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RULERS, BUSINESSMEN, SUSPICIOUS PEOPLE, INSTITUTIONS AND CORRUPTION: THE ORIGIN OF CHAOS

Governantes, empresários, pessoas suspeitas, instituições e corrupção: a origem do caos

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Abstract

Through the comparison between the actions and accomplishments of the Baron of Mauá at the time of the Brazilian Empire and some current events, like the links among suspected citizens, politicians and businessmen, this teaching case aims to highlight that institutions, whether formal or informal, have been playing a significant role in society and have, over time, been influenced by several events and people.

Keywords: Institutions, chaos, strategy

Resumo

Comparando as ações e realizações do Barão de Mauá, no período do Império brasileiro, e eventos recentes envolvendo ligações escusas entre cidadãos, políticos e empresários suspeitos, o caso de ensino tem como objetivo ilustrar como as instituições, sejam formais ou informais, têm desempenhado papel significativo na sociedade, sendo influenciadas por vários eventos e pessoas.

Palavras-chave: Instituições, caos, estratégia

Introduction

The pioneering spirit of the Baron of Mauá brings modernity on rails to the country on rails.

Businessman was responsible for the construction of the first railway in Brazil, which was built from the Port of Magé to the base of the Petrópolis Mountain. Life is announced on the lines of a great journey's fate, in the speed of a bullet-train or in the slow contemplation of an old train locomotive. It all depends on the look of each passenger.

(GLOBO REPORTER, April, 04, 2012)

***Bicheiro** Carlinhos Cachoeira remains silent during testimony in the Parliamentary Investigation Commission.**

Conduct on the part of the *bicheiro* infuriated parliamentarians of the Parliament Inquiry Commission (PIC) which seeks to break Delta's confidentiality, the main company involved with Cachoeira. Repeating what others have done in the Brazilian Congress, the *bicheiro* Cachoeira remained silent during the PIC session that investigates his links with politicians and businessmen.

(JORNAL DA GLOBO, May, 22, 2012)

Rio de Janeiro, Brazil, January 7, 1861. After a day of working, Irineu Evangelista de Sousa, the Baron of Mauá, was back to his beautiful house, on the side of São Cristóvão Palace, the residence of the Brazilian Emperor Dom Pedro II. After dinning with his family and playing with his children, the Baron, always methodical, went to his office and, after reading the letters, read the newspapers of the main capitals of the world. Each one of the letters demanded an adequate response. First, he answered to heads of States, Senators, Ministers, bankers and authorities from the countries where he had business.

Most of the letters he received were from politicians and financiers and contained requests for favors, evidence of respect and attention, and also inside information, such as details of secret projects from rulers and competitors. This information helped to adapt and direct his businesses around the world. In response, he informed his allies over their enemies; allowed treats and favors, made business proposals, advised on war and peace and suggested policies. From his responses, new laws could emerge in Brazil or in other countries, a politician could fall and another could ascend to a post or even result in large profits by buying shares on stock exchanges.

In 1867, the budget of the Empire, with all government spending reached 97,000 Contos de Réis (Brazilian currency at that time). The Baron, after putting all his business in one conglomerate, verified that his assets totaled 115,000 Contos de Réis, exceeding the government's budget that year.

In 2012, the Brazilian media announced the news that several politicians, companies, businessmen and an alleged offender could be involved in episodes and transactions that apparently denoted lawlessness and favoring people with information that should be confidential. It is not known exactly the value that such transactions involved; however, it is said to reach millions of dollars.

Several events have influenced and directed the lives of Brazilians, but, as they say in Brazil, "in this country, the memory is short". Thus, along the time, Ali Baba and the forty thieves may become heroes, underwear turns into a deposit of dollars¹, the seven dwarfs (all politicians of low stature) manipulate the country's budget¹, and since their exploits are "institutionalized" because of the habit, they are free from the clutches of the law and have no problems with the IRS or the income tax and can happily enjoy their mansions in tax havens. I'm leaving to Pasárgada², there, the King, the Barons, the Cachoeiras are all friends of mine, and, if I want, I may have a date, even if it is with the Snow White.

