

**CONSTITUTIONAL CHANGE IN BRAZIL:
POLITICAL AND FINANCIAL
DECENTRALISATION, 1981-1991**

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Abstract

The aim of the present study is to investigate how and why a country facing issues that needed to be tackled nationwide chose to decentralise political power and financial resources when it moved from military rule to redemocratisation. Furthermore, the study examines whether the decision to decentralise taken in Brazil in the period 1981-1991 has changed the allocation of public expenditure at sub-national level, especially to education. By analysing the decision to decentralise and its results at the sub-national level, the study embodies both an upstream and a downstream approach.

The upstream approach encompasses the topics related to decentralisation in the Brazilian Constituent National Assembly that sat from 1987 to 1988. Research sources are based on the archives of the Constituent National Assembly and on interviews with key political leaders in Congress and practitioners. The decision to decentralise is analysed in three dimensions: the relationship between political parties and the State; intra- and inter-party competition; and regional cleavages.

The downstream approach comprises three case studies: the state of Bahia, its capital, Salvador, and its most industrialised municipality, Camaçari. The political analysis is based on (a) interviews with politicians in executive and in legislative positions, and officials and (b) newspaper material as a complementary source. The financial performance is based on the analysis of expenditure extracted from balance sheets.

This study fills four gaps in political-science and public-administration works on contemporary Brazil. First, it deepens the understanding of how and why Brazil became such a decentralised nation. Second, it links the analysis of political and financial resources. Third, it highlights differences between levels of government in their experiences with decentralisation. Fourth, it investigates the impact of decentralisation on political arrangements and on education expenditure.

The results suggest that in Brazil there was a lack of social consensus on what was to be achieved by decentralisation. They suggest that decentralisation fosters democracy but its impacts on policy results have so far been limited. The evidence further implies that decentralisation and democratisation bring about a fragmentation of power without necessarily disintegrating previous political coalitions or changing the way public resources are spent. These findings indicate that various political and economic factors influence the outcomes of decentralisation, thus exposing the limits of decentralisation on policy results.

Acknowledgements

This study's topic began to grow in my mind when I realised that there was a connection between my personal and family trajectory and the events that led Brazil towards its path of democratisation. My grand-father was a middle-size *coronel* in Bahia's West and my father was a state-level politician who lived through the anguish of wanting to break his ties with Bahia's agrarian and 'parochial' past and the difficulties of building a more democratic polity and society. I have always been tempted to understand in a more scientific way how and why this change occurred.

Although the development of a thesis is a personal and lonely enterprise, it would not have been possible without the direct and indirect collaboration of the researcher's family, friends, as well as other academics and institutions. I am indebted to many helpers during the three years and eight months that I spent researching and writing this work. My first thought goes to Aninha, Ana Lidia, Julia, Nanci, Iara and Tais for their loving encouragement over this too long journey.

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I dedicate this work to my late father Juarez and to my mother Maria. My father taught me to love the country, the state and the city where I live. My mother taught me that they were not the centre of the world.

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Acronyms

ACM	Antônio Carlos Magalhães
AL	Alagoas state
ARENA	National Renovating Alliance/Aliança Renovadora Nacional
BA	Bahia state
BANEB	Bahia's State Bank/Banco do Estado da Bahia S.A.
BANESPA	São Paulo's State Bank/Banco do Estado de São Paulo S.A.
BANFEB	Bahia Development Bank/Banco de Fomento do Estado da Bahia
BNDES	National Bank for Economic and Social Development/Banco Nacional de Desenvolvimento Econômico e Social
CEEG	Centre for the Studies of Economy and Government/Centro de Estudos de Economia e Governo
CEI	Centre for Statistics and Information/Centro de Estatística e Informações
CIA	Aratu Industrial Estate/Centro Industrial de Aratu
CNA	Constituent National Assembly/Assembléia Nacional Constituinte
CONFAZ	Council for Fiscal Policy/Conselho de Política Fazendária
COPEC	Camaçari Petrochemical Park/Pólo Petroquímico de Camaçari
CPI	Parliamentary Inquiry Commission/Comissão Parlamentar de Inquérito
CPE	Centre for Projects and Studies/Fundação Centro de Projetos e Estudos
CSSL	Employers Social Contribution for the Social Security over their Net Profit/Contribuição Social dos Empregadores para a Seguridade Social Incidente Sobre o Lucro Líquido
CONFINS	Contribution for the Financing of the Social Security System/ Contribuição Social para o Financiamento da Seguridade Social
CUT	Central Union Organisation/Central Única dos Trabalhadores
DESENBANCO	Bahia Development Bank/Banco de Desenvolvimento do Estado da Bahia
DF	Federal District/Distrito Federal
ELETRORAS	Brazilian Hydro-electricity Company/Centraís Elétricas do Brasil S.A
FAS	Social Action Fund/Fundo de Ação Social
FGTS	Fund for the Guarantee of the Length of Service/Fundo de Garantia por Tempo de Serviço
FGV	Getúlio Vargas Foundation/Fundação Getúlio Vargas
FIESP	Federation of Industries of São Paulo/Federação das Indústrias do Estado de São Paulo
FINSOCIAL	Social Investment Fund/Fundo de Investimento Social
FNDE	National Fund for Education/Fundo Nacional de Educação
FPE	States' Participation Fund/Fundo de Participação dos Estados
FPM	Municipalities' Participation Fund/Fundo de Participação dos Municípios
FSE	Emergency Social Fund/Fundo Social de Emergência
FUNDAGRO	Agricultural Development Fund/Fundo de Desenvolvimento Agrícola
GDP	Gross Domestic Product/Produto Interno Bruto
GFCF	Gross Fixed Capital Formation/Formação Bruta de Capital Fixo
GO	Goiás state
HDI	Human Development Index/Índice de Desenvolvimento Humano
IBAM	Brazilian Institute of Municipal Administration/Instituto Brasileiro de Administração Municipal
IBGE	Brazilian Institute of Geography and Statistics/Fundação Instituto Brasileiro de Geografia e Estatística
ICM	Value-Added Tax/Imposto Sobre Circulação de Mercadorias
ICMS	Value-Added, Communication and Transportation Tax/Imposto Sobre Circulação de Mercadorias e Prestação de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação
IDB	Inter-American Development Bank/Banco Interamericano de Desenvolvimento
IDESP	Institute of Economic, Social and Political Studies of São Paulo/Instituto de Estudos

	Econômicos, Sociais e Políticos de São Paulo
IE	Export Tax/Imposto sobre Exportação para o Exterior de Produtos Nacionais ou Nacionalizados
IGR	Intergovernmental Relations/Relações Intergovernamentais
II	Import Tax/Imposto Sobre Importação de Produtos Estrangeiros
IMF	International Monetary Fund/Fundo Monetário Internacional
IOF	Tax on Financial Operations and Insurance/ Imposto Sobre Operações de Crédito, Câmbio e Seguro, ou Relativas a Títulos e Valores Mobiliários
IPEA	Empirical Economic Research Institute/Instituto de Pesquisa Econômica Aplicada
IPI	Tax on Industrial Products/Imposto sobre Produtos Industrializados
IPMF	Tax on Financial Transactions/Imposto sobre Movimentação Financeira
IPTU	Urban Property Tax/Imposto sobre Propriedade Predial e Territorial Urbana
IPVA	Motor Vehicle Registration Tax/Imposto sobre a Propriedade de Veículos Automotores
IR	Income Tax/Imposto Sobre a Renda e Proventos de Qualquer Natureza
ISC	Tax on Communication Services/Imposto Sobre Serviços de Comunicações
ISI	Import-Substitution Industrialisation/Substituição de Importações
ISS	Services Tax/Imposto Sobre Serviços
IT	Transportation Tax/Imposto Sobre Transportes
ITBI	Property Transfers, Inheritance and Gift Tax/Imposto Sobre Transmissão de Bens Imóveis
ITCMD	Inheritance Tax/Imposto Sobre Transmissão <i>Causa Mortis</i>
ITIVB	Property Transfers Tax/Imposto Sobre Transmissão <i>Inter Vivos</i> de Bens Imóveis
ITR	Rural Property Tax/Imposto Sobre a Propriedade Territorial Rural
IUEE	Hydro-electricity Tax/Imposto Único Sobre Energia Elétrica
IULC	Fuel and Lubricant Tax/Imposto Único Sobre Lubrificantes e Combustíveis
IUM	Mineral Products Tax/Imposto Único Sobre Minerais
IVVC	Tax on Retail Sales of Fuels Except Diesel/Imposto Sobre Vendas a Varejo de Combustíveis e Lubrificantes Exceto Diesel
MDB	Brazilian Democratic Movement/Movimento Democrático Brasileiro
MG	Minas Gerais state
MS	Mato Grosso do Sul state
NEPP	Group for the Study of Public Policies/Núcleo de Estudos de Políticas Públicas
NGO	Non-Governmental Organisation/Organização Não-Governamental
OECD	Organisation for Economic Cooperation and Development
PA	Pará state
PASEP	Assistance Plan for Public Servants/Plano de Assistência do Servidor Público
PCB	Brazilian Communist Party/Partido Comunista Brasileiro
PCdoB	Communist Party of Brazil/Partido Comunista do Brasil
PDC	Christian Democratic Party/Partido Democrata Cristão
PDS	Democratic Social Party/Partido Democrático Social
PDT	Democratic Labour Party/Partido Democrático Trabalhista
PE	Pernambuco state
PETROBRAS	Brazilian Petroleum/Petróleo Brasileiro S.A.
PFL	Party of the Liberal Front/Partido da Frente Liberal
PI	Piauí state
PIN-PROTERRA	Plan for National Integration/Plano de Integração Nacional
PIS	Social Integration Programme/Programa de Integração Social
PJ	Party of Youth/Partido da Juventude
PL	Liberal Party/Partido Liberal
PMB	Brazilian Municipalist Party/Partido Municipalista Brasileiro
PMDB	Party of the Brazilian Democratic Movement/Partido do Movimento Democrático Brasileiro
PMN	National Mobilisation Party/Partido da Mobilização Nacional
PP	Popular Party/Partido Popular
PPR	Renovating Progressive Party/Partido Progressista Renovador
PPS	Socialist Popular Party/Partido Socialista Popular
PR	Paraná state

PRODASEN	Senate's Database/Processamento de Dados do Senado
PRN	Party of National Reconstruction/Partido da Reconstrução Nacional
PRS	Social Renovating Party/Partido Renovador Social
PSB	Brazilian Socialist Party/Partido Socialista Brasileiro
PSC	Social Christian Party/Partido Social Cristão
PSD	Social Democratic Party/Partido Social Democrático
PSDB	Party of Brazilian Social Democracy/Partido da Social Democracia Brasileira
PST	Social Labour Party/Partido Social Trabalhista
PT	Workers' Party/Partido dos Trabalhadores
PTB	Brazilian Labour Party/Partido Trabalhista Brasileiro
PTR	Renovating Labour Party/Partido Trabalhista Renovador
RENURB	Salvador Urban Renovation/Renovação Urbana de Salvador S.A.
RJ	Rio de Janeiro state
RS	Rio Grande do Sul state
SC	Santa Catarina state
SEC	Secretariat of Education and Culture/Secretaria de Educação e Cultura do Estado da Bahia
SP	São Paulo state
SRM	Salvador Metropolitan Region/Região Metropolitana de Salvador
SUDENE	North-East Development Agency/Superintendência de Desenvolvimento do Nordeste
SUS	Unified Health System/Sistema Único de Saúde
TELEBRAS	Brazilian Telecommunications Company/Telecomunicações do Brasil S.A.
UNAFISCO	National Union of Tax Collectors/União Nacional dos Fiscais
UNFPA	United Nations Population Fund/Fundo das Nações Unidas para População
UNICAMP	Campinas State University/Universidade Estadual de Campinas
UDN	National Democratic Union/União Democrática Nacional

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Chapter 1 Introduction

After the political opening and the promulgation of the 1988 Constitution Brazil became one of the most decentralised nations in the world in terms of the distribution of fiscal resources and political power. After two decades of military rule the political opening brought to the fore deep concerns regarding democratic values in which political, financial and administrative decentralisation played an important role. There were also concerns with the improvement of welfare policies and of social democracy. These concerns emerged in Brazil and in Latin America when the so-called Western democracies were showing their disillusionment in the possibilities of their political systems finding solutions to increasing political, social and economic predicaments (Langton, 1978; Dunleavy, 1980a). Conversely in the 1980s Latin American countries in general, and Brazil in particular emphasised the importance of formal political institutions and the relevance of social democracy, as ways of legitimising and stabilising their struggle to rebuild their democratic institutions. All these concerns were expressed in the 1988 Constitution, in which political and financial decentralisation to sub-national governments and their politicians were achieved, as were several measures improving social rights. The 1988 Constitution was commended to the people as restoring the federation and political democracy, by decentralising political and financial resources, and as improving social democracy. However, various constraints made it difficult to achieve the constitutional mandates and to trigger solutions to the above-mentioned concerns. The outcomes of decentralisation are clear at the federal level, which is experiencing financial constraints and facing difficulties in building governing coalitions. At the sub-national level, however, the results are still not clear, especially when each particular state and municipality is analysed.

This study examines the background to the adoption of the present political and financial arrangements in Brazil, how these arrangements operated in practice and their consequences to welfare policies, taking education as an example. These themes have more than an intrinsic interest since they deal directly with the introduction of new conflicts not only in intergovernmental relations and in the federation, but also in the distribution of power and goods to different groups in society. Decentralisation and intergovernmental relations on the one hand, and democratisation, which produced the driving force for decentralisation, on the

other, are the topics addressed in this study. Because the two former topics are influenced by the type of territorial political arrangement adopted in each country a discussion on the theoretical formulations of federalism has been introduced in this chapter.

1.1 State of the Field

1.1.1 Democratisation

Brazil's redemocratisation has received much scholarly attention in political science literature¹. A great deal is known about the first stages of the political opening, theoretically, comparatively and empirically, as well as about the reasons for the demise of the military regime. We need not spend much time discussing government performance during the military or during the first civilian administrations since they have been analysed in the context of the political opening and in subsequent works on Brazilian politics². Some of these works provide a set of propositions for the study of the transformation or the demise of authoritarian regimes; others are detailed analyses of specific countries or analyses of the Brazilian case within the newly restored democracies of Latin America or Southern Europe. These studies have stressed two aspects of the Brazilian transition: a process with no rupture from the previous regime and a transition which took an exceptionally long time. The importance of these studies lies not only in the discussion of that period but also in the furtherance of our understanding of the polity of Brazil and Latin America. However, although they looked at the political opening after the event, they did not mention the main issues, problems and trade-offs caused by redemocratisation. An exception to this omission was McDonough's (1981) study of Brazilian élites, showing that they are neither unideological nor unidimensional ideologues. Their belief systems are complex but patterned, that is, multidimensional, and subject to deep cleavages. McDonough showed that because the politics of the Brazilian élites has no recognizable centre or dominant legitimising strain, the movement away from

¹ Most of the works on Brazil's return to democracy refer to it as a democratisation process based on the argument that before 1989, elections under democratic rule, although contested, did not have the level of participation necessary for democracy to exist (Bethell, 1994: 3). In this study the word redemocratisation has been chosen because, despite the recognition of the pertinence of the above-mentioned argument, the struggle of Brazilian society against military rule was focused on the return to democracy as it had been between 1946 and 1964.

² Among the most important works published in English and in Portuguese about the political opening in the 1970s and 1980s are those by Baloyra (1987); Diamond, Linz and Lipset (1989); Dimenstein et al. (1985); Ethier (1990); Góes and Camargo (1984); Koutzii (1986); Martins (1986); Munck (1989); O'Donnell, Schmitter, and Whitehead (1986); Selcher (1986); Skidmore (1989); Smith (1987); and Stepan (1989).

authoritarianism was liable to be confusing and highly experimental. This assertion, which the study refers to as the 'lack of a national project', in the analysis of the constitution-making process, and to the 'lack of a social consensus', when discussing the decision to decentralise, was valid not only for the transition but also for the events which followed it. Another reason not to spend much time on the above-mentioned period lies in the definition of transition. As Pickvance (1993: 1) put it, a transition can continue for only a determinate period, until an endstate is reached, after which the transition is finished³. The issues analysed in this study are not treated as issues of the transition but rather as issues of democratic consolidation⁴.

In the late 1980s the literature on Brazil's political system began to focus on the new issues caused by redemocratisation and on the prospects for democratic consolidation. These studies have concentrated either on macro political and economic issues or on actors and institutions emerging or gaining more visibility after the end of the transition. These studies shed light on the political and economic problems of redemocratisation in Brazil and in Latin America, especially on the following issues. First, the threats surrounding redemocratisation and the trade-offs in the construction of democratic institutions in Latin America (Mainwaring, O'Donnell and Valenzuela, 1992). Second, the problems redemocratisation brought for Brazil's governability (Kinzo, 1993; Lamounier, 1990). Third, the role played by inflation in constraining democracy (Whitehead, 1989). Fourth, the difficulties in designing a new economic model (Philip, 1990 and 1993; Whitehead, 1992).

The issues of the democratic consolidation have also been addressed in Santos's (1993) study on the problems of a new political agenda caused by redemocratisation: broader participation; more institutionalisation of political competition; the overcoming of the obstacles to collective action; institutional integration; and autonomous planning in a global world. A similar agenda was earlier developed by Reis (1988), in which cleavages between democratic institutions and forms of clientelism, *coronelismo* (politics based on the local political boss) and populism were stressed. O'Donnell (1988) emphasised the high degree of continuity for both actors and practices from the previous regime: the military, the bureaucrats

³ On the other hand, Pickvance (1993) called attention to the dangers of such a rigid definition.

⁴ Some authors have labelled this stage of Latin American redemocratisation as the second transition. According to this view a second transition begins with the inauguration of a democratic government and ends - if all goes well - with the establishment of a consolidated democratic regime. In the second transition the democratic empowerment of those who are elected as well as the democratic accountability of political actors are still incomplete (O'Donnell, 1992).

and clientelism. He called our attention to the fact that those actors and practices were incompatible with democracy, citizenry and accountability. Through research carried out under the supervision of Jaguaribe (1985) came the awareness that Brazil's huge social inequalities called for the need to implement social democracy together with political democracy. We also know a little more about the strengthening of democratic institutions through Keck's (1992) research on the Workers' Party; about the paths of the right after the transition (Campello de Souza, 1992); about the problems faced by the Judiciary in the democratic consolidation (Sadek, 1995); and about the ongoing lack of unification among the Brazilian élites (Bruneau, 1992) ⁵.

We also know much about how some traditional political practices may jeopardise the consolidation of democratic institutions. Because this study suggests that State clientelism is one element which cements the political system at the three levels of government and delays the effects of political change on public policies, especially on education expenditure, a brief comment on the state of knowledge regarding clientelism is needed. The use of patronage by the governments to build governing coalitions is not new in Brazil. The country has provided a rich literature on the subject ⁶. Studies on patronage were conducted within a framework of the relationship between State and society. The majority of these studies have treated patronage as part of studies on intergovernmental relations in Brazil. There is enough evidence to show the existence of patronage in Latin America and in other poor regions of the world, and to show that clientelism plays a role in intensifying social inequality. The issue addressed in this research is, therefore, not its reality but its implications in a given political environment, namely, a democratic and fragmented regime, and for a given policy, such as

⁵ An important contribution is Lehmann's (1990) discussion about Latin America's popular organisations *vis-à-vis* political clientelism after redemocratisation. Another line of research, particularly dear to North-American scholars, deals with the influence of religion in politics. See Bruneau (1982), Della Cava (1976), Ireland (1991), Mainwaring (1986;1987) and Mainwaring and Wilde (1989).

⁶ The main studies about the influence of patronage in the country's political system are by Cintra (1979), Duarte (1939), Nunes Leal (1977), Oliveira Vianna (1949), Pang (1979) and Queiróz (1976). Another line of research focused on the influence of patronage on the civil service (Daland, 1963; Geddes, 1990). Schmitter (1971) provided a seminal analysis of the ambiguities brought about by the combination of corporatist privileges, which emerged with industrialisation, with the maintenance of clientelistic interests. Schwartzman (1988) showed the influence of clientelism on the way the State operates. Campello de Souza (1976) assessed the use of clientelism by the political parties to counterbalance a centralised State structure. Greenfield (1972), Henfrey (1981) and Shirley (1972) focused on patron-client relationship in three Brazilian states, Minas Gerais, Bahia and São Paulo, and Hutchinson (1966) on the importance of cultural and spiritual factors as a major explanation for clientelism.

education.

1.1.2 Decentralisation and Intergovernmental Relations

Although there is a vast literature on redemocratisation, the same cannot be said of decentralisation, which is an old, but less studied, issue in Brazil. Because the country has historically experienced more centralisation than decentralisation, and because experiences of decentralisation have generally been limited to the granting of financial resources to local governments, works on the effects of decentralisation on broader patterns of political and financial performances have not yet become a line of academic research⁷. The reason for the lack of scholarly attention is that political and financial decentralisation were the result of the 1988 Constitution and, therefore, of redemocratisation. Because of its relative novelty, and the country's centralised tradition, lines of academic research have still to be built up⁸.

On the other hand, decentralisation, or rather centralisation, and federalism have been partially addressed in works on intergovernmental relations under the theoretical formulations of political science, political sociology and public administration. Studies of intergovernmental relations in Brazil have traditionally not been limited to the analysis of the relationships between governmental units in the federal system, but have tended to incorporate two other approaches: (i) the relationship between the State and society, a division common in discussions of authoritarianism; and (ii) how the distribution of territorial power influences political arrangements and pacts. Most of these studies, however, were conducted before the advent of the redemocratisation and decentralisation. The effects of the political and financial decentralisation promoted by the 1988 Constitution on federalism and on intergovernmental relations have not received scholarly attention.

Works focused on the political arrangements before 1964 tended towards a dichotomic view of the relationship between levels of government and between State and society without capturing their interdependence⁹. Some of those studies viewed territorial

⁷ Morris and Lowder's (1992) book about decentralisation in Latin America focuses on its economic and demographic aspects. In only one chapter, about Mexico, the political-institutional dimension of decentralisation is discussed.

⁸ An exception is the work developed by a group at the University of Campinas which has been exploring the influence of decentralisation on policy results (Castro, 1992). However, Campinas's research analyses policy results in the state of São Paulo and is focused on the health care programme.

⁹ For a detailed discussion of those studies, see Medeiros (1986).

cleavages in Brazil as following a pattern in which the State dominated society, and the federal government the sub-national units, as in Faoro's (1958) classical work. Another approach saw society as dominated by private interests and the State as the result of compromises between local and regional interests, as in the works of Duarte (1939), Freyre (1964), Oliveira Vianna (1949) and Queiróz (1976). A variant of the latter school of thought is represented by Nunes Leal's (1977) influential work focusing on the municipality to explain the power of local patrons, the *coronéis*. Nunes Leal showed the contradictions behind the adoption of modern forms of political representation such as universal suffrage, in a milieu of poverty, centralisation of power and resources at the state and federal levels and of decadent, private local power. *Coronelismo* was, in Nunes Leal's interpretation, a political system based on a compromise between a declining private power and a strong public power. Because the municipalities were financially weak, the *coronéis* were able to survive with the complacent backing of the state government. Nunes Leal's great merit was to emphasise the differences between the municipality as an institution and the *coronéis* as their patrons. Until then they had been treated as the same phenomenon. Despite Nunes Leal's contribution to the understanding of local politics and interests, his study was also guided by the dichotomic approach between local politics on the one hand and state and federal politics on the other ¹⁰.

During the 1970s some works attempted to overcome the dichotomic approach, mainly those by Balán (1974), Cardoso (1975) and Uricoechea (1980). However, they still stressed the predominance of the State *versus* society, and of the centre *versus* the periphery. In the 1980s four major works by Ames (1987), Bursztyn (1985), Medeiros (1986) and Schwartzman (1988) incorporated the interdependence of local, regional and national politics into their views of the relationships between State and society and between levels of government in their political arrangements within the federation. However, because these researches were developed before the constitutional espousal of decentralisation, they no longer capture the current trends in Brazilian politics.

In the early 1990s, when the effects of decentralisation became more visible, some studies began to mention the issue. Lamounier (1993: 119) called attention to the dangers to governability encouraged by the current 'federative structure'. Chalmers, Campello de Souza and Boron (1992: 8) mentioned the importance of a knowledge of the links between local and

¹⁰ For a criticism of both school of thoughts, see Cammack (1981) and Uricoechea (1980).

central authorities for a better understanding of the role of the right in influencing politics and in dealing with the State. Medeiros (1991) acknowledged the reality of decentralisation and focused on its importance for institution building. Although calling our attention to the issue, these studies deal with it in excessively broad terms.

