able to reorganize into more viable societies. Tolerance of error failed. The only way forward was to reduce privileges and align incentives with effort. These are imperfect processes which, nevertheless, led to different paths in the conduct of political economy.

In Peru, the turning point for the pursuit of growth and stability arose from the institutional crisis of the early 1990s. The annual rate of hyperinflation reached 7,650% as the new government of Alberto Fujimori took office in 1990. The new prime minister, Juan Carlos Hurtado Miller, appeared on television to announce what was called the Fujishock:

*Stopping a hyperinflation like ours demands three basic conditions: First, eliminate the fiscal deficit. Second, allow relative prices to sustain growth without subsidies or controls. Third, change in the expectations of Peruvians.... God help us!*

The hyperinflation in Peru combined with a leftist guerrilla insurrection and failure of the decayed drinking water system of Lima, the capital, leading to a cholera epidemic that infected water supplies throughout Latin America. Yet these events were a turning point for political development, bringing progress and many contradictions.

The modernization of Peru accelerated in recurrent crises during the half-century that spanned the career of Alan Garcia, twice elected president (1965-70 and 2006-11), a handsome, charismatic politician who killed himself in April 2019 as police arrived at his home to arrest him at a climax of spectacular corruption scandals. Also spanning the history of these decades is the tragic career of Fujimori, who is spending his old age as a sick man in Lima's Lurigancho Prison, convicted of multiple crimes after having engineered Peru's economic and social recovery.

In recent decades Peru became Latin America's fastest-growing economy, with low inflation, despite recurring corruption scandals, many of them linked to the Brazilian construction contractor Odebrecht. Today in Peru a major restructuring of the political system is taking place, by legal and constitutional means backed by massive popular support, to control corruption and provide for more authentic electoral mandates.

I reached cautious conclusions during weeks of turbulence as a diverse

and little-understood wave of mass protests erupted around the world. Focusing on a spectrum of unrelated themes, demonstrations broke out in Algeria, Bolivia, Catalonia, Chile, Ecuador, France, Guinea, Haiti, Honduras, Hong Kong, Iraq, Kazakhstan, Lebanon and Pakistan. These protests were more diverse and dispersed, occurring in provincial as well as capital cities, than in previous waves in the 1960s and late 1980s, led mainly by young people excluded from future prospects and power.

In South America, experience was varied. Populations were largely passive in the economically stagnant and depressed Atlantic republics. The Andean countries saw a broader range of behavior, with more political participation. After the end of the military regime headed by Augusto Pinochet (1973-90), voting by poorer and less-educated people expanded, driving social reforms. Most recently, massive street demonstrations in Chilean cities drove a conservative president in a stable democracy to make important concessions in economic and social policy to lower income groups in a society polarized between privileged classes and the rest. Colombians remain quiet as their government struggles to contend with the chaos in neighboring Venezuela and its flow of desperate refugees.

Bolivia was plagued by 193 military coups between gaining Independence in 1825 and the end of the most recent dictatorship in 1982. After suffering hyperinflations in the 1950s and 1980s, peaking at 8,173%, Bolivia reduced average annual inflation to 4.7% over the past two decades with economic growth running at 4.2% in these decades. A president of peasant origin was elected in 2006 and lasted until 2019, when he resigned when faced by a popular revolt after declaring victory of disputed legitimacy in an election for a fourth term, amid accusations of fraud.

In none of these experiences is a return to military dictatorship and the chronic inflation of the 1970s and 1980s being feared or discussed. Only Ecuador is shaky, after a newly elected president, pressured by riots, rescinded increases in absurdly low gasoline prices, among the cheapest in the world at \$US 0.49 per liter, under pressure from the IMF, repeating a similar episode in Venezuela in 1989 that was a precursor to the collapse of democracy. Venezuela today charges zero per liter of gasoline.

In most countries, living conditions and political stability improved in recent decades. Different paths of choice led to endemic disorder in the Atlantic republics of South America while the Pacific republics, with great difficulty, achieved stability and economic growth that they are trying to sustain. Brazilians can learn much from this story.

