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GOING FOR GOLD BETWEEN A ROCK AND A HARD PLACE:

WHY THE UPCOMING RIO OLYMPICS COULD BE THE FINAL BLOW TO BRAZIL'S STRUGGLING ECONOMY

Kenneth B. Haesly, II

1. INTRODUCTION

THE opportunity to host an athletic “mega-event,” such as the World Cup or the Olympics, can be an enticing call for countries and officials all over the world; but, like the siren songs of classic Greek mythology, alluring promises of potential economic development and increased tourism or foreign investment can be dangerous. Brazil is the most recent example of a country seduced by both the International Olympic Committee (IOC) and the Fédération Internationale de Football Association (FIFA), the governing bodies of the Olympics and the soccer World Cup. Promises of infrastructure investment to modernize blighted areas and plans to increase national prosperity are looking more like rocks and cliffs threatening to destabilize the largest economy in Latin America. The upcoming Rio Olympics could be the coup de grâce to a nation that has been battling one crisis after the next in the form of disease, recession, crime, and a corruption scandal that has led to a widespread investigation and ensnared numerous high-ranking politicians. In other words, Brazil is heading for a major crash.

The upcoming Summer Olympic Games, held in Rio de Janeiro, are likely to serve a knockout blow to a once promising economy whose dollar-denominated gross domestic product (GDP) grew as much as 7.6 percent in 2010. This will in turn have negative spillover effects in the surrounding region of Latin America, where regional GDP is expected to contract by 0.5 percent in 2016, marking the first time that Latin America has registered two consecutive years of negative growth since 1982 and

Amid turbulent global commodity prices, slowdown in China, and a widespread corruption scandal involving numerous high ranking officials and politicians, Brazil’s GDP is expected to contract as much as 3.8 percent in 2016. Combined with projected contractions in Argentina, Brazil, Ecuador, and Venezuela, this contraction represents over fifty percent of Latin America’s total gross domestic product.

The question that one should be asking as the 2016 Rio Olympic Games approach, and the question this article shall address, is whether Brazil can weather a perfect storm that threatens to send Latin America into economic free fall. Two factors indicate that it cannot: (1) the “hangover” economic effect that historically follows the hosts of mega-events such as the Olympics and the World Cup, and (2) wanton fiscal mismanagement by Brazil’s political elite, as evidenced by the corruption scandal that resulted in only the second Presidential impeachment proceeding since democracy was reestablished in Brazil in the 1980s.

II. AN OLYMPIC-SIZED HANGOVER

International “mega-events,” such as the World Cup (hosted by Brazil in 2014) and the Olympics, have the potential to discourage growth in countries that do not properly allocate finances and significant financial investments in construction (e.g., building stadiums) create waste and economic problems for the people of the communities in which they are erected. Two prominent examples of such an economic hangover are Athens, which fell into debt after hosting the 2004 Olympics, and Cape Town, whose stadiums largely remain empty after hosting the World Cup in 2010. In 2009, when Brazil was awarded the Summer Olympics, it might have been easy to look past these cautionary tales; the economy had been growing, the middle class was expanding, and the time seemed right for the country to host Latin America’s first ever summer games. The fútbol-crazed country, just coming off the elation of being awarded the 2014 FIFA World Cup, embarked on an infrastructure spending spree.

4. Id.
5. Andrew Jacobs & Simon Romero, Brazil’s Senate Votes to Begin Impeachment Trial of Dilma Rousseff, N.Y. TIMES (May 12, 2016), http://www.nytimes.com/2016/05/13/world/americas/dilma-rousseff-brazil-impeachment.html?_r=0.
that was projected to top twenty-five billion dollars. The common theory is that big sporting events are good for growth. The reality is not so evident. Revenue generated by television rights, ticket sales, licensing, and sponsorships are increasingly being re-appropriated to governing bodies such as the IOC and FIFA. Though these organizations claim to contribute to the costs of staging the contests, such “operating” costs are a small portion of the price; the vast majority of costs are accumulated by construction and transportation and borne entirely by the host country.