There have been considerable efforts from international financial organisations to analyse the financial aspects of Brazil's decentralisation. There have been works by economists discussing the political economy of inflation and the constraints blocking economic growth, in which the role of sub-national governments is briefly assessed (Bresser Pereira, 1993a; Franco, 1993; Haddad, 1995). However, studies based on an understanding of the reasons which caused Brazil to become such a decentralised nation and the effects of decentralisation on the political and financial systems and on policy results at the sub-national level are still absent. Despite the absence of academic research on the influence of decentralisation in shaping Brazil's current political system, the issue of decentralisation and of intergovernmental relations has been in the media and on the political agenda since the beginning of the 1990s. As a result of the political salience of the topic, the federal government has been calling for a 'new federal pact', meaning more involvement of the sub-national spheres in service delivery. The absence of academic research on decentralisation and on intergovernmental relations after redemocratisation does not mean, however, that the initial results of a decade of decentralisation cannot be analysed.

1.1.3 Federalism

The Brazilian experience of federalism has been studied from several disciplinary angles: law; fiscal federalism as an aspect of macro-economics and of public administration; history; and political science and political sociology. Legal studies have been of little use in understanding Brazilian federalism because they are not based on political and social frameworks but are restricted to its legalistic aspects, as shown by the works of Meirelles (1985) and Pontes de Miranda (1970)¹¹.

The financial aspects of federalism and its implications for public administration have received great scholarly attention. Historical overviews of Brazilian fiscal federalism and its consequences for public administration have been made by IBAM (1975), Mahar (1976) and

¹¹ A more sociological approach was made by Comparato (1985), but he focused on the relationship between the three branches of the State and not on how federal principles influence political arrangements.

Sherwood (1967). The 1970s and early 1980s saw an extensive discussion of the consequences for fiscal federalism, intergovernmental relations and public administration of financial centralisation under the military. Two Brazilian institutions, IBAM and IPEA, the latter a federal government think-tank and the former a private organisation for local government studies, were the most active¹². The journal *Revista de Finanças Públicas* was the main forum for these studies and debates.

The impact of the 1988 reform introduced by the Constitution has received considerable attention from international financial organisations, especially the IMF and the World Bank. Under their umbrella empirical studies on federal finances were conducted by Bomfim and Shah (1991), Shah (1991) and Tanzi et al. (1992). The United Nations Economic Commission for Latin America and the Caribbean sponsored Afonso's (1994) study, which encompassed the finances of the three levels of government. Comparative works on intergovernmental fiscal relations in developing countries were also developed under the auspices of those institutions (Shah, 1994).

We owe to these studies, focused on fiscal federalism, access to up-dated information on the federal government's expenditure and revenue. They filled the gap in the lack of empirical studies since 1988, but because they focus on financial performance within the framework of the economic literature on fiscal federalism, they view Brazil's fiscal decentralisation as having a negative impact on economic growth and on the country's need for fiscal austerity, except in the case of Afonso (1994). On the other hand, the branch of these works focusing on the financial and administrative side of decentralisation, such as those under the auspices of IBAM, tend to neglect the political dimension of decentralisation. A new line of research is being conducted by IBAM, focusing on the limits of Brazilian financial decentralisation if financial disparities among municipalities are not addressed (Lordello de Mello, 1991; Bremaeker, 1994). Although important in calling our attention to Brazil's intra- and inter-regional financial disparities, which are not considered in the works sponsored by the international financial organisations, IBAM's studies focus exclusively on local finances and on the problems caused by fiscal arrangements to the local administrations, but they do not examine the political dimension.

¹² See, among others, Barbosa de Araújo, Horta and Considera (1973); Gonçalves (1978); IBAM (1974 and 1976); Longo (1981) and Rezende (1984).

Historians have provided the most fertile grounds for our knowledge of Brazilian federalism, especially in understanding the political pacts behind the adoption of new economic and social paradigms which were expressed in the country's territorial distribution of power and in its Constitutions. Their contributions are mentioned in detail in Chapter 2, but Camargo (1993), Carvalho (1993), Fausto (1986) and Love (1993) filled a great gap in our knowledge of the evolution of federalism throughout the country's history ¹³.

Political-science and political sociology works on the importance of decentralisation for the federal system are in their infancy and so far only brief articles (Selcher, 1989) and conference papers (Medeiros, 1991) have been produced. This study attempts to fill the gap in the academic literature by analysing the impact of decentralisation on Brazil's political, financial and federal systems following the 1988 Constitution.

1.2 The Study

The previous section showed what we already know about the topics developed in this study. It showed also what we still need to know. We do not yet know how decentralisation, which strengthened regional and local politicians, has shaped and influenced the consolidation of democracy, the political system and the political agenda. We do not know either how decentralisation has affected the federation, intergovernmental relations and its impact upon policy results.

Based on the puzzle of why a country facing many unresolved issues that needed to be tackled nationwide chose to decentralise financial and political resources, this study thus enquires into:

- (1) How and why the decision to decentralise political power and financial resources was taken; and**
- (2) Whether the present decentralisation under democratic rule changed the allocation of public expenditure at sub-national level, especially to education.**

Detailed research questions are as follows:

- (i) why did decentralisation occur to such an extent in Brazil?**

¹³ At the beginning of the book he edited about federalism in Argentina, Brazil and Mexico, Carmagnani (1993) emphasised the lack of knowledge about the different forms that federalism has assumed in Latin America after almost 200 years of existence. He suggested that the federal trends in those three countries expressed a tension between localism and the centralisation of power. A different view was earlier espoused by Elazar (1972: 79), who saw Latin American federalism as the 'primary modern manifestation of feudalistic federalism with *jefes* and *caudillos* replacing counts and dukes'.

- (ii) was decentralisation treated as a political or an economic issue (or both)?
- (iii) what is the role played by state and local politicians in democratic consolidation?
- (iv) how are fiscal austerity and decentralisation reconciled?
- (v) has decentralisation changed the ways in which regional and local political élites operate?

By analysing the decision to decentralise and its results at the sub-national level, the study embodies both an upstream and a downstream approach. The upstream approach analyses the decision-making process in decentralisation. The downstream approach investigates the results of decentralisation and redemocratisation at the sub-national level. The latter approach is based on the assumption that decentralisation and redemocratisation would change the allocation of revenues at the sub-national level, especially to education. The reason for choosing education is twofold. First, in both developed and developing countries there is a recognition of the major role education plays in the development process. In developing countries education is seen as a way to build citizenship, to promote social mobility, and as essential to the upgrading of the country's position in the international market. Second, in Brazil, access to good education is seen as an indicator of a democratic society; thus improvements on education and redemocratisation became an 'elective affinity'¹⁴.

This study discusses decentralisation and redemocratisation as issues affecting power relations and introducing new conflicts not only to intergovernmental relations and to the federation but also to the distribution of power and goods amongst different groups in society. The main issue addressed is whether decentralisation and redemocratisation have changed the way local and regional goods (political and material) and services are distributed amongst different groups and whether they have changed political practices. The study argues that decentralisation fosters democracy but its impacts on policy results have so far been limited. Furthermore, although decentralisation and redemocratisation may bring about a fragmentation of power, they may not disintegrate old political coalitions or change the allocation of public resources. Thus, this research suggests that at the national level decentralisation and redemocratisation have led the country towards what this study calls a 'paralysed competitive arena', in which decisions and players cancel each other out. Their

¹⁴ As defined by the Oxford Dictionary 'elective affinity' means 'a tendency to act on or be concerned with some things rather than others'.

effects on the federal system have brought about what this study refers to as a 'peripheralised federalism', in which sub-national issues prevail over national ones.

At the sub-national level this research argues that decentralisation and redemocratisation have caused diversity in the way the political system operated. At the state level the political system has developed mechanisms to counterbalance the country's fragmented polity. On the allocation of revenues this study argues that changes in the political regime and in the distribution of political and financial resources were not necessarily followed by more expenditure on education. At the local level the municipalities have little room for the improvement of social services, either because they are financially dependent on other institutions or because they shelter the very poor who have priorities other than education. State clientelism is one element cementing the political system at the three levels of government and delaying the effects of political change on public policies. The Constituent National Assembly, where the decision to decentralise was taken, reflected the lack of a social consensus on what was to be achieved by decentralisation.

The main argument developed throughout this study is, in a nutshell: since redemocratisation there has been an enduring tension between national and sub-national interests, with the latter prevailing without the relinquishing of the former. This tension has created a 'peripheralised federalism' and a 'paralysed competitive arena'. Nevertheless, national issues polarise the political agenda, and policy results at the sub-national level are generally ignored.

This research provides a step forward in filling four gaps in political-science and public-administration works on contemporary Brazil. First, it deepens the understanding as to how and why Brazil became such a decentralised nation. Second, it links the analysis of political and financial resources. Third, it highlights differences between levels of government in their experiences with decentralisation. Fourth, through three case studies the research investigates the impact of political and financial decentralisation on political arrangements and on education expenditure.

The method developed throughout the study is empirical, drawing lessons from a unique experiment in simultaneously reconciling redemocratisation and decentralisation within a new federalist experiment. The study relies on the foundations of three theoretical frameworks to explain the data and the findings beyond the events from which they were derived. Therefore, a theoretical review of intergovernmental relations, decentralisation and

federalism is presented in the following section.

1.3 State of the Art

Federal political systems are based on political and social theories of federalism. The existence of a federal system implies some degree of co-operation between the federal government and the governments of the member units or the component units of the federation. This is why intergovernmental relations and the degree of decentralisation between governmental units are of crucial importance for a better understanding of how a federal system works in practice. Hence political-science and public-administration literatures has become interested not only in theories of federalism and their application to constitutions and legislation, but also with how federal systems actually operate. Of particular importance is how central and sub-national levels of governance relate to each other, how power, financial resources and responsibilities are shared, how conflict and disputes are resolved, and to what extent central and sub-national governments operate in the national interest in the tackling of problems.

Discussions on federalism, decentralisation and intergovernmental relations within a federation are often troubled by problems of definition. These difficulties will be discussed below. The concept of federalism is distinguished from the concepts of intergovernmental relations and of decentralisation because: (i) it encompasses more than the relationship between governmental units in a federal system by involving principles about those relationships as well as the distribution of power; and (ii) although federalism is usually accompanied by decentralisation, that is, substantial autonomy for members of the federation, it is neither a necessary nor a sufficient condition for decentralisation ¹⁵. Furthermore, federalism is concerned with broader questions not usually dealt with by frameworks of intergovernmental relations and decentralisation, especially in the case of how federal principles influence political and financial arrangements. The clarification of the distinctions between those three concepts allows this study to build up its support on a three-tier structure based on the theoretical foundations of those three topics.

1.3.1 Intergovernmental Relations (IGR)

¹⁵ This view is advocated by Lijphart (1984) but not by Elazar (1979: 14) who prefers the expression 'contractual non-centralisation' on the grounds that decentralisation implies the existence of a central government that can decentralise or recentralise as it desires. Lijphart (1984: 176) contested Elazar's term on the grounds that it is synonymous with the federal principle of a guaranteed central-regional division of power which implies that the component units cannot be taken away without their consent.

The emergence of the nation-state as a dominant feature of political and economic life has expanded the role of governments and increased concerns regarding the distribution of governmental power. Therefore, intergovernmental relations have become a separate field of research, both in federal and in unitary countries. In federal countries the main question with which intergovernmental studies are concerned is: how do central and sub-national governments work to solve shared problems? Throughout this century highly complex sets of machinery and of linkages in intergovernmental relations have been developed¹⁶. However, most of the theoretical contributions about IGR in federal countries are based on the experiences of the three most studied federations, the USA, Canada and Australia, being, therefore, an Anglo-Saxon view of the issue. Furthermore, a great number of studies have tended to treat IGR as related to service delivery, financial stringencies and regulatory measures, as suggested by Wright (1990: 154-5).

There are no great conflicts in the concept of intergovernmental relations, as opposed to the unfinished (and highly ideological) discussion around the concept of local government¹⁷. IGR is the study of relationships between different levels of government. This apparently simple definition hides a much-disputed struggle between several branches of the social sciences on how to approach IGR studies. Smith (1985: 91-8) summarised the advantages of each approach as follows. First, the historical-legal approach focuses on institutional and procedural changes which may be made to alter the distribution of power between levels of government. Second, the community-politics approach emphasises that changes in IGR may be neutralised by their political and economic contexts. Third, interorganisational studies call attention to the multi-dimensional nature of IGR and the power resources which can be utilised when governments interact. Smith (1985: 98) has provided a sharp criticism of each of these approaches, although signalling their merits. The problem with studies based on these approaches is that they tend to isolate conflicts between levels of government from other political conflicts in society. Hence Smith (1985: 98) suggested that a study of IGR should be placed within a framework of conflicting interests and that

Intergovernmental relations will then reflect alliances between national and local political interests which cause conflict within, as well as between, levels of government.

¹⁶ See Dunleavy (1980b), Jones (1979) and Rhodes (1980).

¹⁷ For a review of the theories of local politics and local government, see Stoker (1988).

Calls for the need for a theoretical shift in the political science approach to IGR have been made to overcome what Elazar (1987a) saw as an obsolete theoretical orientation, namely the view of IGR from the logic of the centre-periphery or pyramidal models. He called for a new model able to incorporate discussion of the likely constituent elements of the federation and whether they would be primarily administrative vehicles or polities. Elazar (1987a: 19) argued that as the constituent units of modern states become more powerful politically the line between 'sovereign' and sub-national polities becomes blurred. Hence this study has developed the interpretation of the data and findings in its IGR dimension in line with the propositions of Smith (1985) and Elazar (1987a). By doing so this study argues that, as is true of IGR everywhere, a pattern emerges whereby groups with less power and resources are pitted against groups struggling to upgrade their position ¹⁸. However, this game is not dichotomic but rather a continuum. Following these theoretical formulations, the understanding of how conflicts are channelled become more relevant to this study's development than the investigation of administrative or legal arrangements.

Given the existence in countries like Brazil of a triple federalism, the same framework of analysis cannot always be applied to the states and the municipalities ¹⁹. Although the frameworks of Smith and Elazar are broad enough to encompass the three territorial units of governance, we still need to narrow the search to theoretical formulations able to capture the differences between sub-national units in countries where the municipalities are not a creation of the states and are not under their subordination ²⁰. Therefore, there are some peculiarities which distinguish, in theoretical terms, IGR when related to the states from those related to the municipalities in some federal countries ²¹. Moreover, some federal countries, such as

¹⁸ Gagnon (1993: 21) pointed out that the idea too often expressed, especially in North-American literature, that federalism pits government against government should be reconsidered. However, the study argues that for IGR the idea is valid and it is one of the bases of the distinction between federalism and IGR.

¹⁹ Triple federalism is an expression coined by Lordello de Mello to label Brazilian federalism, given the salience of the sub-national units, especially the municipalities, in the federation.

²⁰ In the USA and in Germany there is a general agreement that local government is subordinate to the state as local government in a unitary system is subordinate to the national government. For the USA case, see the United States Advisory Commission on Intergovernmental Relations (1982) and for Germany see Gunlicks (1986).

²¹ Stenberg (1994: 135) noted that because the states are the middle tier in the federal system, they experience vertical and horizontal pressures and are eyed by both the local and the federal governments as a way out of their own problems.

post-1988 Brazil and Canada since 1982 (Marshall, 1988), have seen an unprecedentedly political, financial and constitutional strength in their states, which calls for a need to develop sharper frameworks of analysis to distinguish the role of the states from that of the municipalities.

Two different theoretical approaches are thus used in this study concerning its IGR dimension. For the states' role in IGR the theoretical foundation comes from the view of IGR as a combination of structure and process, which are continually interacting (Anton, 1989: 230). Furthermore, as Chapman (1993: 71) developed the approach,

these patterns of interaction become quasi-institutional, legitimated by use or sometimes by legislation or executive fiat. The actors are continuously involved in mutual transfers creating thereby an additional set of structures and processes, extra-constitutional and, in many cases, extra-parliamentary. These processes are policy-oriented and problem-centred, arising at specific times from particular issues, yet remaining, in one guise or another, to establish another pattern of IGR.

What follows from the quotation above is that federations are conflict-ridden. However the resolution of conflicts does not imply that solutions rest on a rational allocation of responsibilities, of revenues, or of merely adversarially-based intergovernmental relations. As Chapman (1993: 76) put it, conflicts should not be seen as simply a national and sub-national conflict but as an entanglement across those systems.

For the role of the municipalities in IGR the study follows the same direction as that suggested above, but sharpens the particular position of the municipalities by relying on Page's (1991) concept of political localism and centralism. Political localism is defined by Page

... as the influence that local political élites have in national decision-making arenas in so far as these affect the locality. (p. 42)

Political localism assumes two forms: (i) direct relationship with national politicians and officials; and (ii) the indirect influence of collective, usually national, organisations. The greater the influence of local interests, the greater the degree of political localism. Brazilian municipalities would be closer to what Page found to be the mainstream pattern in Southern European countries (Italy, Spain and France) which enjoy a high degree of political localism²².

²² Page developed two dimensions as a way to approach comparative studies in unitary countries: legal and political localism and centralism, following a framework earlier suggested by Mackenzie (1954). He considered it inappropriate to apply this approach to federal systems because of the existence of constitutionally guaranteed autonomy, given that his framework concedes local government as being subordinate. This study argues, however,

One aspect of this study could not be solved by the above-mentioned theoretical approaches to IGR. The literature on IGR tends to use the word 'influence' when referring to the mechanisms used by levels of government in their IGR. The study has opted to use the word 'influence' but also the word 'veto' when referring to post-1988 Brazil, and to players in the decision-making process as 'veto players'. 'Veto power' and 'veto players' are used after Tsebelis's (1993: 6) development of the concept which stems from the idea of 'checks and balances' in the North-American constitution. 'Veto player', in Tsebelis words, is an individual or collective actor whose agreement is required for a policy decision. The reason for this choice is that the structures and processes of IGR are beginning to be rebuilt in Brazil to cope with the relative novelty of redemocratisation, decentralisation and the weighted role of sub-national governments in the federation. Therefore structures and processes are interwoven and entangled but mechanisms based on 'influence' have not yet fully emerged. The Brazilian federal government is more likely to opt for open confrontation, although compromising when 'veto players' come to the fore, leaving the sub-national units and their parliamentary representatives in a position more of 'veto' than of 'influence'.

1.3.2 Decentralisation

Although decentralisation policies are currently being implemented in a number of countries, the concept of decentralisation is vague since it is used in a number of different ways and in different contexts (Conyers, 1987; Fesler, 1965). As Samoff (1990) has pointed out, while some authors are primarily concerned with administrative deconcentration, as a means of improving government performance and thus of implementing development programmes, for others the primary concern is with political decentralisation involving a more effective transfer of decision-making authority to the previously under-represented grass roots groups. The view of decentralisation as a merely administrative process has been widely challenged by the political science literature. Even in unitary states, on which Smith's (1985) influential book is based, it has been recognised that

It might be conventional to consider decentralization as an administrative concept, and even evaluate it and discuss change as if it is a matter to be settled by technical arguments about optimum areas, administrative efficiency and managerial performance. But the outcomes in the form of working federations or systems of regional and local government are the result of political forces in conflicts (Smith, 1985: 201).

that Page's cautions are adequate to only one dimension of his framework, namely, the legal, but the political dimension can be properly applied in federal countries.

Decentralisation has become a fashionable goal. It is not difficult to explain the reasons for its popularity. As Cuerbelo, cited by Slater (1989), has pointed out,

The popularity of the concept of decentralization can be linked to a combination of elements - its ambiguity, its capacity to conceal more than it reveals, its identification with long-established sentiments, its forcible justification from purely technocratic points of view and the political instrumentality that it potentially engenders.

Furthermore, the excessive power of central governments became a target for both the left and the right of the political spectrum. Another reason for the popularity of the concept is that despite the recognition that the term 'decentralisation' disguises a complex and highly varied set of phenomena, it is in the name of decentralisation that current changes in constitutional, financial and intergovernmental relations are taking place.

The literature on decentralisation is vast and deals with different aspects of decentralisation, given the looseness of the concept. This broadness and looseness make a comprehensive review difficult and calls for concentration on perspectives closer to this study's approach to decentralisation as an attempt to develop a sharper definition of the concept. Decentralisation is a polysemic concept and can be implemented in different ways. Decentralisation has different meanings according to ideologies (Slater, 1989; Smith, 1985) and a wide appeal regardless of ideology or political theory (Furniss, 1974). Decentralisation implies discussion of power relations and conflicts (Pickvance and Preteceille, 1991). In the Third World decentralisation is a concept with an ideological attraction (Smith, 1985), especially as a reaction against processes promoting centralisation. The latter concept is more likely to be found in Latin America but not for reasons usually mentioned in the literature, e.g. ethnic or religious conflicts or territorial disaggregation.

The shift of power from central government by means of decentralisation has been advocated extensively as a way to strengthen local government. Decentralisation has an economic-political meaning, i.e. the location of economic decisions, encompassing levels of government, the capitalist class as a role, and consumers (Wolman, 1990: 29). Therefore, to talk about decentralisation in general terms does not mean much. It is important to analyse the context in which it happens.

There are several problems in the theoretical formulation of decentralisation. First, analytical frameworks have tended to focus on the slogan 'think globally, act locally' (Stren, 1992), and, therefore, have ignored the importance of other institutions in shaping politics and

policies. They focus attention on two opposite domains: the international and the local. This polarisation tends to ignore a whole range of problems which remain under the political domain of other spheres, such as the states. Focusing on the states allows the understanding of processes which remain too general at the national level or too specific at the local level. The lack of integration of all the levels of government prevents the literature from addressing sharper questions on policy results under decentralised regimes²³. Second, decentralisation has often meant, especially in European and North-American literature, a redirection to markets and to local actors (Bennett, 1990), thus narrowing its theoretical formulations to a neo-liberal view.

Third, because theoretical formulations of decentralisation outside the literature on development have been made taking into account the realities of the so-called industrialised countries, their bases are difficult to apply to developing countries²⁴. Marxist analysis, for instance, which explains centralisation and decentralisation as corresponding to the global trends of capitalist development, has been proved inadequate, given that diverging trends are not so clearly linked to current political regimes. One example is that both France and the USA have recently favoured decentralisation, whereas Britain has taken the path of centralisation (Preteceille, 1991: 123). For the opposite theory, the public choice, decentralisation is seen as being effective in limiting the ability of government officials to over-supply outputs. Therefore, the most important institutional forms are local government systems and federalist arrangements (Dunleavy and O'Leary, 1987: 120). The basis for the public choice preference for decentralisation lies in the citizens' or consumers' 'exit' option, i.e. if a municipality does not fulfil their needs, they move to an area where their preferences are satisfied. These two approaches to decentralisation are difficult to apply in developing countries, let alone the problems caused by the rigidity of their ideological foundations. The former because of the prominent role the State has always played in Third World countries and because, as Mouzelis (1986) pointed out, there is no Marxist theory of Third World

²³ In the USA it is recognised that the states are the less studied institution, both theoretically and empirically (Osborne, 1988; Stenberg, 1985).

²⁴ A Brazilian scholar Vieira (1967) outlined some assumptions for a decentralisation theory in an attempt to incorporate the characteristics of developing countries to theories developed in the industrialised nations. Those outlines, however, although dealing with the phenomenon as a continuum, were too deterministic, because they were based on the assumption that the country's environment was the main element in the facilitation or prevention of decentralisation.

politics, given that the theory does not consider the role of political clientelism in shaping the political system. The latter because Third World citizens, or poor citizens anywhere, are not likely to have the freedom to choose residences on the basis of anything other than employment. Third World studies of migration always point to the strength of employment in decision-making concerning the migration target.

Decentralisation refers also to two other theoretical concepts: governance and development. Within the concept of governance, decentralisation has a long tradition. It is concerned with the extent to which power and authority should be dispersed through the geographical hierarchy of the State, and the institutions and processes through which such dispersal occurs. Within the concept of governance, decentralisation is generally associated with local government. As Smith (1985) has pointed out, many of the arguments for decentralisation follow the liberal argument in favour of democratic local government, which is claimed to be good not only for national democracy but also in providing benefits at the local levels. It is assumed that institutions under local government will be democratic and ensure political equality, and be accountable as well as responsive. From this approach decentralisation policies are usually presented and debated in the technical language of administrative efficiency or constitutional principles, whereas they represent political objectives that are rarely made explicit.