Noting these facts many questions arise: The Baron of Mauá in the time of empire and the current offenders, who relate suspiciously with politicians, enterprises and businessmen are "birds of a feather"? What may have triggered the behavior of the Baron and these offenders in relation to politicians, government officials and the society? Will it have a limit? What is the consequence of these episodes in the lives of Brazilians? Does irreverence, typical trait of the Brazilian people, have something to do with these facts? Would you, as a foreigner investor, apply your capital in Brazil? Why?

The Baron of Mauá

Irineu Evangelista de Sousa was born on December 28, 1813, in a small town called Nossa Senhora do Arroio Grande, almost in the borders of the state of Rio Grande do Sul (South of Brazil) and the Cisplatina Province, present-day Uruguay. Irineu's parents were smallholders and did not make much money, but they had enough for a decent life; before Irineu's birth, they had a daughter, Guilhermina. In 1819, when his father passed away, Irineu went to Rio de Janeiro, where the

* The term designates someone who operates a prohibited game in Brazil called "Jogo do Bicho".

¹ Scandals involving Brazilian politicians.

² A reference to the Brazilian poetry "Vou me embora pra Pasárgada" (I am leaving to Pasárgada) by Manuel Bandeira. That says that if the king is your friend, if you are on the right side, you will have all you need or want.

emperor's court was located. There, he got a job in a small shop for food. Before he was eleven years old, he was already working from seven in the morning until ten in the evening

After two years in Rio de Janeiro, Irineu moved to another job, in the store of the Portuguese businessman João Rodrigues Pereira de Almeida. His new boss, in 1828, would receive the title of Baron of Ubá. Irineu soon became a confidant of João Rodrigues. When he was 17, he entered the Carruthers & Brothers, where Richard Carruthers taught him the concepts of accounting clerk and showed him the world of authors such as John Milton, William Shakespeare and Stuart Mill. He was presented to the ideas of Adam Smith through the book written by José da Silva Lisboa, the Viscount of Cairu. After learning English and to use Pound as currency, Irineu discovered a new dimension in the world of business. In 1836, at the age of 23, he became a partner of the firm Carruthers & Co. At that time, he could speak English and knew very well the business of imports and exports.

Although young, Irineu was a veteran in business. His ascent coincided with the steady growth of an economy that was aligned to international capitalism. Several countries had become integrated by trade and a tangle of economic and financial interests. The center of this new system was Britain, to where Irineu went, in 1840, at age of 26, to learn more about this system. After returning from this trip, he married his niece, with whom he had twelve children.

A new world had opened up to Irineu, after visiting Bristol, the third largest urban conglomeration in England, with its steel and textile industries, railway network and a banking system that went beyond its borders. New ideas emerged, such as iron casting; because it was the basis of everything and the start of shipbuilding. Irineu decided to reproduce in Brazil, what he had seen in England.

The Ponta D'areia Foundry and Shipyard: the butterfly flaps its wings and flies smoothly

In his message to the Parliament in 1844, the Minister of Finances justified the proposed Alves Branco tariff, which taxed 30% to 60 % the imported products: *No nation should exclusively put all its hopes in farming, the production of raw materials or in the foreign market. People without manufactures are always dependent on other people and therefore cannot make advantageous concessions or advance a single step in the way of its wealth.*

Now that there was a law supporting his venture, a State guarantee, in August 1846, in Niterói, a city in Rio de Janeiro State, Irineu established the Ponta D'areia Foundry and Shipyard for now his venture would be protected from the competition with English products. Irineu got a public concession to build the channel of Maracanã, to carry wastewater. Two years before beginning the venture, in 1848, Irineu got a 300 Contos de Réis loan from the State that should be paid up to the year of 1859; it is said that this same loan was used to build the channel.