## 5. And now?

In the century following 1870, the size of Brazil's economy multiplied 42-fold, narrowly outpacing Japan for world leadership in real long-term economic growth. Before the current institutional crisis that led to prolonged stagnation, a hopeful view was developed by Angus Maddison, the great economic historian who was a member of our Institute:

*The combination of smooth political transitions, freedom from foreign conflicts and relative ease of social relations between ethnic groups permitted Brazil to assimilate a cosmopolitan mix of the original Portuguese settlers, the descendants of African slaves, later immigrants from Italy, Japan, Germany and Lebanon. It is a frontier country with a high degree of self-confidence, without a chip-on-the-shoulder feeling of exploitation by powerful neighbors.*

That was then. Today Brazil struggles to sustain its stability and promise. Since 1980, Brazil's average yearly growth fell to 2.5%, with many ups and downs. According to the IMF, Brazil's growth potential now is lower than other large developing countries, slower than India, the Vietnam, Philippines, China, Indonesia, Malaysia, Colombia, Thailand, Argentina, Turkey, Chile and Mexico, only outpacing South Africa and Russia among major economies. The IMF reported: "This dismal record is due to stagnant productivity, low investment rates, and recently low growth of the labor force."

Brazil's infrastructure is decaying because of low and chaotic public investment over the past two decades, averaging less than 2% of GDP, not counting the cost of endemic corruption in handing out padded contracts, with uncompleted projects abandoned on construction sites spread over a vast territory. Brazil's public investment fell to less than one percent of GDP in recent years, compared with nearly 6% in other major emerging markets. Over the past decade, Brazil's per capita income eroded while the world economy grew by 40% since 2010. Goldman Sachs, an investment bank, observed that Brazil faces "complex legacy issues" such as "an unsustainable fiscal position, low current and potential GDP growth, high unemployment rate and a very closed and unproductive economy."

Unproductive? The disorder and corruption threatening Brazil's future tend to hide major achievements. One of them is in pioneering agriculture, developing 200 million hectares of cerrados (scrub forests) into the world's most dynamic farming frontier. Beginning in the 1970s, farmers and scientists from Brazil, United States, Japan and Europe cooperated and competed to develop Brazil's fast rise as the world's leading food exporter within a few decades, growing faster than older agricultural frontiers, such as the United States, Russia, Canada and Argentina. Norman Borlaug, winner of a Nobel Prize for his role in developing the Green Revolution, called development of the cerrados "one of the great conquests of agricultural science of the 20th Century," as one of the most important crop migrations in world history, comparable to the transfer of potatoes from the Andes to Europe in the 17th Century and the adaptation of European wheat in the Americas in the following centuries.

The conquest of the cerrados incorporated annual gains in agricultural productivity of 3% since 1970, placing Brazil among the biggest producers in the world of 36 commodities, with a five-fold increase in exports since 2000. As recently as 1999, there were only 6,000 agronomy students in Brazil, multiplying to 48,000 since 2000, helping to create the world's third-largest seed industry. In Mato Grosso alone, the volume of harvests multiplied 20-fold since 1985, while the cattle herd grew from three million to 28 million head. Government agencies and private companies gradually won important roles in development of seeds, fertilizers

and pesticides and in the financing and marketing of harvests. Logistics were eased by construction by foreign trading companies of a new terminal on the Tapajós River, a main tributary of the Amazon, opening a new route for grain exports to three continents.

While the enormous corruption scandal of Lava Jato focused on Petrobras executives and politicians, Petrobras technicians persisted in their pioneering efforts to develop giant oilfields discovered beneath salt beds up to 6,000 meters thick under deep waters in the South Atlantic, tripling production in this century to reach 3.2 million barrels daily in 2019. Developing new technologies to search for and produce oil and gas under water depths of 7,000 meters. As creative and advanced as these efforts proved to be, this technical prowess struggles with the failure of public life in general to achieve more coherence, justice and productivity.

Outside the public sector, Brazilians achieved international recognition for excellence in several fields, among them music, sports, finance, medicine, mathematics, agribusiness, advertising and commercial innovation and management. Within a few years, São Paulo developed a world-class symphony orchestra housed in a redesigned railroad station that became an acoustical and architectural masterpiece. Great advances in logistical capacity enabled Brazil to become the world's leading exporter of iron ore. Nevertheless, with some notable exceptions, the political sphere has become a sink of waste and degradation.