Decentralisation has become the central focus of the literature on development. It has grown since the 1970s, focusing on decentralisation as part of the reduction of the role of the State in Third World countries. Rondinelli and Cheema (1983) and Rondinelli et al. (1989) are the most quoted²⁵. By and large the development literature is based on the liberal normative assumptions of decentralisation, and the focus is on decentralisation as a tool for development. It is common to distinguish between different forms of decentralisation, namely deconcentration, delegation, devolution and privatisation (Rondinelli and Cheema, 1983). The emphasis on decentralisation in the development debate is linked to the broadening of the concept of development beyond economic growth to comprise growth-with-equity and emphasising the basic needs of the poor.

At a theoretical level several problems not addressed by the literature of development

²⁵ Discussions about the role of decentralisation for Third World countries have generated heated debates between Rondinelli (1990) and Slater (1990).

can be raised. First, for almost every principle of decentralisation, one can find an equally plausible contradictory principle. Second, the advantages and limitations are seldom discussed, and rationales or promises of decentralisation are usually put forward in normative terms without relating them to the broader political and economic context, let alone the political objectives, thus depoliticising the debate. Third, the language used in the literature is that of 'efficiency', 'effectiveness' and 'control', bringing two additional limitations: (i) it implicitly suggests that centralised States are not 'efficient' and/or 'effective' and (ii) it treats decentralisation as a policy granted from central to sub-national units. Fourth, the literature ignores intermediate levels of government and centres on the relationship between central and local government ²⁶. Fifth, a theory of development has to explain not only the reasons for the development of countries but also the reasons for their under-development. Sixth, it has been generally recognised that there are no guarantees that benefits will be distributed equitably by decentralised structures (Prud'homme, 1994; Slater, 1989; and Smith, 1985).

A review of the literature on decentralisation shows the difficulties in finding limits to bound the concept of decentralisation. Some say it involves discussion of theories of the State (Smith, 1985), others that it involves the concepts of politics, power and space (Slater, 1989), about popular participation and local democracy (Borja, 1987), and about the democratisation of service delivery (Hoggett and Hambleton, 1987). How to measure decentralisation is considered to be a bottleneck (Smith, 1985, Slater, 1989, Levin, 1991).

Current literature on decentralisation is likely to be based on the experiences of two analytical models. There are considerable scholarly works which focus on the USA experience, especially since the Reagan administration, and on Canada, which emphasise the administrative and the financial aspects of decentralisation, of federalism and of intergovernmental relations, and are especially concerned with service delivery (Brown-John, 1988) ²⁷. A second approach is taken by the scholarly works based on the French experience of the 1980s which promoted a wide decentralisation programme within a unitary state, with its official proclamation of 'taking power from the state and giving it back to the citizen'

²⁶ Harris's (1983) discussion on Latin American countries, although citing the Brazilian experience, does not make a single reference to the states or the peculiarities of centralisation and decentralisation in federal countries.

²⁷ Brown-John (1988: 1) begins the book he edited by defining power within the context of centralisation/decentralisation as 'the constitutional and practical capacity to deliver public goods and services'.

(Preteceille, 1991: 123)²⁸. The French debate emphasises the right-left axis of the topic and encompasses decentralisation in the context of the restructuring of the State²⁹. These two approaches to decentralisation, although contributing to the broadening of our knowledge of the topic, are too centred on the experiences of the above-mentioned countries in which the decision to decentralise was taken by the centre.

1.3.2.1 Decentralisation as a Political Process

Decentralisation in this study is seen through three dimensions: (i) in how decentralisation is set in the political agenda; (ii) through its decision-making process; and (iii) in how it affects the allocation of public expenditure at the sub-national level. Hence decentralisation is not viewed through its administrative or economic dimension, nor as something granted from above, nor as a matter of service delivery. There is no need to escape politics, to rationalise the discussion and practice. Furthermore, we need to know why decentralisation has generally promised more than it has delivered, both in the political system and in policy results.

Thus, this study limits the scope of its theoretical discussion of decentralisation by following its upstream and downstream approaches. It pursues two main aspects of decentralisation. First, intergovernmental, or a decentralisation of governance and power from the federal to sub-national level. Second, the allocation of resources to a sub-national level. This approach may shed light on the country's power structure and on the quota of power enjoyed by each group and each level of government. Both aspects of decentralisation can provide a sharper definition of political decentralisation, which implies that sub-national units of government become part of the decision-making process both at the national and sub-national levels, either by deciding on policies affecting their jurisdiction or by vetoing national policies. This definition implies that centralisation-decentralisation is a continuum rather than a dichotomy.

As mentioned above, the need for such an approach is based on the assumption that

²⁸ Other European unitary countries, such as Italy, Spain, Holland and Belgium, have adopted several decentralised measures. For a comprehensive analysis of decentralisation in all European countries, see Debbasch (1981).

²⁹ The literature developed both theoretically and empirically by the French is vast. For a historical analysis, see Frège (1986) and Schmidt (1990); for details of the reform and its first consequences, see Vié (1982); for a discussion on the consequences of the reform for local power, see Terrazzoni (1987); for the juridical implications, see Aubry (1992); and for the reform as part of a broad urban reform, see Preteceille (1988).

decentralisation affects power relations and introduces new conflicts both in intergovernmental relations and in the distribution of power and goods to different groups in society. In theoretical terms the main issues to address when discussing decentralisation rest on the following questions: (i) how and why the decision was taken; (ii) whether it changes the way local and regional goods (political or material) and services are distributed between different groups; and (iii) whether decentralisation has changed political practices.

It might seem paradoxical to discuss decentralisation while searching for a pattern in policy results, given that the very aim of decentralisation is to guarantee sub-national units room to decide outcomes and to reduce central control of outputs and results. Decentralisation allows priorities to be decided away from the centre. The paradox is resolved by bringing back this study's initial puzzle, namely, the search to answer the question as to what makes countries facing issues that need to be tackled nationwide choose to decentralise.

Hence this study has developed an interpretation of the data and findings in its decentralisation dimension partially relying on Grindle and Thomas's (1991) analytical framework. They centred their framework on the role of decision makers, the choices they make, and the factors that influence those choices. They defined their framework as:

Decision makers are not simply forced by events, interest group pressures, or external agencies to make particular choices. Moreover, solutions to any given set of policy problems are not obvious because the impact of policy cannot always be known in advance, because the logic of economics and the logic of politics frequently do not coincide, and because real costs are imposed on specific groups in society when policies and institutions are altered. All policy choices thus involve uncertainty and risk. If these assertions are valid, and if policy elites are relevant to defining the content of public-policy - i.e., if they are not simply forced to act in predetermined ways or have no choice but to accept certain courses of action - then the dilemmas and choices they confront are critical to understanding policy change. (Grindle and Thomas, 1991: 2).

Grindle and Thomas argued that in the literature spanning political science, political economy and policy science, a large number of questions about processes of change remain unanswered, in particular, how agenda setting, decision making and implementation occur. Thus, there is little theory to explain how issues of reform come to the attention of decision makers and how the reform of policies and institutional arrangements becomes part of the agenda. They argued that the factors which affect decisions to whether or not policies will be pursued, altered, reversed, or sustained, are generally left unexplained, because implementation is often considered to be a matter of effective administration, not of political processes.

Thus, this study partially relies on Grindle and Thomas's theoretical framework by incorporating the following approaches to decentralisation. First, decentralisation-centralisation is seen within the context of institutional reform brought about by changes in the political regime. In the Brazilian case decentralisation was adopted as a result of redemocratisation and as a way of legitimising a new political regime. It was intended to redress perceived errors in previous and existing policy and in institutional arrangements, particularly those within the federation. Second, instances of the Brazilian decentralisation reform are taken as the unit of analysis, and the interrelated processes of agenda setting, policy making and implementation are seen as a critical arena for understanding the factors that can account for how, why, and when policy and institutional changes occur. Third, Grindle and Thomas's analytical framework assumes decision makers account for reform, but that does not isolate them from influences that originate outside the centre of the political arena where the decision is taken. Fourth, the characteristics of particular reforms determine the type of conflict and opposition that surround the decisions and their implementation.

However, Grindle and Thomas's framework relies on some assumptions that do not conform with this study's approach. Instead of seeing those differences as a limitation, this study argues that the applicability of Grindle and Thomas's model can be tested and expanded by this research's approach. The differences between the two approaches are as follows. First, Grindle and Thomas built their framework by analysing the role of policy élites (decision makers and policy managers) within government. Their case studies of seven developing countries are reported from inside government decision-making processes. This study, on the contrary, analyses a country where the decision to adopt a new policy, namely decentralisation, was not taken within government, but outside it, i.e. in Congress during a constituent assembly. Therefore, in this study parliamentarians were the decision makers and became the policy élite referred to by Grindle and Thomas.

Second, Grindle and Thomas's approach, although recognising the influence exerted over policy élites by social pressures and interests, suggests that in many developing countries those interests and pressures are not well organised or effective in setting public agendas. The Brazilian case shows the opposite, i.e. how pressures and interests coming from those who would be the main beneficiaries of the decision to decentralise were highly organised, either in their political domain (governors and mayors' associations) or in their technical domain (think-tanks, private organisations and practitioners).

Third, Grindle and Thomas's model suggests that the skills, values and experiences of policy élites shape perceptions of which problems need to be addressed, and how they should be addressed. At this point we face a problem of terminology: if we call Brazilian constitution-makers the policy élite who took the decision to decentralise, then the assumption is valid, given the high number of politicians who had previous experience either in sub-national political positions or as experts in fiscal matters. But if we consider policy élites as those non-elected individuals who also participated in the decision to decentralise (think-tanks, private organisations and practitioners), then their skills were surpassed by the politicians' view of how far decentralisation should go.

Fourth, the model suggests that

notably absent in most discussions of policy making in developing countries are elected representatives (Grindle and Thomas, 1991: 62).

This was not the case in this study's analysis, given that the decision making and details of how decentralisation was to work were dealt with by elected representatives. Maybe this feature is the most important contribution of the Brazilian case to Grindle and Thomas's model and to the theories of decentralisation in general: in the case studied the decision to decentralise was taken by elected representatives and by sub-national politicians and not by the central government. Furthermore, the decentralisation of political and financial power became constitutionally guaranteed.

1.3.3 Federalism

The literature on federalism faces two initial obstacles: (i) the need to distinguish federalism from federation; and (ii) disputes around the essential characteristics of a federal State. In its broadest sense the word federalism refers to the linking of people and institutions by mutual consent for a specific purpose, without the sacrifice of their individual identities (Harman, 1992: 337). Federalism was also defined by Burgess (1993a: 8) as a value concept, the recommendation and the promotion of support for federation. Federation, as defined by King (1982: 77),

is an institutional arrangement, taking the form of a sovereign state, and distinguished from other such states by the fact that its central government incorporates regional units in its decision procedure on some constitutionally entrenched basis.

Therefore, the logic of federations is federalism, which is the ideological perception of what follows from federalising. More than a semantic difference, the need to distinguish federation

and federalism is important, given (i) the enormous variety in the practice of federal principles within each federation and (ii) the emergence of forms of federalism in countries and in institutions which are not a federation - Belgium and the European Community are the most debated examples. Federalism, as a political device, can be viewed more narrowly as a form of organisation in which power is dispersed as a means of safeguarding individual and local liberties, as defined by Harman (1992: 337).

The second obstacle in discussing federalism comes from a much-disputed debate on its essential characteristics. Stewart (1984) mentioned that there are 497 literal as well as figurative representations of federalism. The most known characteristics are those developed after Elazar's (1984) classical definition of federalism as 'self-rule through shared rule', which, in the words of Hawkins (1991: 72), sets down a fundamental operational principle of American federalism and constitutional-institutional design. Therefore, most of the characteristics of federalism have been developed through Elazar's two dimensions: constitutional design and power-sharing, being largely based on the North-American experience. Although recognising this influence as a limitation, the study relies on Duchacek's (1987: 192) effort to summarise the essential features of federalism based on several contributions from specialists. According to Duchacek's summary, federalism contains two basic elements:

... political authority is territorially divided between two autonomous sets of separate jurisdictions, one national and the other provincial, which both operate directly upon the people. Second, the existence of a single, indivisible yet composite federal nation is simultaneously asserted.

Despite presenting limitations, such as the exclusion of countries which have opted for a triple federalism, because the feature is based on the North-American model, and because of the over-emphasising of the territorial feature of the federation, Duchacek's definition and Elazar's concept of federalism are the starting points to guide the discussion ³⁰.

For this study's purpose, three dimensions of federalism are further developed: (i) the territorial basis of federalism; (ii) the relationship between federalism and the concept of consociational democracy, which centres on what Frognier (1982: 190) has called the

³⁰ This North-American view of federalism has its critics. Gagnon (1993: 16) has suggested that North-American and Canadian scholars tend to view federalism in a hierarchical way, with the central government controlling the principal levers of power, relegating the provinces to an auxiliary role without much clout. A good example of an empirical work which views federalism more as a bargaining and less as a hierarchical manifestation is Liebschutz's (1991) study on the state of New York.

'conflict-pacification problem'; and (iii) federalism as a political ideology. These three dimensions will be discussed in this section, introducing the features of the Brazilian case.

The territorial dimension deals with the formal distribution of power in the federations within institutional arrangements 'to fulfil the need to ensure a flexible balance between the obvious need for unity (and direction) and the equally obvious need to preserve diversity (and participation)' as Duchacek (1987: 17) put it. The need to investigate the territorial dimension of federalism arises from the fact that federalism does not evolve in a void. The dynamics of political economy, party politics and political culture should be added to other territorial manifestations of federalism such as power-sharing within the Legislature and between levels of government, the role of the Judiciary, the allocation of fiscal revenues and responsibilities and the constitutional guarantees of the federation's component units. All these aspects should be seen in the constitutional design but also in operational practice, and, most of all, we should question what was behind the definition of the way the federation was to work, i.e. which interests, values and pacts prevailed when changes occurred in the federation. These aspects are considered throughout this study.

The second dimension is the relationship between federalism and consociational democracy. Both concepts share several common characteristics because they are designed as means of associating potentially conflicting entities in a political whole. The relationship between federalism and consociational democracy is particularly important for this study's development because, as pointed out by Frogner (1982: 211),

Problems created by a federal reform in a consociationalist state can be viewed as a struggle, not only between new elites and consociational ones, but also separately within the latter.

For this study, the struggle referred to by Frogner goes beyond the boundaries of a federal reform to encompass an entire constitutional reform. Moreover, the struggle among élites is amplified by the origin of some reforms, such as those destined to change political regimes without rupture like that of Brazil.

At this point one must introduce some features of the Brazilian federation since redemocratisation. This study follows the avenue opened by Lamounier (1993). He argued that most analysts of Brazilian political history would react with disbelief at the suggestion that the country's institutional structure has anything similar to those of the consociational democracies as defined by Lijphart (1984), to which the hyper-developed Switzerland,

Belgium and Holland belong. Lamounier (1993: 118) listed the reasons why some can claim as absurd that Brazil post-1988 could have become a consociational democracy: a country with two long dictatorial regimes, in which the distribution of wealth is one of the worst in the world, and a nation deep rooted in a patriarchal society. At the same time, the consociational model of democracy was a response to the division of society along ethnic, linguistic, and religious cleavages, which have never been important in Brazil's political agenda. Lamounier claimed, however, that one of the axes of the Brazilian political system has become excessively consociational, which he viewed, at least when he wrote his article, with pessimism because of the lack of adequate counterweights to deal with the ensuing fragmentation and blockades.

On the other hand, Lamounier gave reasons for his placing Brazil closer to the understanding of democracy as a system which blocks the power of the majority (the consociational model) than to the opposite concept, the majoritarian model, more concerned with identifying an electorally authorised majority capable of implementing a governing programme. His reasons are as follows: since the 1930s Brazil has had a system of proportional representation; a multi-party system from which ministries are selected; the federative regime; a bicameral system in which both houses of Congress are strong; and a rigid and detailed Constitution. Lamounier (1993: 124) argued that the 1988 Constitution unequivocally reinforced the consociational style, in which stimulated pluralism and diluted power were seen to be intrinsically good. Lamounier's way of coping with what he considered the excessive consociational character of the representative sub-system, comprising the electoral process, the party structure, certain aspects of the internal organisation of Congress and the existent federative organisation was the adoption of the parliamentary system. Without it, affirmed Lamounier, those features become dangerous from the perspective of governability.

This study relies partially on Lamounier's observations about the similarities of the present Brazilian political structure with the consociational model. This study also agrees with his diagnosis of the problems which such a feature has brought to the decision-making process. The disagreement with Lamounier's view lies in his solution, parliamentarianism, and on his pessimistic view of future developments of such features. The problems listed by Lamounier, which this study refers to as bringing about a 'paralysed competitive arena', are not seen as a feature of the entire political system. The reason for this disagreement lies in the

fact that the findings in the case studies discussed in this research suggest that the 'paralysed competitive arena' is not a feature of the entire political system, but is restricted to the federal government. Moreover, the existence of a 'paralysed competitive arena' is not credited to the institutional features of the Brazilian political system but rather to (i) the number of problems inherited by the federal government when the military regime came to an end; and (ii) the lack of a national project to address social, economic and financial constraints³¹.

The third dimension to be introduced is the concept of federalism as a political ideology. This concept was developed by Burgess (1993b) filling a gap in the federalism literature, more concerned with the practicalities of territorial and governmental arrangements. Burgess (1993b: 104) defined political ideology for the purpose of his argument as 'values, attitudes, beliefs and interests which combine to furnish action with purpose and commitment'. This definition does not imply the inclusion of moral principles such as 'freedom' and 'democracy', but rather that 'values' reflect interests. Therefore, the advocacy of federalism is the pursuit of self-interest. The importance of introducing the notion of federalism as political ideology lies in the fact that

Change and development remain the most difficult aspects to explain and understand in the study of federal political systems, but the notion of federalism as political ideology can provide a useful route into this complicated area (Burgess, 1993b: 104).

Burgess's contribution opened the way for an investigation of the motivations behind the promotion of each federalism, given that they vary enormously. Each federalism, not only each federation, incorporates a range of economic, political and socio-cultural attributes which intermingle to produce complex patterns of interests and identities. Therefore, each federalism is driven by a leitmotif, although this leitmotif may express itself in different ways within a federation according to a particular set of interests in a given historical time. The North-American federalism was, and continues to be, dominated by the pursuit of 'checks-and-balances' mechanisms. In Canada, India, Pakistan, Malaysia, Nigeria, Central Africa and Switzerland the leitmotif has been the preservation of linguistic, racial and religious minorities (Gagnon, 1992: 25). In Germany the driving force has been first to build and later to

³¹ One could argue that, for obvious reasons, Brazil only built up consensus towards addressing its problems during the country's two dictatorships. However, it should be remembered that between 1946 and the late 1950s, especially during the Dutra and the Kubitschek administrations, in which similar institutional features existed, this consensus, although having its opponents, was able to prevail. Both Presidents governed within the rules of the democratic game and through intense negotiations with Congress and sub-national politicians. Furthermore, Kubitschek introduced a daring programme of economic reforms during his term in office.

consolidate institutions able to respond to the defeat of the first German democracy in 1933 and to Nazi dictatorship (Sontheimer, 1988: 231). Australia has been marked by Rilke's (1964) statement that he could not understand why Australians bother with federalism. The leitmotif of Australian federalism has been credited as being the commercial advantages of a common market (Else-Mitchell, 1983: 2) and/or to a federalism in which the strength of state centres of power tends to check centralising forces (Rydon, 1993: 230).

Carmagnani (1993: 399) saw the driving force of federalism in Argentina, Brazil and Mexico as the need to reconcile the tensions between two antagonistic forces: localism and centralisation. For the Argentinians, suggested Schapira (1992), federalism has a strong resonance in the collective memory because it belongs to the people's political and cultural vocabulary and is part of the nation's identity. The leitmotif of Argentinean federalism was, and continues to be, the struggle of the provinces against the power of Buenos Aires (Schapira, 1992). This study argues that the driving force of Brazilian federalism has always been the need to accommodate the demands of conflicting élites and to cope with great regional inequalities.

It is not a coincidence that as soon as Latin American countries returned to a democratic order, calls for a more decentralised federation were heard in Argentina and in Brazil. Hence federalism and decentralisation become political and ideological devices to bring to the fore the demands of regional and local interests once the rules of the democratic game are restored. Moreover, in the Brazilian case, since 1988 the states could, for the first time, enjoy a financial strength correspondent to their political strength. Bringing to the fore the demands of the component units of the Brazilian federation led to what this study calls a 'peripheralised federalism', in which sub-national interests prevail over national ones. However, federalism as a value has remained in this 'peripheralised federalism' because the federal government has not relinquished its importance in the federation, neither has it become an absent player in the political arena.

This study fills some gaps in the literature above-reviewed. First, it brings a non-European and a non-Anglo-Saxon view to discussions of intergovernmental relations, decentralisation and federalism. Second, it deepens our understanding of how political and institutional reforms come into the political agenda. Third, it furthers an understanding of the relationships between the process of decision making and the implementation of a given policy and how decentralisation affects power relations. Fourth, its discussion of

intergovernmental relations, decentralisation and federalism is centred on the relationship between political and financial arrangements in a fragmented polity. Fifth, it strengthens the point that the implementation of policies depends more on political and economic factors than on administrative and financial ones alone. By relying on different aspects of the literature on intergovernmental relations, decentralisation and federalism this study follows the general view that political analyses are inherently multi-theoretical activities (Dunleavy and O'Leary, 1987: 336). The study is thus in line with the view that empirical research plays a decisive role in improving our knowledge of how complex social and political processes operate.

1.4 Instruments and Procedures of the Study

This study is developed within a deductive-inductive perspective and practice. Different types of primary and secondary sources and instruments are used to develop the study's upstream and downstream approaches. In particular, the empirical evidence comes mainly from fieldwork conducted in November and December 1992 and from April to June 1993. Newspaper material is used as a complementary source. Although the study is a work on Brazil, there are brief comparative references to other countries which serve mainly to highlight the peculiarities of the former.

For the upstream approach, which encompasses the decision to decentralise taken by the Brazilian Constituent National Assembly which sat from 1987 to 1988, the research sources are the following. First, the archives of the Constituent National Assembly for four sub-committees and three committees dealing directly with the decision to decentralise. Second, the database from PRODASEN, the branch of the Senate accountable for Congress's informational technology, which provides information about the results of the 1,021 roll-call votings of the final stages of the Constituent Assembly, from which 115 roll-calls are selected for this study. The database is then disaggregated by party affiliation and by region to show how each of the 559 delegates voted on selected roll-calls. Third, PRODASEN's database also provides information on the content of the 340 proposals presented by the government and by parliamentarians to enact the constitutional provisions and to change the constitutional mandates focused on this study's topic. Fourth, semi-structured interviews with party leaders, rapporteurs and members of the sub-committees and committees of the Constituent National Assembly provide qualitative information on the decision to decentralise and also a better understanding of the political momentum. Fifth, interviews with upper-level practitioners who acted as technical assistants to the Constituent National Assembly.

The decision to decentralise is analysed in three dimensions: (i) the relationship between political parties and the State; (ii) intra- and inter-party competition; and (iii) regional cleavages. These three dimensions are developed to shed light on the basic conflicts and cleavages in the constitutional debate given that analyses, based exclusively on party composition, cannot explain fully the outcomes of political decisions in Brazil.

The downstream approach comprises three case studies, which examine whether the decision to decentralise has changed the way in which the political system operates at the sub-national level and whether it has changed the allocation of public expenditure at the sub-national level, especially to education. The case studies are the state of Bahia, its capital, Salvador, and its most industrialised municipality, Camaçari³². The case studies allow for a 'pre-experimental' treatment of the phenomena analysed. They provide an opportunity to highlight the differences between levels of government in their experience with decentralisation.

The political analysis of the three case studies is based on the following sources. First, interviews with politicians in executive and legislative positions at the state and local levels as well as in Congress³³. No politician in the state legislature was selected for interview because most who are now in Congress started their careers at the state-level legislature and state deputies are most involved with micro-politics, whereas this study's approach to state and local politics intends to discuss its macro issues. Second, interviews with officials of the state government and of the two municipalities.

The financial performance of the three levels of government is analysed through two different sources. For the federal government and for the twenty-six states and their capitals, which are analysed in Chapters 2 and 5, secondary sources are used. For the three case studies, the data come from balance sheets covering the period 1981-1991.

The variety of research sources is particularly useful since the subject is not well developed in Brazil, especially the relationship between political and financial resources and

³² All Brazilian municipalities have the same legal status. The official definition of the municipalities, the *município*, encompasses municipal and district areas, as well as rural and urban ones, although they vary enormously in every aspect. This study uses the words municipality and/or local government when referring to them.