A. Construction Contracts Worth Their Weight in Gold

The brunt of construction spending in mega-event host countries is often realized in what are increasingly becoming more world class and opulent new stadiums. Such is the case in Brazil, where 300 million dollars was spent on Arena Amazonia, whose brilliant structure was displayed on millions of television sets across the globe during the World Cup in 2014. Moreover, 450 million dollars was spent on Arena das Dunas, in Natal, Brazil. Construction of four of the twelve stadiums built for the World Cup, including the one in Natal, cost almost two billion dollars, most of which was public money. Nearly eleven billion dollars has been allocated for construction of venues and infrastructure needed for the Olympics, including twenty corporate developments meant to revitalize the downtown Porto Maravilha area of Rio – a so-called “legacy” project of the Games intended to have lasting economic effect (interesting to note, the Porto Maravilha project is the largest corporate development in any major emerging nation, and includes divisive US presidential candidate Donald Trump as a consultant).

Such lavish spending is hard to justify, even if the projects could provide continuing benefits after the events end, which they very often do not. South Africa, which hosted the World Cup in 2010 and spent close to thirty billion rand largely on upgrading and building stadiums across the country, is a perfect example; the majority of stadiums there now stand empty and operate at an annual loss – Durban’s Moses Mabhida Stadium reportedly lost 34.6 million rand in 2013 and the Cape Town Stadium loses roughly forty million rand each year. More drastically, the nearly nine billion Euro cost of hosting the 2004 Summer Olympics pushed

10. Id.
11. Jacobs & Romero, supra note 5.
12. Id.
15. Id.
17. Lisa Steyn, Was World Cup 2010 worth it?, MAIL & GUARDIAN (June 12, 2015), http://mg.co.za/article/2015-06-11-was-world-cup-2010-worth-it.
Greece under fiscal monitoring by the European Union the following year, after the 2004 Greek deficit totaled 6.1 percent of GDP – more than double the Eurozone limit. Greece’s subsequent collapse has been well documented.

Brazil now currently faces the unenviable position of ending up at best like South Africa, or, at worst, Greece. The former is almost a given, but resembling the latter is a strong possibility. Arena das Dunas, in Natal (price tag: 450 million dollars) will not regularly hold tens of thousands of fans; the city of fewer than one million people does not even have a top level soccer team and the lower level teams attract only several thousand fans on their biggest game days. The same is true for several others of the twelve stadiums in total: neither Manaus nor Cuibaba nor Brasilia have soccer teams that can consistently fill the new stadiums. Part of the blame for this reckless spending is on the IOC and FIFA governing committees – even though there is no formal requirement that venues in host cities be new, cities with ambitious plans for custom-built facilities are consistently selected for mega events.

III. MASS CORRUPTION

If Olympic and World Cup construction contracts on their face were not unsettling enough, even more concerning is the shadowy business and political games that manifest them. Five Brazilian construction firms are building the majority of the 39 billion reais (10.8 billion USD) worth of venues and infrastructure needed for the Rio Olympic Games. All five are linked to investigations of price-fixing and kickbacks through Petrobras, the state-run oil company. Odebrecht, one of the largest engineering firms in Brazil, has been accused of collusion and overcharging for contracts with Petrobras, using the excess money as bribes funneled to high-ranking politicians. Embattled President Dilma Rousseff is one of many public officials to be implicated in the Petrobras scandal, though she is one of the few politicians not facing accusations of personal enrichment. One-third of deputies in the lower house of Congress have been charged or are being investigated for corruption, including Delcidio do Amaral, a powerful leader in the Senate, and Eduardo Cunha, the

19. See id.
20. Just say no, supra note 6.
21. Id.
22. Jacobs & Romero, supra note 5.
24. Id.
25. Silvio Cascione & Brad Brooks, Update 1 – Brazil judge suspends Odebrecht lawsuit, in sign of plea deal, REUTERS (June 2, 2016), http://www.reuters.com/article/brazil-corruption-idUSL1N18U2GA.
Speaker of the lower house of Congress who orchestrated the impeachment vote against Rousseff.\(^{27}\) Even the man standing in for Ms. Rousseff during the impeachment proceedings, Vice President Michael Temer, has been convicted and ordered to pay fines for violating campaign-financing regulations.\(^{28}\)

**A. Petrobras & Odebrecht**

Formed in 1953 and now one of Latin America’s largest companies, Petrobras is the centerpiece of Brazil’s economy, but a corruption scandal involving billions of dollars in kickbacks being funneled into campaign coffers of political parties has caused widespread anger and distrust among the population.\(^{29}\) A two-year investigation into the company, which was launched the same year Brazil hosted the World Cup (2014), has uncovered an extensive corruption network, resulted in the jailing of top business executives, and led to the investigation of as many as fifty serving politicians.\(^{30}\)