The steel industry soon became a good deal, with iron and bronze foundries, shipbuilding and blacksmithing. Ships, bridges and other items made of iron were produced until 1870, employing around a thousand people. In Brazil, there was not an equal enterprise.

Ventures as the Ponta D'areia Foundry had to work in a close collaboration with the State, the main funder and client, because there was no internal market with a constant demand that could keep the business. The Ponta D'areia Foundry also supplied ships to an enterprise that resulted from the association of Irineu and businessmen from the South of Brazil. This venture produced no profits, so, the company was sold to the Provincial Government.

In 1857, a fire destroyed the Ponta D'areia Foundry and Shipyard. There are suspicions that the fire was caused by a rival of Irineu, who managed a government loan to get her back. However, when he started its recovery, three years later, the Silva Ferraz tariff was approved and reduced the taxes on imported products. That led the company into bankruptcy in 1870. But Irineu, by this time, had already diversified his business.

The diversified Business of the Baron

Between 1851 and 1854, Irineu, further diversified his business. He opened a bank (Bank of Commerce and Industry of Brazil, in March 1, 1851, associated with numerous traders and dealers), a railroad with the approval of the Baron Rothschild, for whom wealth was not sufficient, and required a serious past on the part of the partner to ensure the honesty of the business. This partnership attracted many investors to Irineu's companies. The Baron of Mauá created one of the first multinationals and controlled it alone, through letters and notes he wrote at his home in Rio de Janeiro. It was a strange way to run a business; he delegated powers to their representatives and took the profits, risks and losses, along with them.

Irineu also undertook (with the influence of his friend, Jose da Costa Carvalho, Viscount of Monte Alegre), the gas lighting of Rio de Janeiro city, at a lower price than the one set by the crown, gaining operation of the service for 25 years. He also established, in 1854, navigation on the Amazon River, using boats produced in his shipyard, winning a concession to provide the service for 30 years. In the activities of the Baron, there was always the presence of the State. In both of the above projects there were two significant loans and grant of services. However, 11 years after starting the services in Rio de Janeiro, the grant to operate the services was sold to English businessmen for 1.2 thousand Contos de Reis, three times its original value.

The Baron and the railroad – the butterfly still flies

With the expansion of the coffee plantations, transportation of the product had become an obstacle to producers, once coffee was still carried by animals. This situation highlighted the need for faster, safer and more economic means of transportation between producing regions and exportation places. The solution would be the introduction of railways.

Since 1828, there had been unsuccessful attempts to build railways in Brazil. However, in July, 1852, a law was enacted by the Brazilian Crown offering a guarantee of 5% interest on the invested capital and also a grant of forty years (later modified to ninety years) to operate the service, for companies to build railroads in Brazil.

On April 27, 1852, three months before the enactment of this law, an investor had already started his work. Irineu Evangelista won a concession to build and operate the railroad connecting the Porto de Estrela (currently, Maua Port), to Raiz da Serra, towards the town of Petropolis. Another award was given to Irineu, on June 12, 1852: the steamship navigation between the port of Rio de Janeiro and Porto da Estrela. These would create an interconnected transportation system, the first in the country.

To celebrate the beginning of the construction of the railroad, Irineu invited the emperor to start, symbolically, the work, using a wheelbarrow made of Brazilian rosewood and a silver-handled shovel. The monarch had to withdraw some land, put in cart and takes it to the right place. This gesture may have been done in reference to liberalism, which preaches the value of work, but in the society at the time, that lived in idleness and had an showed aversion to work, this episode became known as "The day that the Emperor worked" and may not have been well regarded by the Emperor and the officials in attendance. Inaugurating the railroad in 1854, the emperor, who also attended the ceremony, granted Irineu the nobility title of "Baron of Mauá".

Mauá became substitute deputy for Rio Grande do Sul State and during the Parliament session on June 26, 1856, he required to elevate the interests paid by the Crown to 7%. João Manuel Pereira da Silva, from the Conservative Party, positioned himself against the concession, arguing that it would overload the treasure accounts. The Baron then asked whether it would be lawful to deny a small aid to the first railroad built in Brazil, while it was paid 84 Contos de Réis to the Italian tenor Enrico Tamberlick, for four months of performances in Brazil. The question of the Baron sounded like a provocation because the Emperor himself had sponsored the singer. The request of the Baron was just filed.