³³ Despite many efforts to interview the main figure in Bahia politics, Antônio Carlos Magalhães, those in charge of his diary did not make an appointment for an interview. This gap was filled by interviewing his son, who is also a politician, other politicians who belong to his political group and by his press interviews.

the new role that sub-national politicians play on the national and sub-national scenes. However, some aspects of the method call for further explanation. On the political side of the study, there are certain difficulties in reconstructing the political momentum of the decision to decentralise. The interviewees were asked to recall events which occurred some years ago. When the interviews were carried out, parliamentarians were (and still are) more worried about changing the constitutional mandates and in 'correcting the excesses of the 1988 Constitution', as many referred to them, than to analysing events that now belong to the past. Therefore, the interviewees had a tendency to talk more about what they thought should be changed than about why and how the change happened. The second restriction involves Bahia's politicians, both in executive and in legislative positions. Most have never been interviewed before for academic purposes and some were too cautious in judging their allies. The reason for this is that scholarly attention in Brazil has not yet focused on topics and on politicians who are more related to the state and local polity.

Some aspects of the financial resources need to be further clarified. Because of the features of the Brazilian tax system, to be detailed in Chapter 2, data on public finances vary according to the method developed by each work. This study tries as much as possible to rely on few sources to avoid discrepancies in the figures. This problem is more likely to occur with figures at the federal level, because, as we detail in Chapter 2, the federal tax system is composed of resources from taxes and from the so-called social and economic contributions. Some secondary sources take into account only tax resources and expenditure, and others incorporate some of the contributions, at least the most representative financially. The differences between these two methods are not possible to measure, given that the collection of taxes and contributions varies for a wide range of reasons, including the country's economic performance, the achievements of each particular sector, more or less effort in tax collection and changes in the indexation rules and in the methodology of public accounts.

Second, Brazil has historically had high rates of inflation, particularly in the decade under analysis. Inflation contaminates public finances as much as any other financial indicator. Moreover, the decade was marked by economic instability, several stabilisation plans and high interest rates, which affected public finances in different ways. Therefore, public revenue and expenditure are subjected to such a diverse mix of economic and institutional pressures, and to constant changes in the tax system, that any work based on Brazilian public finances requires extra caution. For these reasons this study avoids relying on currency-based figures

and opts to present them as a percentage of total values in order to partially overcome the above-mentioned problems and to avoid choosing one exchange rate, given that those rates are manipulated for economic reasons. Likewise, data based on balance sheets are subject to the same problems. These problems show the limits in using public finances as the only tool for the analysis of public policies. This study takes the figures derived from public accounts as a complementary source to other qualitative and quantitative data. Therefore, the analysis of the sub-national expenditure presented in Chapters 5 to 7 is intended to guide discussion on expenditure priorities as defined by the governing élites and their commitments to investment in education. On the other hand, the time-series analysis presented in Chapters 5 to 7 has proved useful in tracking changes along a centralisation-decentralisation continuum.

By detailing the study's instruments and procedures, this research provides the ways through which the findings of this investigation can be assessed or replicated. However, the significance of particular findings needs to be assessed in the light of their typicality. The findings of this study cannot automatically be replicated elsewhere, and generalisations call for caution for the following reasons.

First, no scholarly work has yet focused on these three case studies or on financial and political decentralisation as a result of redemocratisation. Therefore, the question of typicality *per se* has to be answered by other researches, given that this study is a first attempt to build an analysis by placing those cases together.

Second, with the decision to decentralise having been taken by the Constituent National Assembly there are enough grounds for some generalisations, given that previous Brazilian constitutions, as well as those of some other countries, have either 'constitutionalised' the issue of political and financial decentralisation-centralisation or have at least debated it in the course of their processes of constitution building. However, no work dealing specifically with the decision to decentralise taken in the course of a constitutional-making process could be identified.

Third, with the three case studies, despite the existence of a wide range of conditions varying from individual characteristics to national and international ones which interact to shape each particular historical moment in each particular area or country, the findings of the study can be assessed as a 'pre-experimental' treatment of the impact of decentralisation on the polity and on expenditure allocations. However, the replication of those findings, even in the same country, requires caution, given that the political and financial features of Bahia,

Salvador and Camaçari do not assume the same pattern throughout either time or space. There is need for further investigation of the phenomena in each particular area. Only then can more accurate generalisations be made on the effects of decentralisation in a given country or in a cross-sectional analysis comparing the effects of decentralisation across countries.

1.5 Organisation of the Study

The assumption that decentralisation and redemocratisation have deeply changed the ways in which politics and public finance operated needs to be proved. Chapter 2 provides data and analyses on the impact of the two phenomena upon the federal government. The chapter provides a background to a better understanding of the study's research questions by analysing the federal government's financial predicaments after decentralisation and redemocratisation and by discussing how political pacts for intergovernmental relations, decentralisation and federalism have been made throughout the country's republican history. By relying on the theoretical formulations of federalism, the study suggests that most of those frameworks do not provide convincing explanations of the Brazilian experience of federalism. The use of a theoretical framework which incorporates the view of intergovernmental relations as a conflict-ridden territory allows the study to argue that the movements made by the federal government in reaction to its financial and political constraints show that although it has become the most vulnerable partner in the federation, it should not be seen as powerless but rather as an actor who holds the power to counter its political and financial constraints. It is argued that pressures coming from outside Congress and the sub-national governments are as much a burden on federal finances as are the two former. The chapter concludes that the strengthening of sub-national governments and Congress fostered by the 1988 Constitution has resulted in a federal government that alone cannot deliver solutions to national problems.

Brazil's historical as well as current economic, financial and political conditions are the bases for analysis in the following chapters. Chapter 3, together with Chapter 4, provides an empirically-based analysis to address the puzzle of why a country facing many unresolved issues which needed to be tackled nationwide chose to decentralise financial and political resources. It answers part of the study's upstream approach question as to how the decision to decentralise political power and financial resources was taken in the initial stages of the constitution-making process. The chapter focuses on understanding the mechanisms of Brazilian constitution-making through the analysis of both its process and substance. Chapter

3 is an attempt to explain the nature of political decision-making in the milieu of regime change. Furthermore, it provides a unique opportunity for the literature on policy-making by analysing a case where the decision to decentralise was taken by legislators. The chapter builds on the unique experiences and insights of participants in the reform decision at its early stages, discusses the contextual factors that surrounded the consideration of this particular policy, analyses the criteria politicians applied in making decisions on changes, and assesses the role of regime change in influencing the decision and the design of new policies. The chapter shows the problems created by a constitutional reform in a consociational state in which the interests of new and old élites come to the fore, thus amplifying the number of players in the decision-making process. The chapter concludes by arguing that Brazilian constitutional engineering was centred on efforts to legitimise the return to democratic order through the promulgation of a constitution rooted in mechanisms of popular and societal participation rather than on worries about policy results or on building a social consensus of what was to be achieved through decentralisation.

Chapter 4 moves from the general context of the political environment and events at the early stages to the intermediate and final stages of the constitution-making process. The chapter furthers an understanding of how political and institutional reforms became a decision and why decisions were taken. In each of these aspects the approach focuses on the links between what occurred within the Constituent National Assembly and the three dimensions through which the decision is analysed, i.e., the relationship between political parties and the State; intra- and inter-party competition; and regional cleavages. A contribution to the above-reviewed theories is forwarded by exploring the mechanisms used by sub-national politicians to influence the outcome of a given policy and to veto those which they identified as reducing their advantages. The chapter shows the extent to which structures and processes, extra-constitutional and extra-parliamentary, act to influence and to veto policy decisions. It brings to empirical testing the assumption that the characteristics of particular reforms determine the type of conflict and opposition that surround their decision and their implementation. It also questions the view that a decision to decentralise is an administrative matter put forward by central government, by showing how the federal government was an absent player in the decision to decentralise. The chapter builds a preliminary bridge between the study's upstream and downstream approaches by examining the main results of decentralisation, both in the fiscal system and in the balance of power of what has become a consociational democracy.

The chapter concludes that the lack of a national project and of a consensus on what was to be achieved through decentralisation brought fragmentation and postponements to the political system. However, the federal government found ways to build governing coalitions and to cope with a fragmented political system. The chapter argues that financial decentralisation to sub-national governments has only partial responsibility for the federal government's predicaments and that Congress's increasingly-assertive role is an important element in fostering power fragmentation.

Chapter 5 acts as a bridge between the analysis of the decision-making process and the implementation of a given policy. By analysing the political and financial performance of sub-national governments in a federal country which has been decentralised and redemocratised, the chapter paves the way for the study's downstream approach. It answers the question as to whether the present decentralisation under democratic rule has changed the allocation of public expenditure in the twenty-six states and their capitals, especially their allocation to education. It deepens the empirical evidence by discussing the theoretical formulations (introduced in the previous chapter) and argues that both decentralisation and redemocratisation have improved the power and the revenues of sub-national governments, but their effects on policy results have, with some exceptions, so far been limited. It discusses the extra-constitutional and extra-parliamentarian mechanisms used by the state governments in their relationships with other levels of government and the forms that local politicians have developed for playing the intergovernmental relations game. The chapter shows the role of State clientelism in implementing policies at the sub-national level and in defining expenditure priorities. Above all, the chapter brings to the fore the initial results of the implementation of a given policy, showing its conflicting effects and confirming the assumption that policy results are more the result of political and economic processes than of effective administration.

Chapter 6 gives a case study of one Brazilian state, Bahia, to provide the 'pre-experimental' character of the research and to search for illustrations to support the assertions made earlier. Bahia was chosen because the state's economic development is in an intermediate stage between the wealthiest and the poorest Brazilian states. Conversely, in political terms Bahia has become a very influential state on the national scene, thus being a good case with which to 'test' the assumptions and frameworks discussed above. Of particular importance is the argument suggested by the study of Bahia that political fragmentation brought about by redemocratisation and decentralisation does not necessarily imply a

'paralysed competitive arena' is the likely feature of the entire political system. On the other hand, it also suggests that the political fragmentation typical of the consociational democracy has upgraded the state leaders to a position of influence and veto on national issues. This chapter, as much as the one which it precedes, shows the limits of decentralisation on policy results.

Chapter 7, on two Bahian municipalities, provides further empirical evidence on the effects of decentralisation and redemocratisation on policy results. It deepens the answer to the question as to whether decentralisation and redemocratisation have changed the pattern of expenditure at the local level. This research argues on the grounds of these two cases that there are a number of unresolved problems which need to be tackled outside the local level and which prevent local governments from playing a more active role in their constituencies. The framework of analysis based on the degree of political localism discussed above proves to be an avenue with two directions. Local politicians influence and/or veto policies which affect their constituencies but they are constrained by other external forces. These external forces are not always reconciled with the local politicians' views of their role in the local political scene.

Chapter 8 concludes by restating the main findings of the previous chapters and by discussing them within the theoretical frameworks of intergovernmental relations, decentralisation and federalism. The study's results suggest that in Brazil there was a lack of social consensus on what was to be achieved through decentralisation. They suggest that decentralisation fosters democracy but its impact on policy results have so far been limited. The evidence further implies that decentralisation and redemocratisation bring about a fragmentation of power without necessarily disintegrating the previous political coalitions or changing the way public resources are spent. These findings indicate that various political and economic factors influence the outcomes of decentralisation, thus reinforcing the argument of the importance of political and economic factors to policy results.

Chapter 2 Decentralisation and Redemocratisation: Impact on Intergovernmental Relations and on Federal Finances ¹

Introduction

Redemocratisation and decentralisation have changed the way in which politics and public finance operated. Both events deeply affected the federal government, which is experiencing financial constraints and facing difficulties in building governing coalitions. These constraints and difficulties have challenged the role of the State, mainly the federal Executive, which has been the leading economic and political actor since the early 1930s. The strengthening of sub-national governments fostered by the 1988 Constitution resulted in a federal government that cannot on its own deliver solutions to economic, political and social problems, given that Congress and sub-national governments are now important political actors capable of negotiating within current constraints. This new situation has raised key questions as to the role of the federal government in two directions: (i) in the federation, i.e. in the country's territorial power-sharing and (ii) in carrying on leading economic and social policies, especially those related to macro-economic stabilisation and to the provision of economic growth and social services.

This chapter discusses the impact of decentralisation and redemocratisation upon intergovernmental relations and federal finances within the context of Brazilian federalism. Because federal finances are under strong pressures and constraints, this chapter focuses primarily on its current performance. Works focusing on the importance of fiscal issues in the Brazilian economy became an area of research in the early 1980s. However, up-dated disaggregated information on the financial performance of the federal government is scant ². Despite Brazil's high degree of fiscal decentralisation, only international financial organisations have incorporated the issue as a research area (Afonso, 1994; Bomfim and Shah 1991; Shah, 1991; Tanzi et al., 1992). Furthermore, works based on the political importance of fiscal arrangements are so far absent. However, the debate over the federal government's financial

¹ An earlier version of this chapter was previously published. See Souza (1994).

² Exceptions are one work by IPEA (1992a), although limited to the 1985-90 period, and an unpublished database from the *Centro de Estudos de Economia e Governo da Fundação Getúlio Vargas*, CEEG/FGV. Each of these sources adopts a different methodology for the classification of expenditure and for the calculi of federal transfers to the sub-national levels.

constraints *vis-à-vis* sub-national strength is in both the media and the political agenda, but because of the lack of more detailed studies the issue has been subjected to distortions and misinformation.

The chapter provides a background for a better understanding of the study's research questions by analysing the federal government's financial predicaments. It proceeds in six sections. Section 1 discusses Brazilian federalism and its federation in a historical context as a way to understand current intergovernmental relations and the country's centralised and decentralised movements. Section 2 examines the financial aspects of decentralisation caused by redemocratisation, in which are emphasised the consequences for the federal government of the revenue-sharing introduced in 1988, as well as the distribution of jurisdiction among governmental units. The section closes with an overall discussion of the federal government's current fiscal constraints. Section 3 analyses the strategies adopted by the federal government to cope with decentralisation. Section 4 offers some conclusions.

2.1 Federalism and Intergovernmental Relations in Brazil: A Historical Overview

The strength gained by sub-national governments and the difficulties faced by the federal government in building governing coalitions and in overcoming its financial constraints can be better understood by discussing the evolution of Brazilian federalism and its federation in line with the distinction of both concepts as proposed by Burgess (1993b). Major political and territorial pacts built up throughout the country's history had their expression in the Brazilian Constitutions, which became an important source for an understanding of Brazilian federalism.

The Constitution of the modern nation-state contains three main elements: (i) the establishment of the principal institutions of government and the relationships among these institutions; (ii) provision for a distribution of governmental power over the nation's territory; and (iii) the provision of a compendium of the fundamental rights and duties of citizens. All the Brazilian Constitutions promulgated since the country became a Federal Republic in 1891 have contained these three elements but have put more emphasis on (iii), where economic, social and political rules are stressed as much, if not more, than legal or procedural rights. Since 1934 Brazil's Constitutions have always been more like political programmes reflecting, on the one hand, the struggle between conflicting political groups and, on the other, the search for consensus.

In its first republican Constitution Brazil adopted federalism as a way of sharing

political power and constituted itself as a federation. Many scholars, like Lewandowski (1990), saw Brazilian federalism at that time as a mere copy of the North-American Constitution. Others saw Brazil as a decentralised unitary country (Ferreira Filho, 1983) or as a 'mock federal' State (Hennessy, 1989: 16). These interpretations fail to take into consideration that Brazilian federalism and the federation have always been a way to accommodate the contradictory regional powers that struggled for hegemony³. However, the balance of power in the Brazilian federation has oscillated between federally-centralised policies, with few constitutional powers allocated to the states, and considerable autonomy for local government, as shown in Table 2.1. These oscillations arose in part because of the historical difficulties of state building after colonial independence, a point stressed by most of the analysts of Brazilian history (Camargo, 1993). The political and institutional transitions in most nation-states, including those in Latin America, happened with deep transformations and ruptures from the preceding regime, but in Brazil these transitions generally occurred whilst maintaining many characteristics of the preceding regime. The types of federalism presented in Table 2.1 are related to the distribution of power between levels of government, and are connected to political and financial strength. The type termed 'power sharing' means that the 1988 Constitution intended to establish more egalitarian relations between federal, state and local governments.

Table 2.1 Federalism in Brazilian Constitutions

Type of federalism	1891	1934	1937	1946	1967/69	1988
Centralised (Central Government)		X	X	X	X	
Centralised (State Government)	X					
Localist		X		X		
Power Sharing						X

Reviewing Brazilian federalism from the viewpoint of intergovernmental relations, one can say that the country started in 1891 as an 'isolated' federation in the sense that there were few constitutional and practical links between the levels of government. This isolation ceased in the 1930s, when Brazil launched its project for the creation of an urban-industrial society, starting what became known as the Brazilian Developmental State, meaning that the State was the leading political and financial actor in economic and social issues. This project caused

³ Few scholars share Ames's (1994) and Camargo's (1993) view that Brazil is truly a federation because the states have been important political actors since independence.

political, economic, and social transformations. This period inaugurated a deep association between political power and social and economic development. During Getúlio Vargas's dictatorship, when the 1937 Constitution was in force, the federal government struggle started, to achieve federal hegemony against the states. The next stage began with the 1946 Constitution, which started the Brazilian version of 'cooperative' federalism, based on revenue-sharing between levels of government, i.e. sub-national governments were granted a share in federal taxes. With the military regime that came together with the advent of what O'Donnell (1973) called the bureaucratic-authoritarian State, the federation underwent deep transformations, with reverberations in the roles played by the three levels of government ⁴.

2.1.1 The 1891-1937 Period: From Isolation to Centralisation

Heated debates about the territorial division of power started in Brazil long before the end of colonial rule. As Carvalho (1993) commented, these debates were focused on the relationship between federalism and centralisation, on the one hand, and freedom and tyranny, on the other. Carvalho showed that the major aim behind the republican movement was that of federalism and not that of freedom, although, together with decentralisation, they were presented as synonymous. We owe to historians the rescuing of these debates that free Brazil from the accusation that its federalism was a mere copy of the North-American one without any 'native' reason ⁵. These debates showed that Brazil accomplished one of the requisites behind the existence of a federation, i.e. federations differ from a political order emerging from accident or force because their creation demands some calculated activity (Ostrom, 1984).

The 1891 Constitution, promulgated by a National Assembly, held after the republic had been set up, had as structural principles: (i) federalism, (ii) a presidential system, and (iii) political liberalism. The reasons supporting the adoption of federalism have been pointed out by many scholars, including Love (1993) and Schwartzman (1988) ⁶. Although those scholars stressed different aspects of the federal arrangement, they agree that Brazilian politics at that

⁴ For an account of intergovernmental relations in Brazil throughout its seven Constitutions, see Souza (1992).

⁵ Lewandowski (1990: 26) argued that the Brazilian federation never fully recovered from the artificiality of its institution, contrary to what took place in the USA and in Switzerland. The argument is based on the fact that Brazil moved from the unitary to the federal system without the intermediate stage of a confederation.

⁶ Specific states' interests and positions regarding federalism in its early stages have been analysed by Levine (1978), Love (1971; 1980), Pang (1979) and Wirth (1977).

time was a confrontation between factions of regional élites because their control of state politics was now aggrandised by the introduction of elections for both legislative and executive positions at the three levels of government. Likewise, since the interests of regional élites often depended on decisions at the federal level, schemes of mutual support began to develop, although regional élites, notably from São Paulo and Minas Gerais, were the dominant partners. This period was properly identified by Duchacek (1970) as a variant of an 'oligarchic federation' because of the advantages enjoyed by the component units. Those advantages included a variety of civil militias supported by landowners in localities to guarantee order without the need for military intervention. The hegemony of the states of São Paulo and Minas Gerais in that period became known as the politics of *café com leite* (coffee-and-milk) after their main economic activities. However, Congress was the *locus* in which regional conflicts were expressed. The intensity of those conflicts was evaluated by President Campos Sales as preventing him from governing. As a response, Campos Sales sealed an agreement with the governors of São Paulo and Minas to minimise the effects of regional conflicts in Congress. This agreement became known as the *política dos governadores*, the 'governors' politics'. According to the agreement each of these two states would alternately govern Brazil. At the state level the political system was dominated by the oligarchies and by the institutionalisation of *coronelismo*, i.e. the pact between the public powers and leaders of the interior who controlled and supplied votes from their local domains ⁷. However, the weakness of the central government did have its opponents. In the 1920s several rebellions led by the *tenentes*, the middle ranks of the army, broke down in Rio de Janeiro, São Paulo and Rio Grande do Sul. As Fausto (1986: 822) described those rebellions, the movement was against the oligarchic system and the political reform they advocated was based on the need to widen central government's sphere of action and the expansion of education, along with other social reforms and vague nationalistic measures.

For intergovernmental relations the 1891 Constitution determined that the federal government would intervene in state affairs only if a public disaster occurred. Only in rare cases would there be any federal intervention in the state. Despite this, Love (1993: 202) noted that federal intervention in the states was frequent. The fiscal system established by the

⁷ An interpretation of the intergovernmental relations based on *coronelismo* was made by Cintra (1979) and Nunes Leal (1977).

1891 Constitution accomplished the decentralised promise of the republican slogan: 'centralisation, secession; decentralisation, unity', making the Brazilian federation at that time much more decentralised fiscally than their Argentinean and Mexican counterparts (Love, 1993: 186). The share of the states and municipalities in the national revenue increased from 34% in 1907 to 49% in 1930, although significant increases were registered only in the states of São Paulo, Minas Gerais and Rio Grande do Sul (Mahar, 1976: 243). Judicial disputes between states were common because of the looseness of the fiscal rules (Love, 1993: 186). Maybe the least 'federal' aspect of the 1891 Constitution was the absence of measures addressing the issue of fiscal justice between uneven units. The tension behind the designing of an appropriate balance between revenue within governmental units is common in any federation. Moreover, this question encompasses two fundamental aspects: (i) the balance between levels of government, known as vertical balance; and (ii) the balance between units with different economic and social features, known as horizontal balance. Financial and economic resources were channelled first to São Paulo and Minas, and later, at least until the 1960s, to São Paulo alone. Therefore, the Brazilian federation was born under the aegis of the concentration of resources not in the centre but in a few states, thus institutionalising the country's regional inequalities. As pointed out by Selcher (1989: 183) referring to the 1988 Constitution,

Brazilian federalism will also continue to have to accommodate the awkwardness caused by such a high concentration of votes and human and economic resources in one state, São Paulo.

Brazil's experience of 'isolated' federalism ended in 1930 with a revolution led by Vargas. The 1930 Revolution has been analysed as a result of regional disputes for the Presidency and as the endorsement of the oligarchic feature of the federation (Camargo, 1993). The revolutionary movement was motivated by the fact that President Washington Luis broke the rule which sustained the 'coffee-and-milk' politics by trying to impose a candidate from São Paulo to replace him, who was also a *paulista*. Given the government's control of the votes in the interior, the small number of voters, mainly concentrated in São Paulo, and the practice of electoral fraud, the President could easily elect his candidate. The reaction against the permanence of the *paulistas* came from the states of Minas, Paraíba and Rio Grande do Sul. Vargas, who was defeated in the Presidential race by the *paulista* candidate, came to power in November 1930 by an armed rebellion which led to intervention by the

military to overthrow the First Republic, as the previous regime became known.

One of Vargas's first measures was to write off the states' debt to the federal government, including São Paulo's enormous debt to sustain the value of coffee, therefore pacifying regional discontents (Love, 1993). In 1932, before the promulgation of the new constitution, the Vargas government sponsored an electoral reform which lowered the voting age to 18, gave women the right to vote and introduced the secret ballot. The latter was the first attempt to provide for the supervision of honest elections in Brazil, as suggested by Bethell (1994: 7). The 1932 Electoral Code promoted a great change in the features of the federation by increasing the political representation of smaller and weaker regions in Congress. Initially conceived to counteract the power of few states over the whole country, this principle remains as one of the bases of Brazilian federalism, both as a conceptual value and as an empirical device.

The 1934 Constitution, promulgated as a result of the 1930 Revolution, was based on an alliance among the four biggest constituencies: Minas, São Paulo, Rio Grande do Sul and Bahia (Camargo, 1993: 311). It was influenced by the 1919 Weimar Constitution, with economic and social provisions. It contained many references to economic principles and prescribed rules about families, civil servants, and social rights, setting the bases for economic modernisation and for welfare measures. It set the bases for what Camargo (1993) called the corporatist federation as opposed to the oligarchic federation, the latter sustained by clientelism and neopatrimonialism ⁸.