The engineering firm Odebrecht, which is Latin America’s biggest builder, and who has participated in projects for both the World Cup and the Olympics, has been the center of the investigation; in 2015, federal police raided a stadium in Recife used for the 2014 World Cup and also searched the office and homes of Odebrecht executives.\(^{31}\) In 2016, Odebrecht’s former CEO, Marcelo Bahia Odebrecht, was convicted of corruption and money laundering and sentenced to nineteen years in prison.\(^{32}\) Pending lawsuits against several other executives at the company have been suspended, signaling potential plea bargain deals with prosecutors.\(^{33}\)

The economic fallout in response to the corruption graft has occurred both locally and within surrounding Latin American regions. Petrobras, which employs nearly eighty thousand people—many of whom are in Brazil—has lost 82.8 percent of its value since 2011, and has over 130


\(^{29}\) Romero, supra, note 2.


\(^{31}\) Cascione & Brooks, supra note 23.

\(^{32}\) Id.

\(^{33}\) Id.
billion dollars in debt. As investigations into the oil company scandal continue, large numbers of Brazilians are poised to lose jobs and contracts. At least 30,000 people in the oil and gas services and construction sectors, which had Petrobras contracts, have lost their jobs, and the company has stated that an additional 12,000 workers will be laid off over the next four years. The investigation into Odebrecht has also spilled into Argentina, which began an investigation into whether Odebrecht's local unit paid bribes to government officials. Federal court findings in Brazil have also revealed that Peruvian President Ollanta Humala may have received three million dollars in bribes through Odebrecht contracts. Additionally, Ecuador has opened audits of Odebrecht contracts in the country, and Colombia's vice president has suggested the company could be banned from public bids in Colombia for decades.

All told, the fallout from the investigation is likely to impact the greater Latin American economy, especially in the areas of energy and transportation mega-projects.

B. Politics

The impeachment charges against Rousseff are not directly linked to the Petrobras scandal (though she did serve as chairwoman of the company from 2003-2010), but instead stem from allegations that her Leftist Worker's Party administration borrowed nearly eleven billion dollars from state-owned banks to fund social programs and election campaigns between 2010 and 2014, and then used budgetary tricks to conceal a growing deficit. This practice of pedaling fiscal obligations into the future, or pedaladas fiscais, is illegal in Brazil. Rousseff has referred to the impeachment proceedings against her as a coup, which is a loaded term in Latin America, but even more so for Rousseff who was imprisoned and tortured for her role as a Marxist guerilla during Brazil's military dictatorship of the 1970s.

Ousting Rousseff may be a first step in holding corrupt politicians accountable, but it is unlikely to end the economic turmoil in Brazil. In the weeks after Rousseff's suspension and replacement by Vice President Temer, the economy appears as stuck as ever: GDP is still predicted to

35. Id.
37. Id.
38. Id.
40. Id.
decline by 3.8 percent and inflation is expected to get worse, with predictions by the Central Bank now suggesting a 7.06 percent increase rather than 7.04 percent (prior to impeachment, the rate was at 6.9 percent). Brazil's stock market blue chips are down as well; Itau, one of Brazil's largest banks, has a share price that is down 53 percent in five years, and Vale, a mineral exporter, is down 86.9 percent.

Moving to impeach the President just months before the 2016 Olympic Games begin may have been the popular move, but not necessarily the savvy one. The Brazilian Democratic Movement Party of Rousseff's successor, Michael Temer, is a member of the same party that has created a financial crisis in the oil-rich state of Rio de Janeiro during their time in leadership. Like many of the financial woes in Brazil, the current crisis is linked directly to the Petrobras scandal. Deep-sea oil discoveries previously launched Brazil onto the global stage, primarily by exporting oil to satisfy China's demand for commodities. During the oil boom, legislation was enacted giving state and local governments access to royalties from the deep-sea oilfields off Rio's coast. Rio's shares of those royalties have been reduced drastically, from 3.5 billion dollars in 2014 to about one billion dollars this year. The economic decline and failure of leadership concern this summer's games as well: court testimony against Sergio Cabral, the former Governor of the party who helped bring the Olympics to Rio, alleges that the powerful politician demanded millions in bribes to do so.