Four decades ago, a team of World Bank researchers described Brazil as neither a capitalist nor a socialist economy, but instead a transfer economy. The vast web of transfer payments succeeded in neutralizing political opposition and discouraging new thinking, especially by privileged capitalists dependent on a vast array of official favors.

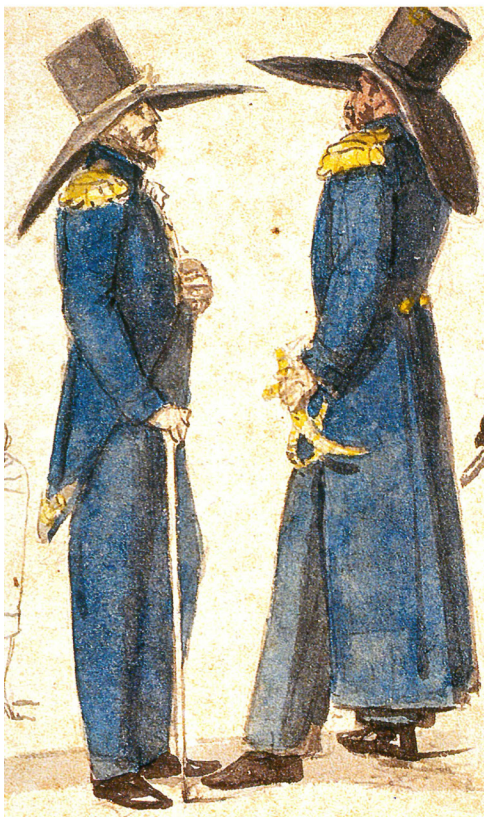
In recent decades, the political class never felt urgency to develop and execute a coherent long-term strategy to overcome economic stagnation. Brazil fails to deal with its basic problems for two reasons. First, unlimited tolerance of error based on wide spread belief in Brazil's potential. Second, fear of revolt and disruption caused by a denial of privileges. At stake is Brazil's future as a complex society facing the threat of disintegration for lack of investment in physical

and human capital.

The pivot of perverse incentives, resting on protected incumbency, hinges on the construction industry, a protagonist in corruption in collusion with senior politicians. This collusion developed in a way that neglects broader investment needs and grossly distorts the conduct of government. The Lava Jato scandals, especially but not exclusively in padded Petrobras contracts, form the focus of a more costly and critical problem: the perversion of public investment.

Brazil's construction and capital goods industries suffer from several chronic problems: high interest rates derived from past decades of chronic inflation; avoidance of long-term investment because of instability in public policy; insufficient development of technical and management skills and collusion in contracting and supervision of projects. The industries' response to deficiencies and scandals, leading to the loss of many jobs and the exclusion from public contracts of companies found guilty of corruption, has been a public relations campaign and creation of a Brazilian Institute for Self-Regulation and Integrity. The biggest construction firm, Odebrecht, is trying to avoid bankruptcy by renegotiating \$20 billion in debts, mostly owed to government banks that, among other investments, financed corruption-plagued projects in 21 countries of Latin America, Africa and the Middle East.

Brazilian politics has an insider problem and an outsider problem. The political class became a rentier class, spending more and more on its own privileges, while devising election rules enabling incumbents to fortify



their positions. These inducements of status and security, with high guaranteed incomes stretching into privileged pension schemes, drive some of the most ambitious and talented young people to devote years to prepare for civil service examinations for public sector jobs, depriving the productive economy of badly needed energy and skills.

The ethos of protected incumbency spread throughout the economy, especially in the bloated pension system, with drastic divisions in security between workers of the formal and informal sectors. A new pension reform intends to remedy these distortions and reduce their fiscal burden. Privileges for those inside the system brought government finances close to collapse, with salaries, pensions and interest payments absorbing nearly all of public capacity for taxation and borrowing, leaving little left for investment in deteriorating highways, in clinics and hospitals lacking doctors, in overcrowded prisons that became death traps plagued by riots and murders and in meeting urgent needs for improving public education. Meanwhile, the surplus available for public infrastructure investment nearly disappeared under the weight of consumption expenses and debt payments by government. Public investment as a share of GDP fell from nine percent in the 1970s, comparable to today's booming Asian economies, to less than one percent in 2018.