Intergovernmental relations expanded with the increase in the possibilities of forms of federal help to the states. The localist character of the 1934 Constitution is shown by several provisions for municipalities, breaking 'isolated' federalism and introducing a triple federalism. Triple federalism meant that the three levels of government were subjected to a constitutional treatment, a formula different from the North-American one, in which the municipalities are a creation of the states. It meant that the municipalities were to become partners in the federal pact. For the first time 'own revenues' were prescribed to the municipalities, and the states had to share with them half of the revenue from the then Tax on Industry and Professions. Triple federalism, an expression coined by Lordello de Mello, has been maintained in all the

⁸ The Constitution established worker representatives in Congress, where 200 representatives were to be elected and 50 chosen by their unions, which were legally controlled by the federal government. This measure was never put into practice but shows the strong corporatist character of Vargas's proposals.

Brazilian Constitutions ever since ⁹.

The 1934 Constitution had a short life. It was consumed by the ambiguities between measures increasing economic intervention and social rights, on the one hand, and the strengthening of regional élites and Congress on the other. The tension between the demands for economic and social modernisation and the demands of the oligarchies was explicit in the 1934 Constitution, thus exposing its intrinsic contradiction.

The Constitution of 1937, which followed, was conceded by Vargas after the military coup that occurred in the middle of the presidential campaign. The coup was commended to the people as necessary to create new institutions to combat communism and the oligarchies, the latter nourished by the impossibility of decreasing the importance of regional interests in Congress (Camargo, 1993). The coup inaugurated what became known as the *Estado Novo*, the New State. The most symbolic act against the oligarchies, but also against the principles of the federal system, was made by Vargas when he publicly burned the state flags. The coup was aimed at building a political and administrative unity to push economic and social modernisation. Vargas, now a dictator, closed down Congress and the state legislatures and replaced all elected governors by 'intervenors' appointed by him ¹⁰. As suggested by Bethell (1994: 8), Vargas was hostile to what he called liberal democracy, because for 100 years it had meant élite, oligarchical politics with heavy doses of corruption and fraud.

The 1937 Constitution allowed the federal government in forcing unilateral retirement on civil and military servants, setting the basis for the role of the federal government in pushing economic modernisation through the State apparatus. The exclusive jurisdiction of the federal government on hydro-electric resources was established by the Constitution as a way to build industrial infrastructure, given that the lack of infrastructure was identified as a weakness paralysing Brazilian development. The legal and institutional framework for such a transformation was set up by the *Conselho da Economia Nacional* (National Economic Commission) created by the Constitution. This commission held a great amount of power and made decisions about the most sensitive tasks in which the State became involved. Among its tasks was to set up rules about capital-labour relationships, thus creating a virtual Labour

⁹ Brazilian municipalities, however, do not have a Judiciary system of their own.

¹⁰ 'Intervenor' is the title given to those who are appointed by the federal government when a federal intervention in a state is declared. During the Vargas period the 'intervenor' had both executive and legislative powers in the state's jurisdiction.

Court of Justice born outside the Judiciary.

For intergovernmental relations the Constitution reflected Vargas's attempt to achieve federal hegemony. There were various examples: (i) a state unable over three years to finance its services should be transformed into a 'territory'¹¹; (ii) federal interventions in the states were expanded and Vargas used them as a way to break state oligarchies by nominating 'interveners' with no relation to the state political life. There appeared for the first time in a Constitution a federal competence to legislate on public health. This and other similar measures enabled the State to maintain a strong presence in the construction of an urban-industrial society and, simultaneously, the adoption of welfare measures. On the other hand, it inaugurated the well-known populist practices in Brazil, as analysed by Camargo (1979), and increased the corporatist trend of the previous period¹². It might seem paradoxical, but not unusual considering the Bismarckian experience, that a Constitution written under a dictatorship contained so much emphasis on social policies and workers' rights. This paradox can be explained for two reasons. First, Brazilian dictatorships have always been concerned with their legitimacy. Second, Vargas was committed to industrialising the country and was influenced by the interventionist model developed by some scholars and some Latin American organisations like the United Nations Economic Commission for Latin America (ECLA). But to industrialise it was necessary to create a politically-controlled working-class and improve their social conditions.

Sub-national governments lost their fiscal power to the federal level through the extinction of sub-national taxes and the expansion of the basis of federal taxes. The importance of the federal government was also increased by the creation of several state-owned companies under its jurisdiction. However, the most important measure adopted by the 1937 Constitution was to grant the federal government the jurisdiction to regulate external and inter-state exchange rules. This measure was decisive for the adoption of the new economic paradigm, i.e. the urban-industrial society, by the fiscal unification of the territory. By denying the states, i.e. the regional oligarchies, the right to prescribe the most important

¹¹ The 'territory' is an intermediate level of government between the state and the municipality. It is supported by the federal government until it achieves enough economic and political development to have its own taxes and elected political bodies, when it can then become a state.

¹² Contrarily to what happened in Europe, especially in France and England, social and workers' rights were introduced in Brazil by the government during Vargas's dictatorship. Welfare provisions overcame by governmental's concessions and not by the struggles of the working-class or the political parties.

aspect of their economic life, namely the definition of their external and internal trade rules, Vargas paved the way for industrialisation. Nevertheless, horizontal imbalances remained. Mahar (1976: 255) observed that by 1945 the states of São Paulo, Minas and Rio Grande do Sul together held more than 70% of the total amount of state finances. The Vargas period started the trend of levying the federal government's main tax revenue in the South and in the South-East and of spending it in the North and in the North-East, while subsidies and the state-owned companies concentrated in the South and the South-East.

2.1.2 The 1946-1964 Period: Centralisation and Localism

The *Estado Novo's* experience ended in October 1945 when Vargas was overthrown by his War Minister after pressures from the military and the liberals called for the installation of a liberal democracy. Vargas had been preparing the call for competitive elections by supporting a popular movement known as the *queremismo*, meaning 'We Want Vargas'. The movement called for a constituent assembly and for Vargas's candidacy for the Presidency through competitive elections. The call to democratise the country was a result of the worldwide wave of democratisation at the end of World War II. As a result, Brazil's major cities experienced unprecedented mass political mobilisation pushed, on the one hand, by the communist party, the PCB, and on the other by the *queremistas*. Because the military and the liberals were not sure about Vargas's intentions, they decided to overthrow him and to call for direct elections to the Presidency. The 1945 election was seen by Bethell (1994: 10) as the first reasonably free, fair and competitive election held in Brazil. General Dutra was the winner. In the following year elections were held for Congress and Vargas was elected Senator. In 1950 he won the Presidential election and governed Brazil under democratic rule until 1954, when he committed suicide as he was about to be overthrown by the military.

As a result of democratisation the 1946 Constitution emerged, promulgated by a Constituent Assembly. Liberal ideals, especially the rejection of the federal government's intervention in the economy, were the main concern of the constitution-makers. However, liberal intentions did not last long, given the increasing demands for rapid economic growth under the aegis of the State. The 1946 Constitution ended up repeating most of the measures adopted in 1934, with some adaptation. It kept most of the social, nationalist and corporatist measures introduced by Vargas. Because democracy and decentralisation have traditionally been associated in Brazil, local government's revenues were increased, with the aim of decreasing its dependence upon the states. The states, however, did not become absent

players. As shown by Ames (1987: 218), when the presidential administrations of Vargas and Kubitschek increased spending under the aegis of the 1946 Constitution, powerful state-level politicians dominated Congress's Budget Committee and took control of the new resources.

The 1946 Constitution expanded the opportunities for federal intervention in the states, but with different goals from the preceding Constitutions because these interventions were mostly to preserve democratic rules. It enabled federal intervention to prevent any state measure that might damage local autonomy. This Constitution was, simultaneously, centralised in favour of the federal government and localist because it increased local finances and tried to decrease the state's influence over local activities. Between 1949 and 1958 the municipalities' share in public sector expenditure increased to 7.2% and 8.1% as compared to 6.4% in 1947 (Mahar, 1976: 261). The states not only lost several taxes to the municipalities but had to share revenue with them. The most important aspect of the 1946 Constitution for fiscal federalism was the introduction of the principle of intergovernmental fiscal cooperation between levels of government through the scheme of revenue-sharing from higher to lower territorial units of government. The 1946 Constitution promoted the first attempt to address the issue of vertical imbalance, by increasing local revenues, although at the expenses of the states. Horizontal balance was partially introduced through the earmarking of federal revenues to be applied in the North and in the North-East. However, the scheme created for the participation of sub-national units in the federal revenue did not take into account the economic, social and financial differences among units, because transfers were to be made on a uniform basis. Despite efforts to overcome vertical and horizontal imbalances, Mahar (1976: 266) showed that they had limited effect, because of the disproportional growth in the federal activities, of the increase in the number of new municipalities, inflation and the non-payment of federal quotas to sub-national units.

The 1946 Constitution has been, so far, Brazil's longest-lasting constitution. Its measures, and the democratic regime which it regulated, survived several political crises, including Vargas's suicide, the resignation of President Quadros in 1961 and the acceptance of Quadros's Vice-President Goulart, despite the hostility of the military and the entrepreneurs by quickly changing the constitution to introduce the parliamentary system. Under the 1946 Constitution Brazil saw its dreams of economic development, democracy and decentralisation come true. The aim of the popular movement for redemocratisation which started in the 1980s was to bring back those dreams and principles.

2.1.3 The 1964-1985 Period: A Centralised Federation

The collapse of democracy in Brazil in 1964 has received a reasonable amount of scholarly attention (Santos, 1986; Skidmore, 1967). Among several explanations for the 1964 military coup, was an important one that the coup was motivated by the extreme paralysis of the decision-making process within Congress (Santos, 1986). The same argument regarding Congress's responsibility for governmental paralysis was used by Vargas in the 1930s, when Congress resisted the introduction of his welfare legislation, and by Campos Salles, when he introduced 'governors' politics' to cope with a Congress cut across by regional disputes. This time Congress and the country's paralysis stimulated the radicalism of both the conservatives and the left. The latter proposed radical economic and social changes, such as land reform, several nationalist measures, the legalisation of the communist party and the right for illiterates to vote. The conservatives, who included part of the urban middle class, started to encourage a military solution if this was the only way of preventing changes endorsed by the left. Furthermore, as mentioned by Bethell (1994: 11), important political actors were no longer willing to make the compromises necessary to ensure democracy's survival.

The political crisis was followed by an economic one, characterised by the decrease of investment, foreign capital and profits, with an increase in inflation rates. Moreover, the import-substitution model seemed over and a consensus for a new economic paradigm was difficult to achieve. As the internal political environment did not allow a clear option, the government was forced towards ambiguous policies. There was acknowledgment of what was labelled the non-economic constraints of the crisis, where fiscal predicaments, education and land distribution were considered the most important. However, the Brazilian political and economic élites were not able to design a minimum agenda of consensus. Hence, a favourable environment was rapidly created for the military coup. When the military came to power, public policies were reshaped to achieve economic stabilisation through the recovery of investments and loans and to strengthen the public apparatus both administratively and fiscally.

The military did not immediately issue a new Constitution, despite changing several constitutional provisions by amendments to the 1946 Constitution. Only on 24 January 1967 was the military Constitution promulgated, and in 1969 it was again changed through Constitutional Amendment No. 1 issued on 17 October. The 1967/69 Constitution, together with the 1966 fiscal reform law, boosted the centralisation of public finance and of political

power, unprecedented in the country's history¹³. In October 1968, Institutional Act No. 5 was issued by the military under the terms of which power was centralised in the presidency to an unprecedented degree¹⁴. Competitive elections were forbidden for federal and state executive positions and for the state capitals and for municipalities considered 'national security areas' or 'mineral sites'. A strong censorship of the media, the suspension of the political rights of politicians, intellectuals, workers and political militants, the weakening of the Legislature and the imposition of two political parties were attempts to foster a break with the corporatist and populist State cut across by regional demands. Nevertheless, state and local governments, and their politicians, continued to play an important role under centralised rule. As noted by a few scholars and politicians, sub-national governments were used by the military to legitimise the regime and to build up coalitions for the regime's survival (Ames, 1987; Jobim, 1990; Medeiros, 1986). These approaches were new in intergovernmental analysis in Brazil, which had tended to see state and local governments as totally dominated and manipulated from the federal level.

The 1967/69 Constitution introduced an interrelation between development and national defence, opening the way to the so-called militarisation of policies. In intergovernmental relations it expanded the instances in which the federal government could intervene in the states. It prohibited the adoption of any policy, economic or financial plan, against principles stated by federal laws, therefore betraying the federalism principle as Elazar (1987b: 10) put it as 'self-rule plus shared rule'. The 1967/69 Constitution opened the door to an increasing role for domestic capital, allowing investment in many services which had been previously under public responsibility. The strong presence of domestic private capital was mainly evident in the provision of social services. Many public funds were created, like FAS - *Fundo de Ação Social* (Social Action Fund), with subsidised funding allocated to the private sector to build private schools and hospitals. This policy was adopted following the military government's diagnosis that domestic capital had few investment opportunities compared with State and foreign capital.

The tax system underwent a deep change. Revenues were centralised in the federal

¹³ The legal instruments of fiscal reform were Constitutional Amendment No. 18 issued on December 1965 and Law 5,172 issued on October 1966. The reform was put into force in 1967.

¹⁴ For an analysis of the role of the military in Brazilian politics until the political opening, see Philip (1985).

sphere and redistributed through participation funds which took into account regional disparities, thus furthering horizontal balance. Apart from the participation funds the scheme of negotiated grants was considerably increased. Fiscal reform aimed at concentrating fiscal authority at the federal level. The diagnosis of the fiscal constraints and the argument supporting fiscal centralisation were pointed out by Graham (1987: 11). The diagnosis was that the earlier commitment to collective responsibility, through shared powers with Congress, and to the amelioration of conditions of poverty, through social policy and populist rhetoric, had led to unrestrained public spending. The remedy was to bring inflation under control and to get the country back onto a course of expansionary economy through stable growth. Much effort has been expended by scholars and practitioners in evaluating the effects of fiscal centralisation on federalism, on the federation and on intergovernmental relations. Such studies can be divided into two clusters. On the one hand, those which concentrated on the analysis of the fiscal accounts, and showed that the financial position of the municipalities had improved in the period, as opposed to that of the states (Graham, 1987; Mahar, 1976; Serra and Afonso, 1991). Although penalised in their tax resources, the states kept room to manoeuvre because they were used by the military as providers of legitimacy (Medeiros, 1986). One variant of these studies concentrated on designing schemes to enable the transfer of federal responsibilities to sub-national levels (Rezende et al., 1984). On the opposite side, some studies eyed the political and financial dependence of sub-national governments as a total breakdown of the federation and of federalism (Lordello de Mello, 1976 and most of IBAM's publications in that period) or at least as an example of formalistic federation, masking the reality of a unitary state (Lewandowski, 1990; Selcher, 1989).

By the end of the 1970s, the fissures in the military regime became more apparent. Its demise has been widely analysed, both in its political and economic components, as mentioned in Chapter 1. Since 1979 inflation had accelerated from an average of 40% a year in the 1970s to 100% a year in 1979-81. The economic dynamism of the country in the 1970s was replaced by an increase in the price of imports, by the reduction of external loans and by the rise in interest rates in the international financial markets, all affecting public finances. After 1983 Brazil began a period of economic stagnation, with GDP rates of growth below the historic average, with the reduction of the traditional sources of foreign loans, and with difficulties over refinancing its external debt. The military began to allow direct elections for the governorships and to calm down pressures from local governments by gradually increasing

their revenues. The events listed above had reverberations in the balance of power between levels of governance because there were fewer resources to accommodate their cleavages. Financially and economically weak, the military started to lose the support of those who had backed the regime: conservative politicians in Congress and in sub-national governments, entrepreneurs and segments of the middle class.

Redemocratisation started in 1985, and the *Diretas-Já*¹⁵ movement came to represent the symbol for the struggle for democracy. Democracy entailed political, fiscal and administrative decentralisation, along with better public services, economic growth and income redistribution. All these demands received special treatment in the 1988 Constitution. The political ideal was to improve the conditions of the population, mainly the poor, who were largely excluded from the benefits created during the military regime. There was, then, a feeling that the country had succeeded in the task of economic modernisation, but it was a conservative modernisation, since it did not incorporate the demands of the poor. The 1988 Constitution was intended to end the authoritarian regime, to set the basis of redemocratisation and to restore the federation.

As discussed in Chapter 1, given the existence of a vast theoretical literature on federalism, it is difficult to summarise the much-disputed essential characteristics of a federal state. Nevertheless, in a free interpretation of contributions to this debate, this study argues that in Brazil many of the characteristics of federalism and of a federation have been maintained, although subjected to the country's needs in different historical periods. Brazil's past federalism can be described as a permanent struggle against authoritarianism and centralisation. This study argues that despite the swing of the federal pendulum, federalism remained a constitutional commitment, a political ideology and a mechanism of political negotiation in a country with vast territorial dimensions and with regional diversity and disparity. Now that the emotion surrounding the last authoritarian regime is past, it is possible to explore Duchacek's (1991: 25) challenge to also look at the existence of federal practices which have developed in authoritarian systems despite their commitment to centralisation. In several periods Brazil would not fulfil the wide, and sometimes too ideal or too formalistic, range of features which characterise federalism and a federation. The country would not pass

¹⁵ The *Diretas-Já* was a movement led by a wide grouping of civilian organisations calling for the popular election of the President. It intended to put pressure on Congress to approve a constitutional amendment proposed by the federal deputy Dante de Oliveira.

all Duchacek's (1987) ten yardsticks for testing the existence of a federal country. Only a few units preceded the federal nation; participation of the states in the decisions of the Union was legally reduced in 1968 when the military introduced one 'bionic' senator per state, nominated by an electoral college dominated by the government's party, although the other two senators remained popularly elected; there were several provisions allowing federal intervention in the states on the grounds of vague reasons; and for long periods Brazil was not a pluralist democracy¹⁶.

However, if one looks at the Brazilian federation more through Lijphart's (1984) framework of consociational democracy and his discussion about the relationship between federalism and his consensual model, Brazil could pass the test. Sometimes more, and at other times, less there has been a 'constitutional guaranteed division of power between the three governing units'. Even the authoritarian regimes provided the country with a 'written constitution'. 'Bicameralism' has always been maintained. The 'right of the component units to be involved in the process of amending the federal constitution but to change their own constitutions unilaterally' has been maintained because Congress was kept open during most of this time. However, the latter characteristic was probably the most transgressed one, because constitutional amendments without Congress's approval had been widely used during the two dictatorships. Since 1932 there has been a 'disproportionally strong representation of the smaller' and weaker 'component units in the federal chamber'. Whereas for Lijphart's fifth characteristic of federalism, namely a 'decentralised government', this is the main issue addressed in this study through the analysis of the role of sub-national governments and their politicians during the political opening and democratic consolidation.

Furthermore, the federal commitment can be felt throughout Brazil's republican history mainly from the following aspects. First, by the room to manoeuvre enjoyed by sub-national demands, although not always visible through legal and fiscal measures. Second, by Congress's traditional role in defending regional interests, although not always legitimate and many times motivated by 'pork barrel' and clientelist needs. Third, by the consolidation of a political culture, as referred to by Duchacek (1987), and of a political ideology, as referred to by Burgess (1993b), through the adherence of regional identities to a unified nationalism (Camargo, 1993). Fourth, by the strength quickly regained by Congress and sub-national

¹⁶ Burgess (1993a: 7) discussed the relationship between federalism and pluralism. He argued that, although some authors see federalism as a form of pluralism, there is no such thing as a pluralist state.

governments when authoritarian periods ended, which means they were not deprived of power under the previous regime. Brazil's different experiences with its federation exposes the capacity of federations to adjust and to adapt to new forces which, in Burgess's (1993a: 10) words, acquire political salience. Nonetheless, federalism as a 'value concept', as mentioned in Chapter 1, has always been the essence of the Brazilian federation. This 'value concept' became fully expressed with redemocratisation and was constitutionally guaranteed in 1988, as is explained throughout this study.

2.1.4 The Role of the Judiciary in the Federation

For some authors (e.g. Finer, 1949) the logic of a federal system supposes the existence of two independent sets of courts, one at the federal level and one at the federated level, although others find it a minor criterion (Duchacek, 1987). Because after 1988 judicial decisions in Brazil assumed a prominent role in interpreting constitutional mandates, especially those on the fiscal system, the role of the Judiciary in the federation should be briefly assessed. Furthermore, the role of the Judiciary in Brazil is a poorly researched area, other than from the legalistic viewpoint, and its importance for federalism is generally ignored¹⁷.

Even before the strength of the Judiciary caused by the 1988 Constitution, Brazil and Mexico were listed, together with the USA, as the only federal countries with two parallel networks of courts, although only the USA's system was considered fully developed (Duchacek, 1987: 252). The Brazilian system differs from the North-American one in that the latter allows any court to interpret the constitutionality of legal and administrative measures, with the exception of a few matters (Duchacek, 1987). In other countries there is a monopoly for the interpretation of the Constitution placed on a Constitutional Court, which, in legal terms, does not belong to the Judiciary but is above it (Duchacek, 1987). In Brazil the system is a mixture of these two. The constitutionality of the administrative acts of any of the three governmental units can be questioned in any court. However, the constitutional validity of any law can be questioned only in the high courts, either in state courts or in the Federal Superior Tribunal. After 1988 the latter enjoyed the juridical-political attribution typical of a Constitutional Court, but it also judges, as a court of exceptional appeal, cases decided by the other courts. A third body was created by the 1988 Constitution, the Superior Tribunal of Justice. According to Article 105, III of the 1988 Constitution, this court, among

¹⁷ One exception is research carried out by IDESP under the coordination of Tereza Sadek, although it focuses on the relationship between the Judiciary and society and on the problems faced by the institution.

other attributes

... judges, in special appeal, cases decided by the Federal Regional Tribunals or by courts in the states, whenever the original decision goes against a federal law or treaty; or whenever it judges valid an act or law of a local government in the face of a federal law; or if it gives to a federal law a divergent interpretation from that of another court.

These three spheres of judicial review are part of the Judiciary Branch. When disputes are about the division of power at different governmental levels, the power to arbitrate lies exclusively with the Federal Superior Tribunal. The 1946 Constitution was the first to introduce the mechanism of judicial review¹⁸. Cases of representation for unconstitutionality were, until 1988, the exclusive responsibility of the Attorney-General of the Republic. By contrast, under the 1988 Constitution there are nine institutions entitled to the right of representation: the Presidents of the Republic, of the Senate, of the Chamber of Deputies and of the state legislatures; the state governors; the Attorney-General of the Republic; the Brazilian Bar Association; a political party which has a member in Congress; and a trade union, a confederation or a national professional association.

Other constitutional measures were introduced in 1988 which further increased the importance and the independence of the Judiciary as an arbitrator between levels of government and between the Executive and the Legislative Branches when compared to the 1967/69 Constitution. The latter prevented the Judiciary from having its own budget, meaning its financial independence, and from deciding about its internal administrative affairs. The existence of governors and mayors of the main cities elected indirectly, the emphasis on negotiated grants as an important source of sub-national revenue, and the existence of a Legislature with restricted functions prevented the sub-national units and the Legislature from bringing their conflicts to the Judiciary.

Although the 1988 Constitution increased the power, the jurisdiction and the independence of the Judiciary, several problems hamper its performance. First, Brazilian constitutions have traditionally been too analytical and concerned with issues that would be better placed in ordinary laws. Therefore, much of the interpretation of the many vague or complex mandates are left to the Judiciary which is a non-elected body. Second, by broadening the legislative powers of control and inspection and by giving the Legislature the power to amend any bill from the Executive and, at the same time, by granting the Executive

¹⁸ The main judicial disputes between levels of government are summarised in Horta (1989).

the right to legislate by means of provisional decrees, the Constitution placed on the Judiciary the burden of controlling and mediating conflicts between powers elected by popular vote. Third, the major areas of contention have so far been between the federal Executive and Congress and between the former and the states. Intergovernmental disputes have been motivated by constant changes in the tax system. The Judiciary has tended to decide those disputes in favour of the sub-national levels. Sadek (1995) noted that confrontations between the Executive and Congress have happened so many times since the promulgation of the 1988 Constitution that the Federal Superior Tribunal has become one of the main political actors in Brazil and has constantly been forced to decide against either the Executive or the Legislature. Fourth, there has been great dissatisfaction with the work of the Judiciary, as shown by Sadek's research (1995). The most visible problem is its heavy structure and lack of agility, which has been increased by the growing number of actions for unconstitutionality. Sadek (1995: 163) reported that, according to the former president of the Federal Superior Tribunal Sidney Sanches, in two years over 500 legal actions for unconstitutionality were brought before the Tribunal, as compared to just over 1,000 in the previous twenty years.