To stave off a complete meltdown, Brazil's new leadership will have to implement unpopular economic reforms such as tax increases, spending cuts, and possible austerity measures. Spending cuts and tax increases are never popular, especially in Brazil, where social welfare programs such as Bolsa Familia help millions of people throughout the country. Local elections looming in October make it unlikely the new government will impose austerity measures. Further, some spending cuts and tax increases will likely need constitutional changes to enact, although Temer

42. Rapoza, supra note 31.
43. Id.
45. Id.
46. Id.
47. Romero, supra note 41.
48. Id.
49. Id.
has suggested amending the Constitution so that the government is allowed to spend less on health care and education.\(^5\) Temer's biggest hurdle will likely be Brazil's convoluted and often truculent Congress, which is made up of over two dozen different political parties and will likely stymy economic reforms proposed by the Vice President or members of his party.\(^5\) In the meantime, many more Brazilians will suffer, primarily the millions of working class who are already slipping into poverty during the recession.\(^5\) Whatever the result of the impeachment proceedings against Rousseff, one thing is clear: Brazil needs to stabilize if it is to return to economic strength and greater prominence on the world stage.

IV. CONCLUSION

Though Brazil experienced a rare stretch of stability in the last two decades, the current perfect storm threatens to severely impact this once promising nation. Brazil faces several significant dilemmas: ousting their first female president, only to replace her with a political party that the public despises just as much, if not more; low commodity prices and a very slowly recovering oil market, which the Brazilian economy largely depends on; a political scandal on a scale rarely before seen, even in Brazil, which has had notorious corruption issues throughout its history; and a virus that the World Health Organization has declared 'a public health emergency.'\(^5\) In August, Brazilians will confront a peculiar reality—watching the dazzling production of the Summer Olympics while also being able to tune in to their president's impeachment proceedings.

Unfortunately, the Rio Olympic Games are more likely to hurt, rather than help, the struggling Brazilian economy, which will have secondary effects on the other economies of Latin America. This is a direct result of both the negative carry-over effect that often follows nations who are poorly equipped to handle such mega events, and the presence of a political scandal involving top-ranking politicians and one of the largest companies (and employers) in the nation. Such concerns figure to hurt the Brazilian economy, and could have wide-ranging repercussions elsewhere in Latin America.

This is occurring in the midst of drastic economic challenges in Brazil, where slumping global commodity prices have increased unemployment to nearly ten percent (from almost seven percent one year ago), inflation is rising, and a once-promising economy is expected to contract by as


\(^5\) Romero, * supra* note 43.


much as 3.8 percent for the second year in a row.\textsuperscript{56} To make matters even worse, the outbreak of the Zika virus has not been limited to the northeast region of Brazil but has spread to Rio de Janeiro as well, spurring activists and academics to call for the Olympic games to be canceled, postponed, or moved.\textsuperscript{57} The effects of Zika can cause pediatric microcephaly and brain damage, and Rio de Janeiro has the highest suspected cases of any state in Brazil, according to the country’s Ministry of Health.\textsuperscript{58} If that were not enough, a security crisis currently threatens the “pacified” favelas, or poor shantytown neighborhoods that are scattered throughout the city; murder and robbery are both up by double digits, and the state security budget has been cut by a third.\textsuperscript{59}

The road to redemption may not be easy for Brazil. The interim government has already been the host of an array of problems, including the resignation of the new ‘transparency minister,’ after an audio recording was released that Temer’s Brazilian Democratic Movement Party pursued Rousseff’s impeachment in order to thwart the Petrobras investigation.\textsuperscript{60} Temer has received further criticism for naming exclusively white men to his new Cabinet – a subtle yet potentially troubling move in a country where more than half of the population describe themselves as black or mixed race.\textsuperscript{61} Even more concerning are the policy goals Temer has suggested could be in the works – to raise money in Rio, state leaders of the Democratic Movement Party have approved taxes of nearly twenty percent on offshore oil production in Rio’s waters.\textsuperscript{62} At a time of low oil prices, such measures could potentially bankrupt Rio’s oil industry.\textsuperscript{63}

Amid all the scandal and frustration, one thing in Brazil remains clear: the Olympic show will go on. Perhaps it is this resilience to maintaining the country’s image that could keep Brazil afloat in the future. For the sake of all of Latin America, the world should be cheering for them.

\textsuperscript{56} Jacobs \& Sreeharsha, supra note 25.
\textsuperscript{58} Id.
\textsuperscript{60} Simon Romero, Pall hangs over Brazil’s presidential palace as Rousseff prepares for trial, N.Y. TIMES (June 7, 2016), https://www.bostonglobe.com/news/world/2016/06/07/pall-hangs-over-brazil-presidential-palace-rousseff-prepares-for-trial/13pmNRWUIKOEL3pVVeIHzM/story.html.
\textsuperscript{61} Id.
\textsuperscript{62} Romero, supra note 41.
\textsuperscript{63} Id.