Brazil is a continental archipelago of towns and cities held together by past investments in modern infrastructure, much of which is decaying after decades of use. The construction companies lobby for big new projects, often designing them themselves. But the basic need is for maintenance to reverse deterioration of roads, water and electrical infrastructure that already exists. Failure to maintain infrastructure means political disorganization and loss of economic capacity.

The web of fear paralyzing Brazil today is the fear of adaptation and change. Brazil futilely tries to isolate itself from what the great economist Joseph Schumpeter called "the perennial gale of creative destruction" that drives change and renewal in the world economy. Brazil's politicians and captains of industry try to isolate themselves from what Schumpeter described as "the competition from the new commodity, the new source of supply, the new type of organization – competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and outputs but at their foundations and their very lives." This isolation from competition wrecked Brazilian industry, now backward and isolated from new global networks of production and trade.

Brazil struggles with institutional problems growing from deep roots. Institutional changes rarely are quick or easy, but ultimately become unavoidable because of the costs and blockages imposed on our societies. The structure of public institutions needs change to improve the quality and direction of political activity, focused on the strengthening of democracy.

Brazilians need a political consensus within economic reality. Fiscal parasitism, enlarging benefits for all, rich and poor, no longer is sustainable. Choices are unavoidable, involving issues of political legitimacy. The alternative paths are either a revival of the chronic inflation of past decades or deepening disorder and conflict. To avoid these familiar patterns of the past, new political structures must be created, strengthening democratic institutions. Fear of the future is not embodied in Brazil's character, but fear of change is.

The economy is being strangled by fiscal parasitism, bankruptcy of state governments and a perverse pension system, allowing almost no public investment. The most important change, already passed by Congress, is restructuring of pensions, among the most generous in the world, carrying huge distortions and injustices. The rest of the reform package is

complex, innovative and courageous, with these main features:

1. More federal money for states and municipalities, but no more bailouts.
2. All levels of government can temporarily reduce public sector salaries and pensions during emergencies.
3. The smallest one-fourth of Brazil's 5,570 municipalities, with less than 5,000 inhabitants each and unable to raise taxes covering 10% of their budgets, would merge into larger towns and stop depending on federal support for basic expenses.
4. Some R\$ 220 billion [US\$ 50 billion] stored in 281 public agency funds will be centralized and used to pay down public debt.

Most policy plans of this kind are driven by alarm and met with skepticism. Questions immediately arose over these proposals, promoted by government with arguments of "either this or chaos" that accompany stabilization plans in many countries. The anxieties grew over the next two days with failure of the biggest auction in world history of offshore oil production blocks, failing to attract expected foreign bidders, leaving the government short of funds for its economic program. Policy cycles may be brief, but rarely last only two days. The relief achieved by the government with its fiscal package lasted less than 24 hours.

On that afternoon, after weeks of delay, the Supreme Court freed Lula, along with dozens of others convicted or accused of corruption. The tie-breaking vote was cast by the chief justice, formerly Lula's election campaign lawyer, in a ruling that coincided with the launch of the government's stabilization plan. Lula immediately announced at a rally that he would tour the country denouncing what he called Bolsonaro's anti-social policies. Lacking a base of activists after abandoning his right-wing party to form a new party, adding to the 25 parties already in Congress of 32 legalized and another 76 seeking legal status. Bolsonaro set out to challenge Lula in his old electoral base in the



Northeast. Brazil faces more political uncertainty.

### Legal swamps

The Supreme Court is a diseased limb of the political system. It sinks into a legal swamps that most other high courts in the world manage to avoid. One of its institutional problems is that, by law or custom, the Brazilian high court takes on thousands of new cases every year, while the most prestigious and long-established tribunals in the world decide only dozens of cases.

The chaos created by the capricious and contradictory decisions by Brazil's Supreme Court, frequently reversing itself, creates self-perpetuating controversy and confusion. The Justices often hog prime time TV with long and arcane arguments on the main news channels that ordinary people cannot understand. In their spare time, they meet promiscuously with knots of politicians and star as social lions on Brasília's cocktail circuit. The decision freeing Lula also freed, by precedent, hundreds of other prisoners whose sentences had been confirmed by appeals courts. A unilateral decision by the chief justice freed one of Bolsonaro's sons, now a senator, from prosecutors' investigation of corrupt practices in his political base in the slums of Rio de Janeiro and, by extension, froze hundreds of other investigations.