The role of the Judiciary has become crucial in overcoming the federal government's financial problems. The federal Executive has not counted on the Judiciary's help in its relationship with the sub-national governments. Just as in the USA during Roosevelt's New Deal and in Canada's recent experience, both mentioned by Duchacek (1987: 258), Brazil's high constitutional court has shown that its political commitment rests more on the sub-national than on the federal level because its decisions generally favour the former.

2.2 The Impact of Decentralisation upon the Federal Government

The 1988 Constitution deeply changed intergovernmental relations and the federation. Two points of the 1988 Charter were of particular importance: (i) fiscal reform and (ii) common responsibilities between the three levels of government.

2.2.1 The Fiscal Role of the Federal Government

The Brazilian fiscal system has experienced many changes in the last two decades, all related to the achievement of economic or political goals. After the fiscal reform of 1966, where centralisation was the aim and result, the military regime started to adopt more flexible

measures, especially that of increasing local revenue ¹⁹ but the most far-reaching change occurred with the 1988 Constitution. The tension between local and regional needs for expenditure and federal restriction had always been 'solved' through direct or indirect federal grants to state and local levels. Subsidies and tax relief that the federal government grants to the private sector can be considered as indirect grants because, although they are not directly allocated to any specific sub-national government, they always result in an allocation of national resources to the local economy. Social and economic infrastructural developments carried out by the federal government in local and state territories may be considered indirect grants as well.

Direct grants consist of the following: (i) constitutional grants; (ii) negotiated grants, made informally, through bilateral political negotiations; (iii) Central Bank guarantees on state and local government borrowing; (iv) the role of the Central Bank in regularly bailing out banks owned by the various states. These banks were used as a kitty by the state government and frequently got into difficulties ²⁰.

The Brazilian tax system separates taxes and contributions. The main difference is that a tax has to follow the constitutional mandate which requires that changes in its levy should only be put into force in the following fiscal year through a constitutional amendment, whereas the rates of contributions can be changed by ordinary law, to take effect ninety days after its promulgation. Only the federal government is allowed to institute contributions. The only exception to federally exclusive jurisdiction is the contribution levied by sub-national governments on the salaries paid to their civil servants which are destined to finance their welfare and pension systems. According to clause 149 of the 1988 Constitution, contributions are of three categories: social, economic and professional. Contributions comprise taxes paid by employers on payroll, invoices and profits plus taxes paid by employees and by lotteries. When contributions are levied on payroll, either when they are paid by employers or by employees, they are known as Payroll Tax. In 1994 there were around twelve such contributions and some of them make up different funds. The most important contributions and funds are the FGTS, PIS-PASEP, PIN-PROTERRA, CONFINS (ex-FINSOCIAL),

¹⁹ An example of these continuous changes is that during the 1967/69 Constitution, five amendments were made on fiscal changes (in 1975, 1977, 1980, 1983 and 1985). The fiscal amendments began with the military's project to return democratic rule.

²⁰ These topics are analysed in more detail in Chapter 5.

levied on corporations' invoices, CSLL, the employers' contributions over profits, and *salário-educação* (education salary). These resources are earmarked for specific expenditures such as the social security system, unemployment benefit, education, health and welfare programmes and for quangos administered by confederations of corporations. Two contributions, the FGTS and the PIS-PASEP, are levied by the federal government but they are made up of funds which belong to the workers. Contributions are not covered by the scheme of revenue-sharing with sub-national governments, with the exception of the *salário-educação*, two-thirds of which is transferred to the states and municipalities according to a formula established by federal law and proportional to the amount collected in each unit. Contributions are, however, transferred from the federal to the sub-national governments for specific purposes. The most important one is for the financing of the health care programme, called SUS, in which sub-national governments receive revenue from the federal level to provide health care under a decentralised scheme.

The 1988 Constitution made important changes in the fiscal system. The lack of political and financial strength in sub-national governments had been held responsible for the increase in government inefficiency and for the gap between public policies and local needs. Financially dominated at the federal level, sub-national governments were seen as its branch administration, although the political role of the state and local levels was of great importance. Evidence of disagreement with federal financial dominance appeared at the first popular election of state governors in 1982, still during the military regime. Chaos in the states' finances' was denounced by the newly elected governors, followed by their constant pressure for fiscal reform with the aim of a more balanced (or decentralised) distribution of public revenue.

However, severe financial constraints on the federal government, because of the recession of the early 1980s, and the continuance of the military regime, prevented the realisation of the sub-national quest for a more decentralised fiscal system. The indirect presidential election in 1985 renewed expectations of a deeper fiscal reform. It was not a coincidence that fiscal reform was one of the main political commitments of the new civilian government. However, again, only minor changes were made. Federal government was still strong enough to cope with the pressure from the sub-national governments and Congress was under the rule of the military Constitution and did not have much room to manoeuvre with the pressures made by local and state politicians. The result was a quasi-reform by

Constitutional Amendment No. 23 issued on 1 December 1983, known as the Passos Porto Amendment, which increased federal constitutional grants to states and municipalities. The Constituent National Assembly, which started sitting in 1987, became the institutional and political scenario of the reform. Greater financial autonomy was considered a key condition for federal equilibrium and for democracy.

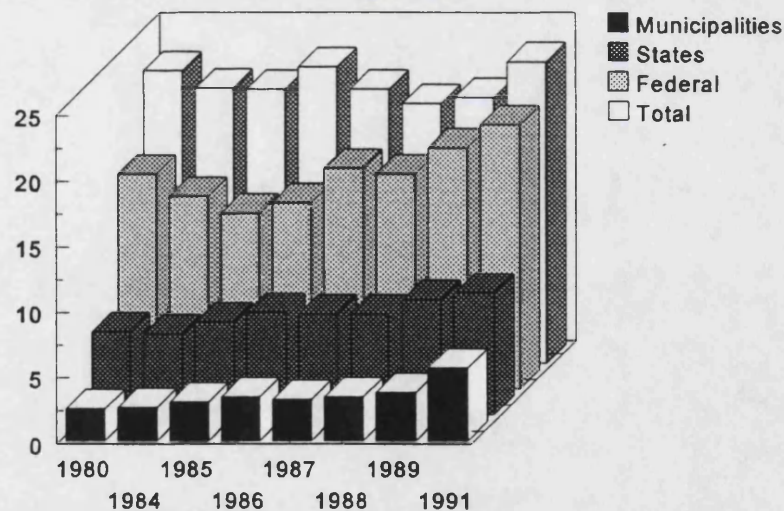
2.2.1.1 The Impact of the 1988 Constitution on Federal Revenues

When the Constitution was promulgated, on 6 October 1988, the country's economic predicaments were deeper than at the beginning of the decade. The failure of the 1986 and 1987 stabilisation plans had been followed by a reduction in public finance, bringing additional constraints to fiscal policy and deficit control. In addition, the proportion of net fiscal resources decreased during the late 1980s when compared with GDP (Figure 2.1). These trends worsened the distributive cleavages between levels of government because there were fewer resources to share and to transfer. The decrease in gross revenue from 25% of GDP between 1970-83 to 20% in 1989 was not because of a policy for the reduction of tax, but because of inflation, subsidies, tax relief and recession.

Since 1991 gross revenue has increased as compared to the late 1980s but has remained stable at around 23% of GDP, similar to what was achieved during the 1970s, when inflation was lower and the economy grew at higher levels ²¹.

The financial resources of sub-national

Figure 2.1 Resources Available by Level of Government
GDP Percentage
1980-1991



Source: Afonso (1994: 48)

²¹ The percentage of the gross revenue in GDP is above countries with similar economies and below developed countries (Afonso, 1994: 8). However, the Minister of Finance in late 1994, Ciro Gomes, complained about Brazil's percentage as compared to the USA's 30%, Japan's 34% and European countries' 40% (*Gazeta Mercantil*, 1994).

governments further increased after the 1988 Constitution. Between 1970 and 1985 the federal government remained with an average of 48.5% of all public revenue, but the 1988 Constitution inverted the figures, as shown in Table 2.2 ²².

Table 2.2 Distribution of Fiscal Revenue in Percentage, 1985-1993

Level of Government	Distribution before the 1988 Constitution		Estimated Distribution after the 1988 Constitution	
	1985		1993 (*)	
	Share	GDP	Share	GDP
Federal	44.6	6.7	36.5	5.7
State	37.2	5.6	40.7	6.3
Local	18.2	2.7	22.8	3.5
Total	100.0	15.1	100.0	15.6

Source: Rezende (1990: 161)

Note: (*)1993 was the year when the 1988 fiscal reform was completely implemented.

Although the 1988 Constitution changed the distribution of fiscal resources between levels of government, the impact of these changes when compared with GDP was not too significant: the losses of the federal government to the sub-national level were less than 1% of GDP, which meant in estimated terms 8.1% of the federal revenue had the previous system been maintained. On the other hand, resources available to the sub-national governments moved from 8.7% of GDP in 1980 to 14.8% in 1991; their fiscal revenue increased from 6.1% of GDP to 9.1% in the same period and to 7.1% in 1992 ²³. On the other hand, the federal government's tax revenue declined from 16.2% of GDP in 1980 to 13.9% in 1991, whereas revenue from Social and Economic Contributions has risen ²⁴.

The increase in sub-national revenues was made in several ways, one of them by the distribution of fiscal responsibility between levels of government, as shown in Table 2.3. Besides the taxes referred to in the table, the federal government may create new taxes, inclusive in the case of wars, and the three levels may charge a Betterment Tax when a property is improved because of public investment.

²² Figures presented in the table only take into account resources from taxes and do not include other transfers, such as those under the Social Contributions' scheme.

²³ Unpublished data from the CEEG/FGV. 'Resources available' means the amount sub-national governments can spend after intergovernmental transfers plus their shares in transfers from the federal educational fund the FNDE. Despite not being an item in the budgetary classification, the use of the concept of resources available is more accurate than that of net revenue. Tax revenue means the revenue directly collected by the governments. The figures presented in the paragraph also incorporate revenues from financial operations, which have been an additional source of revenue given that sub-national governments invest their tax revenue and transfers to cope with high inflation. This is why these figures are different from those presented in Table 2.2.

²⁴ Unpublished data from the CEEG/FGV.

Table 2.3 Distribution of Fiscal Responsibility by Level of Government

Level of Government	Under the 1966 Fiscal Reform	Under and After the 1988 Constitution
Federal	.Income Tax (IR)	.Income Tax (IR)
	.Tax on Industrial Products (IPI)	.Tax on Industrial Products (IPI)
	.Tax on Financial Operations and Insurance (IOF)	.Tax on Financial Operations and Insurance (IOF)
	.Import Tax (II)	.Import Tax (II)
	.Export Tax (IE)	.Export Tax (IE)
	.Rural Property Tax (ITR)	.Rural Property Tax (ITR)
	.Hydroelectricity Tax (IUÉE)	
	.Mineral Products Tax (IUM)	
	.Fuel and Lubricant Tax (IULC)	
	.Tax on Communication Services	
	.Transportation Tax (IT)	
		.Large Fortunes (Wealth) Tax
		.Temporary Tax on Financial Transactions (IPMF)
State	.Value-added Tax (ICM)	.Value-added, Communication and Transportation Tax (ICMS)
	.Motor Vehicles Registration Tax (IPVA)	.Motor Vehicles Registration Tax (IPVA)
	.Property Transfers, Inheritance and Gift Tax (ITBI)	.Inheritance and Gift Tax (ITCMD)
		.Supplementary Capital Gains Tax
Municipality	.Services Tax (ISS)	.Services Tax (ISS)
	.Urban Property Tax (IPTU)	.Urban Property Tax (IPTU)
	.Frontage Tax	.Frontage Tax
		.Property Transfers
		.Tax on Retail Sales of Fuels Except Diesel (IVVC)

One feature of the Brazilian tax system is its constant change. Some examples can be cited. Income Tax legislation has been submitted to an average of fifteen changes a year since 1988 [Afonso, 16 April 1993]²⁵. The state Tax on Supplementary Capital Gains and the municipal Tax on Retail Sales of Fuels Except Diesel (IVVC) will be abolished on 1 January 1996 as a result of Constitutional Amendment No. 3 approved in August 1993²⁶. The same amendment created the federal Temporary Tax on Financial Transactions (IPMF) and determined its extinction on 31 December 1994. The IPMF was approved by Congress after nine months of intense negotiations and has been the subject of several legal actions since its promulgation. With the extinction of the IPMF the federal government lost revenues estimated

²⁵ When interview quotations are used in the text, they are identified by the name of the interviewee, with the date of the interview in brackets.

²⁶ The state Tax on Supplementary Capital Gains was considered unconstitutional by the Superior Federal Tribunal on the grounds that its levying required a federal law to govern the fiscal boundaries between the states.

at \$4 billion (West Merchant Bank, 1994). To counteract this loss, in early 1995 Congress approved a bill proposed by the federal government to raise the rate of corporate Income Tax, which would raise resources estimated at \$2 billion (*Folha de São Paulo*, 1995).

The trend towards the decentralisation of taxation responsibilities is best illustrated by the changes that took place in the domain of the Value-Added Tax (ICM). Pre-1988 arrangements empowered the federal government to levy special taxes on communications, fuels, electric power, minerals and transport. However, all these five separate taxes were abolished by the 1988 Constitution, their basis being transferred to the state level to constitute the ICMS, which is the country's biggest tax and the second public revenue after Social Contributions ²⁷.

The federal government now has under its exclusive responsibility the following taxes:

(i) Import and Export Taxes which lost importance first because of the world recession and more recently because of the policy of lowering trade barriers; (ii) the Tax on Financial Operations and Insurance (IOF) which has an erratic performance but which increases whenever the federal government faces more serious cash-flow problems because the Constitution allows the raising of its rates without congressional approval; (iii) the Large Fortunes Tax, which has not so far been put into force because it needs congressional approval, which has already been denied once; and (iv) the Social and Economic Contributions which have been used since the promulgation of the 1988 Constitution by the federal government to counteract its losses but which are earmarked for specific expenditures.

Moreover, the decade was marked by high inflation, tax evasion and some years of recession. The problem of inflation has been tackled through several stabilisation plans. Since 1979 Brazil has experienced twelve stabilisation plans plus the *Real* Plan issued in July 1994 ²⁸. As for recession, despite a negative performance in the five years between 1980 and 1992, GDP grew at 4.1% in 1993 and at 4.5% in 1994 (West Merchant Bank, 1994: 11). Tax evasion, however, remains a problem. A CPI - *Comissão Parlamentar de Inquérito* (Parliamentary Inquiry Commission) set up by Congress estimated tax evasion at \$82 billion

²⁷ In 1990 the ICMS represented 26.5% of all taxes together, followed by the Payroll Tax, which is part of the Social Contributions, at 18.7% and Income Tax at 18.1%. The IPI, the second biggest federal tax, represented 8.4%, followed by CONFINS at 5.4%, FGTS at 5.1%, IOF at 4.5% and PIS-PASEP at 4% (Dain, 1992: 43).

²⁸ For an account of the twelve stabilisation plans before the *Real*, see Bresser Pereira (1993b).

in 1993 (*O Globo*, 1994). According to a practitioner interviewed, Aurélio Nonô, tax evasion is the main problem of the fiscal system. He argued that the Federal Revenue Bureau has 5,000 tax collectors, 2,000 of whom are in administrative positions, and that

*the Federal Revenue Bureau knows who are the main tax evaders, but it cannot sue them for political reasons, given that they are either Congress members or have representatives in Congress. In the North-East, for instance, those who do not pay are the sugar plantation owners, and they are all Congress members. Other group of evaders are the big landowners, and they too are in Congress*²⁹. *If the government had political room to sue these people, its revenue would double. The amount they owe is more than twice the size of the government's deficit* [13 May 1993].

The result of this picture and of the struggle between the federal and the sub-national governments has been a taxation and financial systems in complete disarray, with new taxes being introduced to temporarily cope with the federal government's cash-flow problems, and others abolished, either by the Judiciary or by the government's initiative, because of pressures from entrepreneurs, the media and opinion formers³⁰.

2.2.1.2 Revenue Sharing under the 1988 Constitution

Although federal taxes were reduced, this reduction does not mean that the federal government decreased its amount of grants to sub-national governments. The main fiscal decision made by the Constituent National Assembly was to establish decentralisation through a wide range of federal grants to sub-national governments (Shah, 1991: 15), as shown in Table 2.4. The decentralisation of tax assignment decreases the federal government's control over the revenue it collects and gives it the burden of collecting the higher number of taxes, therefore risking being disapproved of by the electorate. Revenue sharing arrangements are specified in the 1988 Constitution, which provides strict criteria for the allocation of revenue to different levels of government and some guidelines on their distribution through special funds among units at the same level. Distribution criteria are specified by parliamentary regulations. There is no stipulation about the final disposition of these funds by the receiving government, except the percentage that each level has to spend on education, i.e. the federal government must spend at least 18% of its revenue on education, and states and municipalities

²⁹ Those who represent rural interests in Congress are estimated at ninety-nine members, being the biggest interest group in Congress (*Veja*, 1995: 26).

³⁰ The ambiguities of tax legislation has led the Judiciary to interpret it against the government and in favour of the taxpayers. It is estimated that the federal government up to 1993 lost a revenue of \$3 billion because of judicial decisions [Nonô, 13 May 1993]. It was reported that in 1993 350,000 legal actions were on course against the federal Treasury challenging the payment of \$6 billion (*Gazeta Mercantil*, 1993).

25% of all tax revenues and transfers.

Table 2.4 Tax Assignment in Brazil - 1990

Revenue Source	Responsibility			Distribution of Revenues		
	Base	Rate	Admn.	Federal	States	Municipal
Federal (F):						
.Income Tax				53.0	24.5 (a)	22.5
Personal	F	F,S	F			
Corporate	F	F	F			
.Large Fortunes Tax	F	F	F	100.0	0.0	0.0
.Import Tax	F	F	F	100.0	0.0	0.0
.Export Tax	F	F	F	100.0	0.0	0.0
.Tax on Financial Operations and Insurance (IOF)	F	F	F	100.0	0.0	0.0
.IOF/gold	F	F	F	0.0	30.0	70.0
.Rural Property Tax	F	F	F	50.0	0.0	50.0
.Tax on Industrial Products	F	F	F	43.0	32.0 (b)	25.0
States (S):						
.General Value-added Tax	S	S	S	0.0	75.0	25.0
.Inheritance and Gift Taxes	S	S	S	0.0	100.0	0.0
.Motor Vehicles Registration Tax	S	S	S	0.0	50.0	50.0
.Supplementary Capital Gains Tax	S	S	S	0.0	100.0	0.0
Municipalities (M):						
.Services Tax	M	M	M	0.0	0.0	100.0
.Urban Property Tax	M	M	M	0.0	0.0	100.0
.Tax on Retail Sales of Fuel except Diesel	M	M	M	0.0	0.0	100.0
.Property Transfers	M	M	M	0.0	0.0	100.0

Source: Based on Shah (1991: 13) and Afonso (1994: 13)

- Notes: (a) Includes 3% to finance programmes to be administered by Development Banks of the North-East, North and Centre-West regions.
- (b) Includes (a) plus an additional 10% of the IPI as compensation to exporting states for loss of revenues from the ICMS on account of exports.

Federal revenues from Income Tax (IR) and the Tax on Industrial Products (IPI) are shared through participation funds established for this purpose. At the state level the fund is called FPE - *Fundo de Participação dos Estados* and at local level it is the FPM - *Fundo de Participação dos Municípios*. For FPE the federal government deposits 21.5% of the revenue collected from the IR and the IPI. In determining state shares from the FPE, the fund first sets aside 85% for distribution to states in the North, North-East and Centre-West regions and the remaining 15% for the South and the South-East. The formula considers the population size and an inverse of per capita income. For FPM the federal government deposits 22.5%, 10% being to the state capitals. The distribution of the remaining 90% to other municipalities is

also by a formula that considers population size and per capita income ³¹.

Apart from this revenue sharing, the sub-national governments enjoy the following participation in the Union's revenue: (i) two-thirds of the federal fund for education, the FNDE, constituted with resources from the education salary, which is part of the Social Contributions; (ii) Income Tax deducted at source from sub-national public servants; and (iii) royalties for the exploitation of oil, hydroelectricity and gas ³². In case the federal government should introduce a new tax, 20% would be shared with the states.

Despite the increase in constitutional grants, negotiated grants were still used by the federal government to win the support of sub-national governments. The system of negotiated grants was also used by the military regime to gain legitimacy and it provides additional clues about the important role of sub-national governments in the political system (Ames, 1987; Medeiros, 1986), a point to be developed in more detail in Chapter 5.

Despite the increase in sub-national finances, state and local levels still pressure the federal government for more fiscal resources, more grants and more financial help to their state commercial banks. Between 1990 and 1991 six state banks were closed by the Central Bank because of their high debts to the federal government and in early 1995 the Central Bank decided to intervene in several state commercial banks, the most important being those of Rio de Janeiro and São Paulo ³³.

State and local governments also pressure for the 'federalisation' of their debts. An example of the 'federalisation' of state debt happened in April 1992. The federal government took over the \$2.5 billion debt owed by Rio de Janeiro's underground in exchange for the political support of Rio de Janeiro state governor Brizola, a former opponent of President Collor. This upset other state governors who wanted similar treatment.

The federal government has reacted to these pressures in an ambiguous way. The Presidents had tried to create a feeling that the state and local levels were responsible for

³¹ See Shah (1991) for more details about formula, criteria and implementation of the FPE and FPM funds. In 1994 some changes were introduced into the formula. The original formula was based on the proportion of the population estimated by the IBGE, which was replaced by a uniform rate based on political agreements among regions. Afonso (1994: 73) suggested that the shares of each state and municipality did not vary substantially following the introduction of the new formula.

³² These natural resources are exploited by the federal government's state-owned companies. None of these revenue sharing schemes should be considered part of the fiscal federalism concept of horizontal balance because what is sent to the receiving government is not based on its need.

³³ These topics are developed in more detail in Chapter 5.

public sector problems, which include the fiscal crisis and public deficit. On the other hand, and because of the increase in the power of the Legislature granted by the Constitution, the civilian Presidents need the state governors' support to obtain congressional approval for their policies because of the influence the governors exert over the state's delegation in Congress. Given that the Presidents have difficulties in guaranteeing a strong and stable parliamentary base, they need to maintain good relations with the governors who can influence state representation in Congress³⁴. In a milieu of fragmentation and fragility of political parties and of an electoral system of open-list proportional representation, the governors become one of the main players in assuring the federal government of its capacity to govern. This picture shows that the federal government alone is not in a position to overcome the fiscal constraints of Brazil's public finance.

2.2.2 Distribution of Public Responsibilities under the 1988 Constitution

With redemocratisation, political and administrative decentralisation was considered a key issue, together with a better distribution of social responsibility among the private sector, the sub-national governments and society. The objective was to create a greater degree of solidarity among these actors (Souza, 1989). These demands were voiced in the 1988 Constitution, which brought important changes to the political and administrative systems, especially to intergovernmental relations and to the roles played by institutions like the Legislature. The changes in intergovernmental relations were more visible in fiscal reform than in the responsibilities allocated to each level of government, because the new Constitution emphasised common responsibilities, or concurrent powers, between the three levels of government. For such an innovation the Constitution established that there should be a law defining the rules of cooperation between the three levels of government. This law has not as yet been promulgated³⁵. The Constitution is very detailed about the mechanisms of intergovernmental transfers but is not explicit in defining rules for the transference of expenditure responsibilities. The 1988 Constitution leaves a large array of functions under the common responsibilities of the federal, state and local levels as shown in Table 2.5.

³⁴ An example of former President Collor's concession was the approval by Congress at the end of 1991 of Law 8388 proposed by the Executive to roll over state and local debts to the federal government over twenty years, with the option for an extension of another ten years.

³⁵ So far neither a parliamentarian nor the federal government has presented a proposal to regulate the subject.