The Paraguayan War – the butterfly flies faster

The baron of Mauá, now a millionaire, fabric and English hardware importer, coffee, tobacco and sugar exporter, industrial and also public-service concessionaire, realized that diplomacy and opportunities are always together

Between 1864 and 1870, the Paraguayan war occurred, the largest in Latin America, and which involved Argentina, Brazil and Uruguay (The Triple Alliance) on one side and Paraguay on the other. It represented a tragedy for many and a benefit for few. Almost all Brazilian ships that participated in the conflict were made in the Ponta D'areia Foundry and Shipyard.

Realizing that Uruguay needed a loan to sustain the situation in the region, the Baron offered help to finance the country in the war, in case of victory he would get the customs revenues of the country and, in case of defeat, he would lose his investment. The Brazilian Minister of Foreign Affairs, Paulino Soares de Souza, a friend of the Baron, informed the Uruguayan ambassador in Rio de Janeiro, Andres Lamas, that he had found someone to finance and provide supplies to the Uruguayan government. The agreement was confidential, but from it, the Baron provided clothing, weapons and money to Uruguay.

At the end of the War, Uruguay, in ruins, had got into significant debts with Brazil, England and France. The action of the Baron was remarkable in the Brazilian intent to turn Uruguay into a "semi-protectorate" and make Brazil the largest creditor of the Uruguayan government's debt. His first venture in the service of the state allowed his business to expand to Uruguay and Argentina, in addition to England.

The Baron was now a merchant, landowner, industrial, public-service concessionaire and also financier. His companies also provided uniforms and weapons for the Brazilian Army during the final phase of the Paraguayan war. Ties and interests which had connected them to the Brazilian Crown were stronger. The war strengthened the Brazilian supremacy in the region, but destroyed the finances of the imperial treasury. At the end of the conflict, the national accounts showed constant deficits. The war marked the beginning of the decadence of the monarchy.

The Railway Santos – Jundiaí - the butterfly changes direction...

The Baron and his British partners got another concession to build a railway from Santos city to Jundiaí city, in São Paulo State. As the money from his partners (about 600,000 pounds) did not arrive, the Baron decided to start constructing the railway with his own resources. The British money never arrived and its recovery dragged on for years in the courts. Meanwhile, the Ponta D'areia Shipyard and Foundry closed its doors. In 1877, the Supreme Court, in an unexpected decision, decided that the issue should be settled in London. The decision in London was also not favorable to Mauá. It is thought that outside interference occurred in the two decisions. That was the beginning of Mauá's decline.

The Bankruptcy - the butterfly finally lands

In 1875, Brazil faced an economic crisis. The Government accounts showed deficits, and it was worsened by the severe drought in the Northeast. In May of that same year, the Maua Bank & Co. suspended its payments and requested a 3,000 Contos de Réis loan from the Bank of Brazil, offering 6,000 Contos de Réis in shares as guarantee. The loan was denied due to an enemy of Baron, who held an important position in the direction of the Bank. So, not being able to pay its accounts, the Mauá Bank asked a three years moratorium. Mauá still paid off two thirds of its debt, but in May 1878, the bank closed its doors.

What caused Mauá's failure is still not well understood. Some people think it was due to his defeat when facing the English capital; others consider the supremacy of the State over the

individual activity as the cause of his fall, but actually Mauá did not oppose to the English capital, nor distanced himself from the Empire.

The success of Maua always followed the ups and downs of the Empire. Thus, in 1860, when the Empire was at its height, so was the Baron. The decline of the Empire started in 1870, when the Baron also started to fall, with the closing of the Ponta D'areia Shipyard, and Foundry and the closing of the Mauá Bank. The Empire ended in 1889 with the proclamation of the Brazilian Republic.