There is increasing concern for stability in marginal areas of big cities, among families of increasing sophistication consolidating their lives in recent decades in once-precarious communities that have tended to overcome endemic violence and poverty. Since 2008, income shares rose in the extremes, among the prosperous and the poorest, while the share of



the middle class, with 115 million people, shrank by one fourth. “One of the main challenges is financial instability,” observed Mariel Deak of the Getúlio Vargas Foundation in a study of these emerging classes in a recent issue of *Braudel Papers*. “The problem is not just earning little, but not knowing when they will get their next salary. Incomes vary not only by season and economic conditions, but also by job turnover among family members.”

Although many worry that their newly achieved middle class lifestyles may not be sustainable, these families are conservative in a constructive sense. The watchword of these communities is “order.” According to a pioneering study by the Tide Setubal Foundation, they share a widespread belief that “order is lacking in families, schools, public spaces and politics, related to general moral decay, increasing crime, violence, corruption and impunity in national politics.” Those interviewed, most of them Evangelical Protestants, struggle to sustain order in their lives despite “lack of structure in families and discipline in schools.” They voice skepticism over “income transfer programs, such as Bolsa Familia [providing financial support to poor families in exchange for school attendance] that lack fiscal controls” as substitutes for better general policies in education and other basic services. They crave new standards in public and private lives and recognize their responsibility for both.

Brazilians are struggling to emerge from the web of fear that traps their politics and society in a paralysis of reticence and backwardness, blocking new thinking and new solutions. Fear has been a constructive force in biological evolution, inspiring caution and new strategies in the face of danger. But fear also can block action to meet challenges as confusion and opportunism becloud our will to survive. In Brazil the choices are becoming clearer.

In the near future, crashing against the limits of public finance, inertia will force drastic choices. Either Brazil will submit to a shrinkage and redirection of public spending, or we will resume the career of chronic inflation of recent decades that we believed to have overcome. Only new leadership, with courage and clarity, can win the confidence of Brazilians in new levels of austerity and public investment to preserve the integrity of society and the economy. As Max Weber, founder of modern sociology, observed a century ago as Germany struggled in the chaotic aftermath of the First World War, escalating toward the hyperinflation of 1923:

*Politics is a strong and slow boring of hard boards. It takes both passion and perspective. Certainly all historical experience confirms the truth --that man would not have attained the possible unless time and again he had reached out for the impossible. But to do that a man must be a leader, and not only a leader but a hero as well, in a very sober sense of the word. And even those who are neither leaders nor heroes must arm themselves with that steadfastness of heart which can brave even the crumbling of all hopes. This is necessary right now, or else men will not be able to attain even that which is possible today.*

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## New leaders are emerging among the younger generation, but without coherent strategies and alliances.

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The three monsters of backwardness—ignorance, violence and corruption, intimately related to each other—have been conquered many times in human experience. These conquests take time and depend on collective will, focus and practice. We must not forget the conquests already achieved in human welfare and the need to move forward to

protect the integrity of our society.

To address decay and mediocrity in political life, Brazil needs new structures and new ideas, focused on the strengthening of democracy. Lacking today are ideas for political reconstruction.

New leaders are emerging among the younger generation, but without coherent strategies and alliances. As of now, they form small, isolated local groups without national representation. They need to break the stranglehold of the older generation on self-centered benefits without destroying the ethos of democracy. They need a talented central leadership, not of one person but of a coherent group of dedicated activists, capable of reaching into states and cities of Brazil’s vast federation. They need a common cause that is meaningful to most citizens, spread in innovative ways of communication. All this is possible, with time, focus and money, starting modestly but gaining strength with the urgency of finding solutions to a deep and debilitating political impasse.

Problems may be complex but political truths are simple. Brazil needs coherence and the new generation must find a way. In the absence of meaningful public debate on ways to strengthen political processes, we must stimulate constructive thinking on how to achieve stability and justice.