Table 2.5 Expenditure Assignment in Brazil

Responsible Level of Government	Expenditure Category
Federal only	Defence Foreign Affairs International Trade Currency, banking Use of water resources National Highways Planning: national and regional Guidelines: urban development, housing, sewage, urban transport Postal Service Police: federal and frontier areas Regulation of: labour, energy, interstate commerce, telecommunications, insurance, interstate transport, mining, employment, immigration, citizenship and native rights Social Security National Statistical System Guidelines and basis for national education
Federal-State-Municipality (Shared)	Health and public assistance Protection of the disable persons Historical, artistic, and cultural preservation Protection of the environment and the natural resources Culture, Education, Science Forests, animals, and flora protection Agriculture, Food distribution Housing, Sanitation Combating poverty and social marginalisation Exploration of minerals and hydro-electricity Traffic safety Small business improvement policies Tourism, Leisure
State only	Residual powers, i.e. any subject not assigned to federal or municipal levels by the Constitution
Municipal only	Public transport (intracity) Pre-school and elementary education Preventive health care Land use Historical and cultural preservation

Until the 1988 Constitution, Brazil's experience was characterised, on the one hand, by the strong concentration of private responsibility at the federal level, and, on the other, by the intense use of common responsibility, especially in the social services, where the three levels of government overlap in their duty for the provision of services, often leading to neglect. However, during the military regime the final disposition of revenue was concentrated at the federal level, and public policies were decided by the federal government at its own discretion. In this sense the use of common responsibilities was a way to prevent the initiatives of sub-national governments that did not conform to military/technocratic wishes and to maintain their dependency on and loyalty to federal political and economic goals.

On the other hand, the 1988 Constitution kept the discretion to issue certain legislation

over functions which are to be shared between the three levels under the exclusive responsibility of the federal government. Article 22 states that only the federal government can legislate on the following functions considered under the scheme of concurrent power: hydro-electricity; transit and transport; mines and mineral activities; and guidelines for education. This means that despite the intense use of concurrent powers, the decision-making process is still centralised when it concerns the above-mentioned issues ³⁶.

The 1988 Constitution adopted other measures that further empowered sub-national governments: (i) the municipalities became part of the federation together with the states, a unique case among federal countries and this furthered triple federalism; (ii) the municipalities may have their own constitutional law known as *Lei Orgânica Municipal*; and (iii) the creation of a metropolitan region is no longer a federal issue but is under the aegis of the states. During the military regime, the federal government could exert a measure of control over the municipalities and the states through the metropolitan regions turning the taps on grants on or off, which amounted to a form of federal intervention (Souza, 1985).

2.2.3 Fiscal Constraints under the 1988 Constitution

A fiscal crisis exists when public resources cannot be expanded to accomplish government tasks or liabilities, i.e. when the financial pattern is in imbalance. In Brazil the State, especially the federal government, has historically had a strong participation in the provision of social services and in the economy, not only in its traditional role but mainly through direct intervention as producer and as financier. The Brazilian pattern of economic growth followed the classical model of the first steps of development, i.e. resources were achieved through external loans and public investment, with consequences for public finance and for the fiscal system. This is why current economic constraints also reflect the fiscal crisis of the federal government.

Since the 1930s Brazilian public policies have focused on the aim of industrialisation through import substitution. Various federal enterprises were created to fill the empty spaces in industrial production, and to supply goods and services to the private sector. This strategy increased during the military regime. In the provision of social services, also since industrialisation, the government has had a major role in the provision of welfare benefits and services such as education and health, the two latter, although universal, have been used

³⁶ I am grateful to M. D'Alva Kinzo for pointing this out to me.

mainly by the poor. In 1986 the three levels of government spent 18.3% of GDP on social programmes, half of it by the federal government, which meant a per capita expenditure of around \$400. The main item was the social security system at 43%, followed by education at 23% (UNICAMP/NEPP, 1991: 72) ³⁷.

Brazil's fiscal crisis can be seen in many ways, mainly: (i) in the oscillation of public revenue; (ii) in the increase in sub-national expenditure and (iii) in the short maturity of the public debt, which suggests the State's loss of credit ³⁸. One of the consequences of the fiscal crisis is the constraint on public investment which prevents the development of infrastructure and services. On the other hand, public savings have been declining since the early 1980s while private savings have been rising. Government savings dropped from 7% of GDP in 1973 to -1.9% in 1988, while private savings, including those of state-owned companies, rose from 14% in 1973 to 21% in 1988 ³⁹. This decline is a new trend in Brazil. The 1980s and 1990s were also affected by the interruption in foreign investment and loans.

2.2.3.1 Sub-National Governments and Federal Fiscal Constraints

The 1988 Constitution has been blamed by the federal government, some scholars, many economists and by international financial institutions such as the IMF, as partially responsible for the fiscal crisis, because it decreased federal revenue and increased the revenue of the states and municipalities without transferring services and activities. In fact, decentralisation is the dominant characteristic of the system adopted in 1988 not only for tax assignments and intergovernmental transfers, but also in the case of expenditure. The 1988 Constitution placed the Brazilian sub-national governments very close to the average of most industrialised federal countries, as Table 2.6 shows.

³⁷ GDP expenditure on social programmes is not so low when compared to developed countries, as opposed to per capita expenditure. The USA spent in 1985 18.1% of its GDP in social programmes, with a per capita expenditure of \$2,835 and the OECD countries spent \$2,273 per capita and 25.2% of their GDP (Rose, 1989: 83).

³⁸ The origin of the current fiscal crisis, which began in the 1980s, is subjected to heated debate among economists. Haddad (1995: 17) suggested that it resulted from the government decision to take a considerable part of the external debt burden that would otherwise be supported by the private sector. Simonsen (1992: 7) blamed the domestic and external debt and inflation. Dain (1992: 35) added to these reasons the increase in subsidies and a bad indexation of the taxes.

³⁹ Unpublished data from the IBGE, Central Bank and Ministry of Planning.

Table 2.6 Total Expenditure by Level of Government in Some Federal Countries

Country	Ending year	Level of Government		
		Central	State	Local
Australia	1987	52.8	40.4	6.8
Austria	1987	70.4	12.7	16.9
Canada	1987	41.3	40.3	18.4
Germany	1983	58.7	21.5	19.8
United States	1987	60.3	17.3	22.4
Switzerland	1984	47.5	28.3	24.2
Brazil	1987	65.8	24.5	9.7
	1992	56.0	28.0	16.0

Sources: Levin(1991:12) and ABRASF(1992:9)

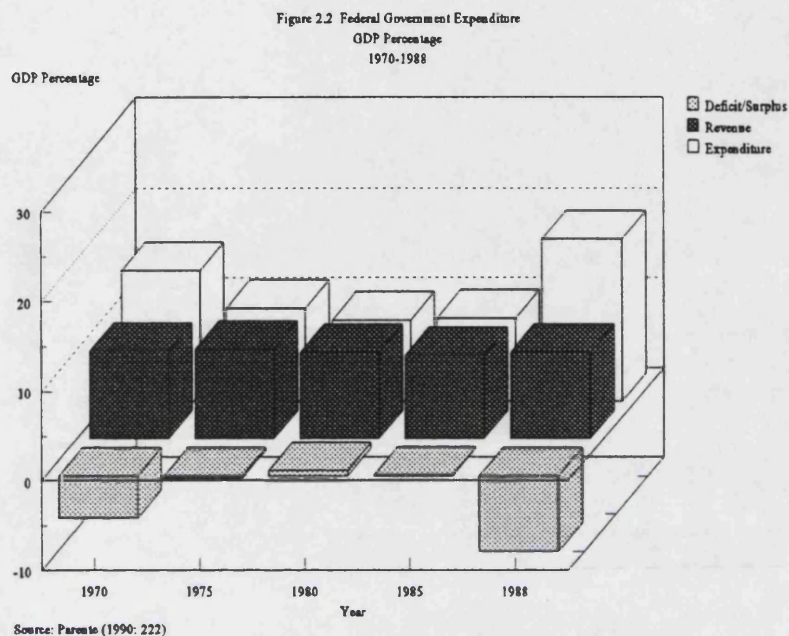
Among developing countries, Brazil has the most decentralised fiscal system. In Mexico, a highly centralised federation, 80% of public expenditure is controlled by the central government (Shah, 1991: 24-6). In India, the federal government also dominates the federation, undertaking 70% of expenditure in 1992. The same happens in Indonesia and South Africa (Boadway, Roberts and Shah, 1994: 47). In Russia the fiscal system is still under reform, but in 1992, 60% of the revenue collected was retained by the federal government. Changes are being introduced to reduce sub-national governments' share in the national revenue (Wallich, 1992: 33-4). In China, although the central government only undertakes 47% of direct expenditure, the degree of local autonomy in determining expenditure is limited, given that local budgets are part of a consolidated budget comprising all government levels (Boadway, Roberts and Shah, 1994: 48).

By the time the Constitution was being written, between 1987 and 1988, the municipalities were much better-off than they had ever been in the past thirty years (Serra and Afonso, 1991), just the opposite of what the strong lobby for strengthening local government was arguing at that time. This trend shows the degree to which Congress was swayed by sub-national lobbies. The states have recovered the same position that they held in the early 1970s, whereas the municipalities have been the outright winners regarding the increase of tax revenues.

However, the approach that views fiscal decentralisation as the main or the only element responsible for the public deficit and fiscal crisis does not stand up to more detailed data and analysis. Federal government expenditure (Figure 2.2) shows that fiscal imbalance was a trend well before the 1988 Constitution was promulgated, especially during the 'miracle'

years ⁴⁰: the federal deficit leapt from 4.7% of GDP in 1970 to 8.4% in 1988 (Parente, 1990: 327).

Treasury revenue has been relatively stable, when taken as a percentage of GDP, but a marked decrease occurred in the collection of federal taxes, except in the Social Contributions. The decrease in expenditure which occurred after 1975, ceased in 1988. Taking



each element of expenditure, the most significant increase occurred in the transfers to the state and local level, registering almost 100% increase from 1970 to 1988, even before the stronger effects of the 1988 Constitution. While federal revenue remained at roughly the same level as during the 'miracle' years, overall spending, including the transfers to sub-national governments, rose steadily, which shows that the 1988 Constitution only followed the trend of revenue transfers to sub-national governments which already existed ⁴¹.

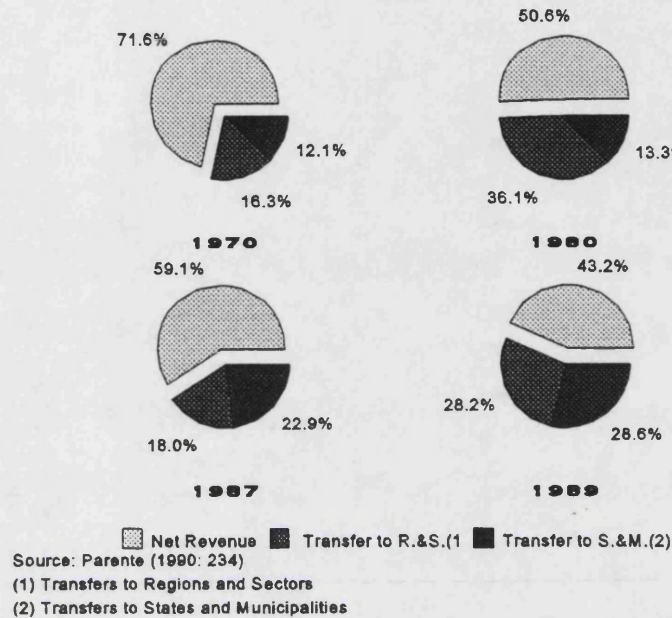
In addition, the federal Treasury has financial obligations to certain sectors, such as education, health and social security, and to regions, like the North, the North-East, and the

⁴⁰ Brazilian economic growth accelerated during the 1970s, averaging close to 10% per annum and this growth was known as the economic 'miracle'.

⁴¹ The high increase of federal expenditure in 1988 is also explained by the extraordinary use of negotiated grants in the course of the constitutional process to guarantee some of the short-term demands of the President at that time, a point to be developed in more detail in Chapters 4 and 5.

Centre-West, according to constitutional mandates. The federal government has also the constitutional bidding to support the creation of new states. Despite not being a constitutional mandate, the federal government finances several local services in the Federal District. Figure 2.3 shows the increased revenue transferred to sectors,

Figure 2.3 Federal Revenue Percentage Composition 1970-1989



regions and sub-national governments. During the 1980s revenue transfers were very high to regions and sectors but dropped in 1987. In the 1989 fiscal year transfers made by the federal government rose to a record level, especially transfers to sub-national governments which represented the same amount of revenue as that transferred to regions and sectors.

2.2.3.2 Other Components of the Federal Fiscal Constraints

If the problems created by the increase in sub-national revenues are in the political agenda, an important component of federal fiscal constraint has not so far been scrutinised: the amount of subsidies and tax reliefs given to the middle class, regions and corporations, which explain why leading economists and ex-Finance Ministers (Dornelles, 1992; Nóbrega, 1993; Rabello de Castro and Brito, 1992; Simonsen, 1992) lay sole blame on the sub-national governments for federal fiscal constraints. Figure 2.4 shows the estimated distribution of tax relief to be granted by the Treasury in 1995.

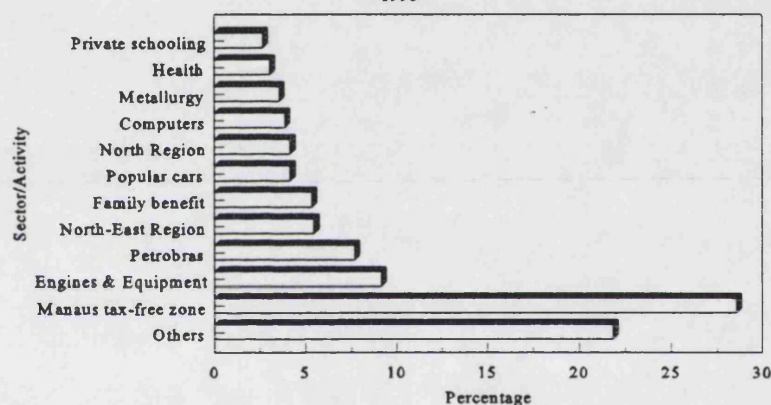
The amount of tax relief in 1995 is similar to what was granted in 1994, around 1.4% of GDP. The middle class benefits from Income Tax rebates on what it spends on private schools and private health care, family benefit and in the purchase of cars. The private sector gets the biggest share, and among the regions the North, where the tax-free zone of Manaus is located, is the overall winner. Whereas for subsidies, unpublished data from the CEEG/FGV

show that at the beginning of the decade they were responsible for an average of 20% of federal expenditure. After 1985 they presented a tendency to decrease, reaching their lowest figure in 1989, i.e. 5% of federal expenditure, but in 1991 they moved up to 7.7%. Subsidies are resources which will not return to the Treasury and which are transferred to economic sectors. They comprise artificially low prices of goods and services produced by state-owned companies, especially public utilities; government's purchase of imported products to supply the market or to decrease internal prices; advanced payments for production of goods; plus loans by governmental agencies at subsidised interest rates⁴².

The problem with tax relief and subsidies in Brazil rests on the difficulty in withdrawing them once the conditions for which they were set up have changed, given Congress's and the government's sensitivity to pressure groups, especially those from corporations and regions.

Other political and financial pressures have had an impact on the fiscal system: (i) the compression of public tariffs for all state-owned companies in utilities like electricity, telephone, railway, mail, and on goods like steel; (ii) the role performed by the Legislature after the 1988 Constitution, when its power was considerably increased in several matters. Examples of their new rights are: the power to modify the budget, tax proposals and governmental plans; the approval of budget surpluses; the power to veto federal executive regulations; Senate approval of various presidential nominees, including the Central Bank's directors; Senate approval of all treaties and international agreements with foreign governments, private creditor banks and international financial agencies; the congressional

Figure 2.4 Estimated Tax Relief to Individuals, Sectors and Regions
Percentage of Total Tax Relief
1995



Source: Veja (1995: 29)

⁴² The BNDES, a federal government development bank, approved in 1994 subsidised loans to the amount of \$5,9 billion (BNDES, 1995).

approval of TV and radio concessions and renewals, which are used by the federal government to influence votes in Congress. The President lost most of the authoritarian and exclusive powers of the military regime.

The power to modify the budget became one of Congress's greatest influences over government expenditure and it is a point generally ignored by analysts with a few exceptions such as Franco (1993). The scheme works as follows: inflation seriously distorts the budgetary process. Because the budget is not indexed, the nominal growth of revenues and spending overtake budgeted values within a few months. The government then has to send Congress amendments to the budget to be able to spend 'excess revenues', which are in fact only a nominal excess. This means that the federal government has to negotiate budgetary revenues several times during the same fiscal year, giving Congress the chance to create entirely new expenditures in each extra-budgetary round.

Therefore, the view that the failure to decentralise responsibilities from the federal to sub-national government should be the only element to be blamed for the federal government's constraints does not stand up to a more detailed analysis. As mentioned above, this view is shared by leading economists and ex-Ministers of Finance and by many politicians interviewed during this research, but it is not supported by specialists in fiscal issues, such as Afonso (1994), Dain ((1992), Nonô [13 May 1993], Serra [2 Feb. 1994], and Serra and Afonso (1993). As we will discuss in Chapter 5, there has been an unplanned and uncoordinated transfer of responsibilities to the sub-national levels, even if this transfer has not changed social policy results and is subjected to distortions.

Federal resources are also under great pressure from lobbying by the most important political and economic regions, leading to a kind of regional appropriation of federal resources. There is an unwritten agreement between the corporations and politicians of the North, North-East and the South-East on how to divide federal resources. The North enjoys the biggest share in tax reliefs. The North-East benefits from the resources available in the federal budget and in the biggest participation in the scheme of revenue sharing. The South-East gets the lion's share of the subsidies: in 1992 and 1993 the region had 44% and 43% of the subsidies granted by the biggest public financing institution, the BNDES (BNDES, 1995)

1995)⁴³. The national media tends to treat the issue of distribution of federal revenues only considering revenues allocated in the budget, therefore accusing the North-East of being a heavy burden for the country and for the federal resources⁴⁴.

The fiscal problems faced by the federal government lay more in other aspects of Brazilian politics and its economy rather than solely in the amount transferred to the sub-national governments or in the lack of a replacement for a role previously under the discretion of the federal government. Politically, three points are of relevance. First, the power gained by sub-national governments and Congress. These two institutions tend to have a regional and local view of national issues. Second, the lack of a social consensus on what was to be achieved by decentralisation⁴⁵. Third, the political difficulties in tackling tax evasion. Economically, fiscal problems are more likely to result from (i) the failure of several stabilisation plans destined to bring inflation down; (ii) some years of recession; (iii) the difficulties of withdrawing tax relief and subsidies; (iv) the constant changes of federal taxes; and (v) the lack of control over the main public revenues and over public expenditure.

The fiscal crisis, however, has been directly affecting the federal government. Apart from the picture presented above, the federal government is responsible for the highest public deficit⁴⁶; for the payment of high interest on external and internal debt; for the implementation of the Social Security System approved by the 1988 Constitution which increased pensions and social rights⁴⁷; for the payment of the debt to contractors and suppliers, especially the building industry, estimated at \$7 billion in 1993 (*Veja*, 1993: 37); for the deficit of the

⁴³ Although politicians speak in favour of less regional inequality, subsidies go where the economic activity is more dynamic. During the military regime, however, the concentration of subsidies in the South-East and in São Paulo was higher. In 1974, 68% of BNDES resources were provided to the South-East, and 47% to São Paulo alone. The Caixa Econômica Federal, a federal state-owned bank, provided 64.5% of its funds to the region, and 35.4% to São Paulo. The Council for Industrial Development provided 77% of its resources to São Paulo (Payne, 1994: 179).

⁴⁴ These points are further discussed in Chapter 5.

⁴⁵ These two points are to be further discussed in the following chapters.

⁴⁶ The relationship between the net debt of the public sector and GDP is not high when compared to other countries (47% in 1985 and 34% in 1991), but its main constraint lays in its short-term financing, in high interest rates and in its concentration in the hands of few creditors.

⁴⁷ Between 1980 and 1990 there was an increase of 60% in the number of pensioners, while the population growth rate was 21% in the same period because of the universality of the benefit granted by the 1988 Constitution. Thirty million workers pay the social security system to support 12,4 million pensioners (IPEA, 1992b: 13).

Financial Housing System estimated at \$20 billion; and for the deficit of the workers' funds constituted of resources from the Social Contributions, the FGTS and the PIS-PASEP, estimated at \$80 billion (Lundberg, 1992).

2.3 The Federal Government's Reaction

The fiscal problem faced by the federal government *vis-à-vis* the strength of sub-national finances does not mean that the federal government is an absent player. It has been counteracting on two fronts: politically and financially. Politically, the federal government's reaction is concentrated on the use of federal political appointments. It has been estimated that the number of political appointed positions in the federal Executive is 63,570, plus the directorates of over 100 state-owned companies. Out of these more than 60,000 positions, 73% are destined for civil servants and 27% are totally free for political negotiation (*Folha de São Paulo*, 1994). The President uses these to negotiate with Congress and regional leaders and to build coalitions for government. However, though negotiations take place, as regional and local interests conflict most of the time with national ones, the political system and the decision-making process are in a 'paralysed competitive arena', in which each player and decision cancels the other out.

The second front used by the federal government is within the fiscal system itself. The main weapon has been the increase in the rates of taxes and contributions which are not shared with the sub-national levels. Resources from the Social Contributions rose from 1.5% of GDP in 1980 to 4.7% in 1991⁴⁸. Only one contribution, the CSLL, based on the employers' net profits, which was created by the 1988 Constitution, increased its participation in the public sector revenue from 0.9% in 1989 to 3% in 1992. The IOF, which in 1989 accounted for 0.7% of the public sector revenue, moved to 2.5% in 1992 (Pessoa and Malheiros, 1994: 33). This policy has proved successful: taxes under the scheme of transference to sub-national governments which represented 51% of public revenue in 1988, became 42% in 1992 (Afonso, 1994: 51).

The second weapon is the decreasing effort in the collection of the federal taxes that are shared with the state and local levels. The IR, which in 1985 represented 4.6% of GDP, fell to 3.7% in 1992 and in 1992 the IPI collected the same amount as in 1980: 2.2% of GDP (Pessoa and Malheiros, 1994: 32). The IR and the IPI amounts have also decreased because

⁴⁸ Unpublished data from the CEEG/FGV.

of tax avoidances granted by the federal government to corporations, therefore decreasing the state and municipal participation funds (FPE and FPM)⁴⁹. Transfers to the FPE and FPM were also penalised by the decade's high inflation⁵⁰.

Another way to address federal fiscal constraints is to decrease expenditure. Since the Collor administration the federal government has adopted tough control over its expenditure, mainly through the compression of investments and payroll. The compression of investments can be seen in the performance of the gross fixed capital formation (GFCF), an important variable for the analysis of expenditure because it shows not only the amount spent on investments but also future expenditure on current consumption. In 1970 the federal government was responsible for 36% of the total expenditure on GFCF, the states for 42% and the municipalities for 22%. In 1991, the federal government spent 18%, the states 46% and the municipalities 36% (Afonso, 1992a: 29). As for payroll expenditure, the compression of public servants' wages decreased the amount spent by the federal government on its payroll from 4.1% of GDP in 1970 to 3.2% in 1988 and to 2.7% in 1991 (Afonso, 1994: 45).

Other, not so successful, measures were also adopted. Soon after the promulgation of the Constitution, the Sarney administration threatened the sub-national levels with what became known as *Operação Desmonte*, meaning that the federal government would relinquish responsibilities previously under its discretion. These responsibilities would have been transferred to the sub-national levels, whether they were prepared for them or not. An outcry by governors and mayors made Congress change the 1989 federal budget in which the federal government had not allocated resources to services and activities previously under its discretion, a point to be further developed in Chapter 4. Collor tried the least successful strategy, namely the decreasing of sub-national revenues through changes in the Constitution. He sent Congress what became known as *Emendão*, meaning a major constitutional amendment, whose most polemic provision was to increase federal revenues by decreasing transfers. But the *Emendão* was never put to the vote.

⁴⁹ One example happened in March 1992, when the federal government made an agreement with the car industries and their unions to reduce the payment of the IPI because the former were threatening to close factories. This agreement was welcomed by most political, social and economic leaders from all parts of the political spectrum.

⁵⁰ After the promulgation of the Constitution, the federal government had forty-five days to transfer the FPE and the FPM. Later, under pressure from sub-national governments, Congress passed a bill determining that transfers should be made every ten days.