Until 1884, of a total debt of 98,000 Contos de Réis, 94.7 % were paid. Irineu Evangelista de Sousa, the Baron of Mauá, died at the age of 75, on October 21, 1889, 25 days before the proclamation of the Republic, almost as rich as the Brazilian Empire.

The Party at the Fiscal Island – a breeze caused by another butterfly

The famous party at the Fiscal Island in Rio de Janeiro took place on November 9, 1889. No one knows for sure if the goal was to welcome the officers from the Chilean ship *Almirante Cochrane* (as it is shown in Figure 1); to celebrate the Princess Elizabeth and the Count D'Eu's silver anniversary, or to show that the Empire was strengthened so as to respond to the "republican conspiracies". The financial resources, 250 Contos de Réis (equivalent to 10 % of budget resources provided for the Rio de Janeiro State that year) for the party came from the Ministry of Roads and Public Works. These resources were supposed to be sent to the victims of the drought in the state of Ceará.

It is estimated that around 4 to 5 thousand people were present at the party. A luxury of that size was never seen in Brazil before; the entire island was adorned with Venetian balloons, Chinese lanterns and French pots with Brazilian flowers. Everywhere laughter, music and clinking of glasses were heard. Aboard the Chilean ship, a band played mazurkas, polkas and waltzes. A fact not confirmed until today occurred on the arrival of the Imperial Family: it is said that Pedro II, the Emperor, entering the ballroom, lost his balance, but did not fall for he was supported by two journalists. When recomposed, the Emperor said: "The monarch slipped, but the monarchy did not fall!"

Six days later, on November 15, 1889, the Brazilian Republic was proclaimed.

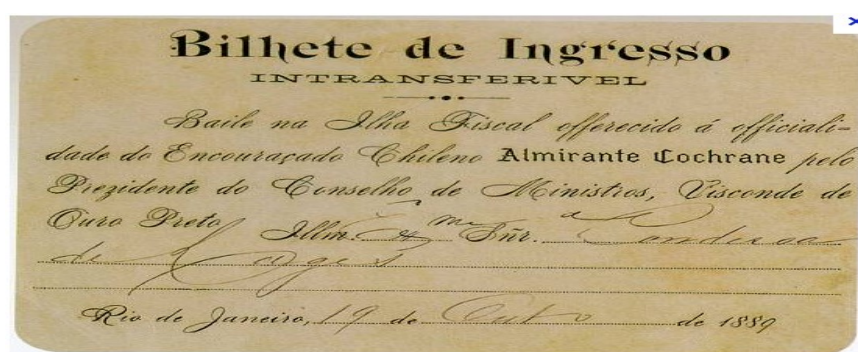


Figure 1 - Ticket to the last party of the monarchy at the Fiscal Island.
 Source: <http://www.slideshare.net/LCDias/ultimo-baile-da-realeza-brasileira>.

Winds that plagued the country

In 1977, gentle breezes brought the Brazilians "The Case Lutfalla"³ about complaints against the governor of São Paulo State, Paulo Maluf and the former minister Reis Veloso, for irregularities in lending to the Lutfalla group.

³ Scandal involving Brazilian politicians

Winds from Goiás State whispered the name of the former Minister of Justice, Ibrahim Abi Ackel, who, in March 1983, was linked to the North American Mark Lewis, arrested at U.S. Customs when trying to enter the country with precious stones worth U.S. \$ 10 million. Mark Lewis had connections with the businessman Antônio Carlos Calvares, the owner of the Embraime Company and a friend of Ibrahim Abi Ackel. The former minister was acquitted.

Breezes that blew during the late 80s and early 90s probably coming from fairy tales, brought the so-called "Dwarves of the Budget" (allusion to the stature of those involved) arguing that a group of Brazilian congressmen was involved in frauds with resources from the Union budget. The group was investigated in 1993 by an Inquiry by a Parliamentary Commission-IPC.

Other winds, breezes and gales, perhaps caused by the same butterfly that had always flown over the Baron of Mauá, brought "The scandal of the SIVAM (System of Vigilance of the Amazon)", "Mensalão"³, "Mensalinho"³, "Mensalão Mineiro"³, "Scandal of the Leeches"³, "Inquiry by the Parliamentary Commission for the NGOs"³, "Scandal of the Post Office"³, "Máfia of the Driver's Licences"³, "Misuse of funds from the National Bank for Social and Economic Development"³ and finally, as memories allegedly short in Brazil, or people are too lazy to remember, Brazilians have already forgotten all the other scandals, but their reflexes are still very much alive .

Winds that no one knows where they came from have caused damage in Brazilian institutions, discrediting policies and politicians and hence, their representativeness, reliability and ability to interfere in matters that protect the interests of the country and the people. These breezes, winds and wind gusts, coming from different directions and with different intensities altogether have caused the effect of a typhoon and most likely have the same origin, which certainly dates from before the time of the Baron of Mauá.

With so many winds, butterflies, Barons and dwarves, could we say that the waters of the *bicheiro* Cachoeira, which flooded the country, are the very same in which the Baron of Mauá bathed? Why did the Baron of Mauá, Cachoeira, the dwarves and others assume certain behaviors in relation to the rulers and the people? What is the consequence of these episodes in the lives of Brazilians? Does our irreverence have to do with these facts? Would a foreign investor invest his money in Brazil? Why?

After a storm comes the calm, but the sea is no longer the same. When the calm comes and there are no more butterflies, will the country be a better place to live in?

Appendix I - The Baron of Mauá



Figure 2: Irineu Evangelista de Sousa, Baron of Mauá

Source: <http://acordamage.blogspot.com.br>

Bankruptcy of the Baron of Mauá

For having a liberal and abolitionist character, Mauá became the target of the intrigues between conservative politicians and businessmen of his time. He even suffered from sabotage in his business, in Ponta D'areia Shipyard and Foundry, in Rio de Janeiro. The government - under pressure from influential people, who wanted to harm the Baron, reduced the rate of import for machinery and tools, leading the Baron's companies to bankruptcy. When the Mauá Bank closed its doors, the Baron was forced to sell what was left to honor the payment of his debts.

Some Works of the Baron of Mauá that benefited the History of Brazil

- Founded in 1851, the Rio de Janeiro Gaslight Company, the first lighting public system of the city.
- Built in 1854, the first railway in Brazil, in Rio de Janeiro.
- He also contributed to the construction of the first tiled highway of the country.
- Organized, in 1874, the Water Supply Company of Rio de Janeiro.
- In 1874, installed the first undersea telegraph cable, linking Brazil to Europe.

Figure 3 shows the wheelbarrow used by the Emperor in the commencement ceremony for the construction of the Mauá railroad, officially called Imperial Steam Navigation Company and Petropolis Railroad, first railroad in Brazil. Figure 4 shows the opening of the railway on April 30, 1854, the first linking the Port of Mauá to Raiz da Serra, a stretch of 14.5 km. It was later extended to reach 15.19 km, also built by the Baron of Mauá (<http://acordamage.blogspot.com.br>).



The rosewood wheelbarrow and the silver shovel that turned the Brazilian Emperor into a sweaty workman

Figure 3 - The Wheelbarrow of the Emperor

Source: <http://acordamage.blogspot.com.br>



Figure 4 - Railroad Opening.

Source: <http://acordamage.blogspot.com.br>

Appendix 2 - The *bicheiro* Cachoeira and other Brazilian Winds

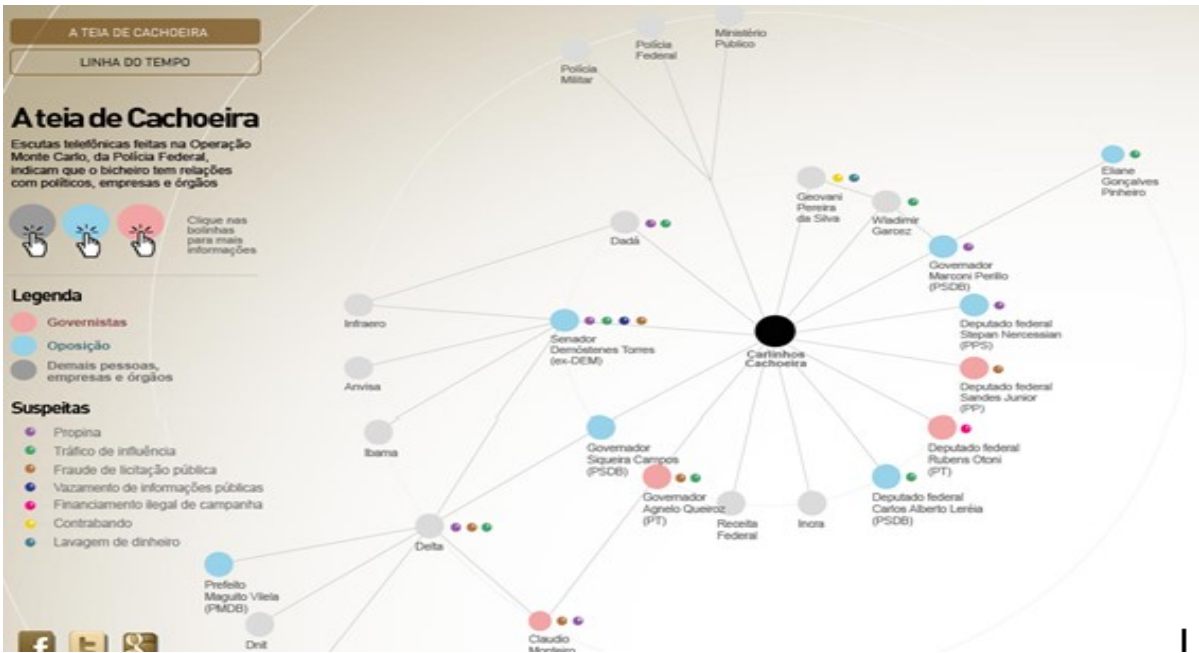


Figure 5- Cachoeira’s Social Net.
Source: <http://g1.globo.com/platb/cpi-do-cachoeira/>, accessed on: 05,26,2012.

Table 1 shows (use Ctrl+click to follow the link) some of the scandals that happened recently in Brazil. To know about others scandals, access the Room of Scandals at the Museum of Corruption (MUCO), using the following link:
http://www.muco.com.br/index.php?option=com_content&view=category&id=34&layout=blog&Itemid=53

Table 1 - Some Brazilian Winds.

Caso do aumento de patrimônio de Antônio Palocci	Escândalo dos atos secretos do Senado	Caso Edmundo Pinto	Caso Jorge Wolney Atalla
Escândalo no Ministério da Cultura (Ecad/Ana de Hollanda)	Caso do vazamento de dados sigilosos da Receita Federal	Escândalo da Mandioca	Escândalo de Tucuruí
Mensalão do DEM	Caso do dossiê contra Serra na campanha 2010	Escândalo ACM, TV Globo e NEC	Caso do contrabando de pedras preciosas
Escândalo da Fundação José Sarney	Escândalo do Banco Econômico	Caso Romeu Tuma Jr.	Caso Eliseu Resende
Escândalo dos atos secretos do Senado	Caso Edmundo Pinto	Caso Jorge Wolney Atalla	Caso Baumgarten
Caso do vazamento de dados sigilosos da Receita Federal	Escândalo da Mandioca	Escândalo de Tucuruí	Grupo Delfin e as fraudes nos anos 80
Caso do dossiê contra Serra na campanha 2010	Escândalo ACM, TV Globo e NEC	Caso do contrabando de pedras preciosas	Caso Inocêncio de Oliveira

Source:http://www.muco.com.br/index.php?option=com_content&view=category&layout=blog&id=34&Itemid