During the Itamar Franco government, the creation of the temporary federal tax IPMF was to fall also on financial transactions made by the sub-national governments. One month after the law was put into force the Superior Federal Tribunal decided that the levy of the IPMF on sub-national transactions was unconstitutional. Later, in February 1994, still under Itamar Franco and after tough negotiations, Congress approved the creation of the FSE - *Fundo Social de Emergência* (Emergency Social Fund) initially conceived to decrease federal expenditure and to decrease federal transfers to sub-national governments although commended to Congress as a fund to counteract the social costs of the forthcoming stabilisation plan. The FSE was intended to be the key move in setting the basis for the government's 1994 stabilisation plan, the *Real*. The fund's initial proposal was to ensure that the government fiscal position would be kept under control through the retention of 20% of all federal taxes, including those transferred to sub-national governments. Congress, however, deeply changed the original design of the FSE by excluding from the retained taxes those under the scheme of transference and by earmarking most of its receipts for social programmes. The FSE was conceived as a temporary fund to be closed in 1995. Revenues accrued by the FSE were disappointing: initially intended to raise \$16 billion in two years, it only raised \$1.9 billion in 1994, meaning 0.5% of GDP (*Gazeta Mercantil*, 1994).

Whether or not they were successful, these reactions show that the federal government has not relinquished its importance as a political institution, which means that competition for power is stronger than ever.

2.4 Conclusions

Two trends have to be considered for a better understanding of decentralisation as a consequence of redemocratisation. First, there are common responsibilities distributed between the three levels of government that have greatly changed all the previous political, administrative and institutional frameworks within which policies and politics were based and carried out. The second trend is the political and financial decentralisation that has transferred much power from the federal to the sub-national governments. Decentralisation is leading the federal system to what could be termed a 'peripheralised' federalism, where sub-national political élites play a key role. The data and the analyses in this chapter suggest that the federal government alone has limited scope in setting up the necessary adjustments in the political, institutional, administrative, financial and economic frameworks. State and local governments and the Legislature are now important political actors with whom policies have to be

negotiated. A new balance of power was established after the 1988 Constitution as a consequence of redemocratisation; thereafter diffused power became the main element of Brazil's political structure.

In Brazil decentralisation has always meant a movement against dictatorship and centralisation. However, it is the first time since Brazil launched on economic and social modernisation that the state level has gained financial strength itself together with the local level. The balance of power between the federal and sub-national governments is more delicate than ever. The allocation of federal revenue to state and local levels does not mean more federal influence over sub-national governments, but it does reflect its vulnerability. The expanded powers of Congress, in which governors and mayors of the main states and their capitals have strong influence, and the lack of political support for the civilian Presidents mean that the President has to negotiate and compromise himself with the sub-national governments every time a bill is submitted to Congress. As regional and local interests tend to conflict with national needs, especially in fiscal matters, the political system and the decision-making process are in a 'paralysed competitive arena'.

The historical view of Brazilian federalism and the current developments in the country's intergovernmental relations show the limits of some theoretical formulations reviewed above. Theories centred on the Anglo-Saxon or the European traditions are unable to explain why federalism in a country like Brazil was maintained as a political ideology. By seeing federalism and intergovernmental relations as hierarchical manifestations, these formulations decrease the importance of bargaining and conflict-ridden relationships as important elements which sustain territorial political pacts. The evidence also shows that centralisation-decentralisation movements should be interpreted as a continuum rather than as a dichotomy.

The features of a country which has used decentralisation to distance itself from a military regime presented in this chapter are the foundations for the analysis of Chapters 3 and 4. They aim at understanding how and why Brazil became such a decentralised country. They account for the research's upstream approach and answer the puzzle of why a country cut across by regional inequalities and unresolved issues chose to decentralise. By investigating the mechanisms, procedures and the management of conflicts and alliances within the Constituent National Assembly, where the decision to further decentralisation was taken, both chapters attempt to explain a decision-making process in a milieu of regime change.

Chapter 3 The Constituent National Assembly: The Initial Stages of the Decision to Decentralise

Introduction

This century has witnessed several waves of constitution-making: at the end of World Wars I and II; in the transition from authoritarian to democratic regimes in Southern Europe in the 1970s and in Latin America in the 1980s; the post-colonial constitutions of the Third World; and in Eastern Europe after 1989. Since 1970 Belgium, Canada, the Netherlands and Sweden have adopted new Constitutions. Constitution-makings are periods of political manoeuvring, bargaining and negotiations when political agreements and disagreements come to the fore with greater visibility. How the constitution drafters handle issues posed by conflicts and contradictions may bring insights not only on the polity at that moment but also on the prospects of the new order.

The Brazilian transition to democracy was a unique process of decentralisation of power which joined those who already had power during the military regime with a considerable number of new players and institutions. The outcomes of decentralisation are a reflection of the way the transition was conducted. Brazil's Constituent National Assembly - CNA had a concentration of political forces in two main parties, but that did not make the elaboration of the Constitution or the decision to decentralise an easy task, nor, in general, did any fringe political force find its demands rejected. A characteristic of the Brazilian constitution-making was that individual players were more important than collective ones, which made each drafter an extraordinary veto player. In the constitutional process, a paradox arose, namely the complete absence of the federal government from the discussions that resulted in the weakening of its political and financial power.

There are many accounts of particular constitution-making episodes and some analyses of the Brazilian experience. However, a specific investigation of how and why the decision to decentralise was taken in Brazil remains missing. Chapters 3 and 4 are intended to fill the blank. They account for the thesis's upstream approach and address the puzzle of why a country facing many unresolved issues which needed to be delivered nationwide chose to decentralise financial and political resources.

This chapter focuses on the understanding of the mechanisms of Brazilian constitution-making through the analysis of both its process and substance during the initial

stages of the CNA. It addresses the following questions relating to the constitutional process based on Elster's propositions (1993: 178). He stressed that the common concern underlying these issues is that of legitimacy: (i) how was the constituent assembly called into being? (ii) how did it regulate its internal procedures? (iii) how did individual and group interests shape the draft? (iv) what was the importance of extra-constitutional forces in shaping the constitutional text? By asking these questions this study deepens the understanding of the characteristics of the decentralisation reform. These characteristics are important in discussing the assumption developed in Chapter 1 that in its implementation the type of conflicts that surround a given decision shape future conflicts.

The chapter has four sections. Section 1 examines the political context and pacts which preceded the inauguration of the CNA. Section 2 details the initial days of the CNA, with references to (i) the profile of the CNA members and (ii) the way the CNA was structured to carry out its task. Section 3 presents the evolution of key aspects of decentralisation at the initial stages of the constitutional process. Section 4 offers some conclusions.

3.1 Political Context and Political Pacts before the Inauguration of the Constituent National Assembly

As noted in Chapter 1, the Brazilian transition to democracy has been analysed by several scholars as a process without rupture with the prevailing order and as a transition that took an exceptionally long time. The military decision to return to democratic order has been explained through several reasons. The transition dated back to the early 1970s when President Geisel promised a 'safe and gradual' political opening up. Later events such as the regime's partial defeat in the 1982 elections, the recession of the early 1980s, the *Diretas-Já* movement and the appearance of civilian leaders willing to compromise with the military's demands furthered the need for political opening up. Nevertheless, the return to democracy was achieved within the rules and the timetable defined by those who participated in the military pact to govern¹. The Brazilian path to redemocratisation was, therefore, similar to the Spanish and opposed to the Portuguese, both analysed by Hermet (1988).

¹ The expression 'military pact to govern' does not mean that Brazil has a single power élite or that there were no disagreements about the transition itself and about its path and content, although the military nucleus of power was a restricted one. As pointed out by McDonough (1981) Brazil under the military was (and still is) a country in which inter-élite rivalries are great.

The conditions for the emergence of a 'trustworthy' civilian leadership in a position to negotiate the transition to democratic order came closer in the early 1980s. A 'trustful' leader was the strongest reason why the transition was welcomed by those who participated in the military pact to govern. Two parties had the pre-requisites to apply, the PDS and the PMDB, it being considered that the others were too radical. On the PDS's side, soon after the *Diretas-Já* some of its members led by Marco Maciel, Aureliano Chaves and José Sarney formed a Liberal Front as a dissident bloc preparing the way to the agreement to be put forward with the PMDB. On the PMDB's side three leaders could be considered: Tancredo Neves, Ulysses Guimarães and Franco Montoro ². With his background as conciliator and negotiator, Neves was the trusted leader of the controlled return to democratic order. Guimarães and Neves agreed in late 1983 that if the presidential election was to be direct, Neves would support Guimarães and, if defeated, Guimarães would support Neves (Fleischer, 1990: 221).

3.1.1 Democratic Alliance: The Political Pact of the Transition

In August 1984 the Liberal Front and the PMDB signed a pact called the Democratic Alliance and launched their political platform through the manifesto 'Pledge to the Nation'. The pact was threefold. The first part was based on general principles; the second drew twenty-two general guidelines for political reform and for public policies; and the third nominated Neves and Sarney as candidates for the Presidency. According to an observer of that period, Jarbas Passarinho

Sarney was rejected by Neves, who wanted other politicians to run with him. The relationship between them had always been bitter. Sarney was the only parliamentarian who was hostile to Neves when Neves went to Congress's plenary for a farewell speech before his inauguration as governor of Minas Gerais [21 May 1993].

The pact stressed the need to bring other political parties into the alliance. Being so general in its goals made adherence to its principles uncontroversial for many political groups,

² Montoro weakened his position as a presidential candidate because his influence was restricted to the state of São Paulo. Guimarães was PMDB's elder statesman, national party president, and the 'anticandidate' in the 1973 indirect election. Neves was from the state of Minas Gerais, where he always had a strong leadership and where he was state governor at that time. Neves had a long and 'trustworthy' career in politics as a minister during the Vargas government, a prime-minister chosen by those who reacted against the inauguration of Goulart after the resignation of Jânio Quadros, and a former senator. Neves had created a party at the beginning of the political opening, the PP, with the blessings of the military regime.

including those who had participated in the previous pact ³. Some aspects of the pact should be highlighted. First, there was no reference to the role of the military in the new democratic order, an issue that had already been debated. Second, there was no reference to inquiries on corruption or on human rights abuses perpetrated by the military, both topics being subjected to press coverage. Third, the use of expressions like 'without resentment' shows the conciliatory mood of the transition. Fourth, the pact did not incorporate the demand to call for two elections for Congress, one to perform Congress's ordinary duties and the other to write the new constitution. Fifth, the strong support given to the pact by the politicians of the North-East, traditionally a region where the military and the conservatives held a strong influence. Sixth, and relevant to decentralisation, the pact stressed the need to strengthen the federation and to promote an effective political and financial autonomy for states and municipalities. Fiscal reform was promised 'to relieve regional and individual inequalities'. Seventh, there was a commitment to call for direct elections at those levels still under indirect procedures, i.e. the federal Executive and the mayoral positions in state capitals and in municipalities considered 'national security areas' or 'mineral sites', but no date was specified ⁴. Finally, the manifesto was unclear about a new political pact to sustain a new model of economic, political and social developments. Everything was considered a priority and everyone was invited to participate. Nevertheless, the agony of the Developmental State, around which the preceding alliance had been made, was already clear. The Democratic Alliance avoided (or could not face) the elaboration of a strategy to restructure the role of the State through consensus and to limit the participants in the pact.

As a result of the pact on 15 January 1985, Neves was indirectly elected President and Sarney Vice-President against Paulo Maluf, from the PDS, with 70% of the votes of the electoral college ⁵. As Fleischer (1990: 222) noted, the Neves-Sarney ticket received 312

³ There were rumours that Neves had sealed a secret pact with the military (Campello de Souza, 1989; Fleischer, 1990) but nothing has ever been proved. Agreements with the military were not impossible given that the Brazilian military were not in such distress as those elsewhere in Latin America. The presence of the military as important actors during the transition was recognised by Stepan (1988). Sarney and Guimarães also admitted that the military were active members of the transitional pact (Boeker: 1990: 227 and 286).

⁴ The states had been free to have direct elections since 1982.

⁵ Maluf's candidacy was against the military's will. They wanted Mário Andreazza, a military officer and several times minister. Maluf defeated Andreazza at the PDS's Conference to choose the candidate, partially with the votes of those from the Liberal Front who were still members of the PDS. The Electoral College was constituted of Congress members and of representatives of the states' legislatures.

votes from the four opposition parties combined and 168 from the PDS. Without the support of these PDS dissidents, Neves's victory would have been impossible. The North-East gave the Neves-Sarney ticket 155 of its 230 votes, and many of these crucial votes were from PDS dissidents.

The days before the inauguration were used by Neves to build up a complicated scheme to appoint his ministers. Neves incorporated the main political tendencies that backed his election. The so-called New Republic then took a clearer shape with its contradictions and unresolved conflicts. Later, as a result of the difficulties of a political system caught up in its effort to reconcile contradictory actors and events, the spectrum of political forces with niches of power became even broader.

However, seventy-five years old Neves was hospitalised on the eve of his inauguration. Thirty-seven days after he should have assumed power, Neves died. Sarney's lack of charisma and legitimacy as a former president of the PDS, coming from a small state from the North-East and occupying a seat he said he did not want (and many claimed that he was not prepared for) made the management of the broad coalition built up around the Democratic Alliance almost impossible ⁶. As Selcher (1986: 89) argued, the pro-democratisation coalition faced more divisive questions in policy formation and execution, without the articulator who pulled it together.

When time came for calling up the CNA, the political structure in the country was in practice different from that of the initial stages of the political opening, especially in relation to the following institutions: the governorships, Congress, the military, and the bureaucracy. The governors had been popularly elected in 1982, this meant that regional politicians were well-known actors encompassed by the legitimacy of their direct election as opposed to the indirect election of the President. Although the 1986 elections were centred on the governorships, after the inauguration of the new Congress their members were surrounded by an expectation of making deep changes in the country to accomplish the democratic ideals expressed by the Democratic Alliance. The fact that Congress was not closed down during the military regime also gave the institution enough strength to quickly recover its place as an important political institution. However, both institutions, the governorships and Congress,

⁶ At the beginning of his term Sarney's legitimacy in occupying the Presidency was questioned by the majority of political forces. This reaction was symbolised by the behaviour of the last military President, João Figueiredo, who refused to go to Sarney's inauguration, arguing that Sarney was a betrayer.

are likely to give voice to regional and local interests, where 'parochial' decisions tend to prevail ⁷.

On the other hand, the military and the bureaucracy had weakened their position in the political game. By nature, these institutions are less open and more subjected to discipline and hierarchy. The military, despite being the feared members of the new political pact and being eventually used to threaten Congress and civilian leaders, were in a distressing position given the economic failures of the early 1980s and the widespread awareness of their role in the deterioration of the country's social conditions. The bureaucracy, after enjoying a period of prestige, had weakened their position in the political market ⁸. No research has yet analysed this decline in depth, but there is an agreement that the bureaucracy was demoralised (Martins, 1991), tended to replace quality for quantity, resulting in low salaries and expertise ⁹ (Abranches, 1989) and subjected to the invasion of several competing groups (Souza, 1991a). Apart from these institutional changes, there was a high degree of social mobilisation towards consolidating democracy and shaping a new political order (Souza and Lamounier, 1990: 85).

The changes in the profile of these four institutions, together with the coalitions built during the initial years of the transition to democracy and the development of the Democratic Alliance, show that the democratic transition was peculiar not only in the sense raised by scholars who have analysed it as a process without rupture. It was also a unique process in the decentralisation of power, of the creation of several unequal but competing power centres. This process was the result of bringing together those who already had power during the military regime and a considerable number of new players and institutions that had a secondary but crucial role during the military years, such as the Legislature and sub-national governments and their politicians. These new players had always been part of the political arena and their shadowy but important role gave them the strength and knowledge to obtain

⁷ 'Parochial' means, in this sense, the supremacy of merely local or issues restricted in scope.

⁸ Brazilian bureaucracy has been widely analysed, especially its role under the military regime. See Batley (1983), Cardoso (1979), B. Schneider (1991) and Stepan (1971).

⁹ Haddad (1995) showed that in 1991 the average monthly wage for a civil servant in the Executive Branch was US\$477. In the same year, the average monthly wages in the Legislative and Judiciary Branches were US\$3,265 and US\$3,017 respectively. In addition, salary levels in the Executive have been falling steadily, i.e. the average monthly salary in 1987 was US\$550.

extraordinary power.

3.2 The Calling Up of the Constituent National Assembly

As scheduled by the Democratic Alliance, the elections due on 15 November 1986 for Congress elected those who were going to write the new constitution. Thirty parties participated in those elections; twelve elected delegates. The PMDB was the overall winner for the Chamber of Deputies, the Senate, the state legislature and for governorships ¹⁰. Disputes between contestants for governorships and the *Cruzado Plan* ¹¹ polarised the debates and there were few discussions concerning the CNA.

Table 3.1 Party Composition in the Inauguration of the CNA

Party ¹²	Number	%
PMDB	302	54.0
PFL	133	23.8
PDS	38	6.7
PDT	26	4.6
PTB	19	3.4
PT	16	2.9
PL	7	1.3
PDC	6	1.1
PC do B	6	1.1
PCB	3	0.5
PSB	2	0.4
PMB	1	0.2
Total	559	100.0

Source: Calculation based on data from the Superior Tribunal Eleitoral.

The PMDB and the PFL together had more than two-thirds of the CNA's members.

The opposition parties with commitments to progressive ¹³ demands, i.e. the PT, PDT, PSB,

¹⁰ The PMDB's overall majority did not represent the victory of its party platform over others. Many authors (Campello de Souza, 1989; Kinzo, 1994; Lamounier and Meneguello, 1986; Mainwaring, 1992) agree that Brazil is a notorious case of political party underdevelopment when compared to other countries.

¹¹ The *Cruzado Plan* was the second and longest economic stabilisation plan of the New Republic. It was a heterodox policy in the sense that it acted directly over prices, wages and the exchange rate. Inflation went from 14% per month to almost zero because of the price freeze. The Plan caused the impression that the government had recovered its capacity to govern and to define economic policies, articulated around a project of economic development with equity. When, in December 1986, it turned out to be impossible to hold frozen prices, inflation exploded. The *Cruzado Plan* promoted a temporary income distribution that helped it gain enormous popular support.

¹² The PCB changed its name to PPS after the fall of the Berlin Wall and the PDS and the PDC merged in 1993 to constitute the PPR.

¹³ In the context of the CNA, the right-left axis is not the best way to distinguish political groups. This study opted to label the traditional group and those who had supported the previous regime as conservative and those who opposed authoritarian measures and had a general commitment to the increase of social rights, benefits and political freedom as progressive. This classification is not totally satisfactory because within the PMDB there were representatives of both groups. Those groups were not monolithic nor did they have a clear and articulated

PC do B and PC, had only 9.6% of the CNA's members (Table 3.1). Apparently such a concentration of forces in the two parties responsible for the transition to democracy would make the elaboration of the Constitution an easy task. This did not happen, nor, in general, did the progressive forces find their demands rejected.

3.2.1 Profile of the Constituent National Assembly's Members

Who were the people elected to design the new political, social and economic map that would conduct the country in the years to come? The CNA had 559 members: seventy-two senators and 487 federal deputies in charge to draw up the seventh Brazilian constitution, from twenty-four states and two territories ¹⁴.

The CNA's delegates were analysed by Coelho and Oliveira (1989), Fleischer (1990), *Folha de São Paulo* (1987), Kinzo (1990), Rodrigues (1987) and *Veja* (1987). These surveys found that the CNA's members had the following features. First, the data destroyed the myth that the opposition party during the military regime, the PMDB, was the overall winner of the CNA, given the high number of PMDB's affiliates who had previously belonged to the military's supporting party, the PDS. Therefore, the presence of the old regime in the two parties that sustained the New Republic was high. As Campello de Souza (1989: 355) put it, continuities can always be observed in non-revolutionary transitions, but the degree of continuity in the Brazilian transition is extraordinary ¹⁵. Second, the CNA had 49% new members, a figure comparable to turnover rates in previous sessions of the Brazilian Congress. High turnover rate is an important clue in an understanding of the outcomes of the CNA because it increases the chance of the adoption of short-term measures and perspectives. However, high turnover does not mean that Congress members are expelled from politics. They tend to run for executive positions and/or to return to Congress in the following period. As for their previous experience, only 135 members had no previous political experience before their election to the CNA. Of those with previous experience, 54% had been popularly elected as city council members, mayors, state deputies or governors. These figures show a

project towards the maintenance of the *status quo* or the scope and the length of the reforms.

¹⁴ 536 members were elected on 15 November and twenty-three were already in the Senate due to the electoral system that keeps one-third or two-thirds of the Senators at each election, considering they have an eight-year term.

¹⁵ Fleischer (1990: 250) noted that in 1985 85% of the 50,000 federal politically appointed positions down to the fifth echelon were occupied by people who had held similar positions in the last three military governments.

considerable number of politicians with ties to the state and local tiers and to the old regime. Third, a survey carried out by *Veja* (1987: 20) based on specific issues that would be debated in the CNA found that the members of the CNA were conservative in issues of order and moral values and audacious in economic and social rights reforms.

The high degree of heterogeneity of the CNA's delegates coupled with the broad character of the transition could lead to two possibilities: (i) either negotiations and compromises between groups with some ideological affinity, placing on one side the conservatives and on the other the progressives, leading to confrontations or (ii) negotiations and compromises between antagonistic ideological groups leading to consensus in certain issues and leaving to the future the decisions on which consensus could not be achieved. The former occurred only on few specific issues and the latter was the CNA's mark. The role of the CNA's President Guimarães was crucial until the very end in maintaining this delicate and unstable balance of consensus-building among several opposing groups and individuals.

As in many authoritarian regimes the Brazilian one was based on coalitions of restricted groups. If transition through a moderate leader was to ease the disintegration of the old coalitions, drawing limits for newcomers and avoiding the possibilities for going back to the old regime, these propositions were not totally met in Brazil. Both the old coalition and the new players came to the fore with extraordinary power. Few groups were excluded, as the victories and defeats of both sides in the CNA proved. The political developments were not able to limit the length and the number of participants in the pact. The emphasis on consensus-building boosted the number of players with access to political goods and to the decision-making process and intensified conflicts and cleavages. Structural reforms were difficult to tackle in such an environment. The political structure was not able to reconcile the different groups in the political arena and to set limits to their power. The calling of the CNA congested even more the agenda of the transition. Political and financial decentralisation found its roots in that process.

3.2.2 Actors and Events in the Initial Days

The call for the formation of the constituent assembly which would also perform the duties of the ordinary Congress was the first rupture between the progressives and the

conservatives¹⁶. It was also a chance for the progressives and those of the left to mobilise social movements to perform an active role in the constitution-making process. By assigning the task to write the new constitution to an ordinary legislature, Neves calmed the fears of the military and the PFL leaders of possible radicalism in an all-powerful exclusive assembly. At the same time this attitude promoted the first rupture with the progressive forces which for nearly ten years had lobbied for an exclusive constituent assembly. The fact that it was not exclusive also had other consequences, such as the allowing of the participation of twenty-three Senators appointed in 1978 by the military and the limiting of the CNA's sovereignty because it could not make any amendment to the previous Constitution.

Another source of conflict was the decision taken by Neves and followed by Sarney to create a commission to draft a constitution to be presented to the CNA for discussion. The Commission of Notables, as it became known, had forty-nine members and was presided over by Afonso Arinos, a senior and respectable jurist with reformist proposals. The Commission issued its report on 26 September 1986 but was formally ignored by the members of the CNA and by Sarney, for different reasons. Congress members considered the initiative a threat against the sovereignty of the CNA. Sarney rejected the draft because it adopted parliamentarianism as the new system of government, which he was against¹⁷. The Commission of Notables ended up drafting a constitution which incorporated many demands from the progressives. It was a preview of the agenda of the CNA and of the pressures that the social movements were about to put to bear. Other institutions were also involved in the constitutional debate. As Baaklini (1992: 164) described, several university research centres, professional associations and unions, publishing houses, individuals, and groups published their own versions of what they thought the new constitution should contain.

On 28 June 1985 Sarney sent to Congress the *Mensagem* (Presidential Message) No. 330 (No. 48 in Congress) calling for the CNA. On 7 August the *Mensagem* was read at the Plenary. Its main topics were: (i) the CNA should be free and sovereign, without impositions such as the reviewing of the republic or the federal system, both prohibited in the calls to draw

¹⁶ Many constituent assemblies have been, at the same time, ordinary legislatures. Elster (1994a: 18) lists the Asemblée Constituante and all later French constituent assemblies, and the constituent assemblies in Southern and Eastern Europe over the last two decades. Exceptions include the Federal Convention, the Frankfurt Parliament of 1848, and the Parliamentary Council that drafted the German *Grundgesetz*.

¹⁷ This rejection was only apparent because, as stressed by Haroldo Lima, leader of the PC do B, the Brazilian maoist party, every member of the CNA was influenced by the draft [30 April 1993].

new constitutions under previous democratic orders; (ii) senators and federal deputies should be the members of the CNA, breaking the traditional review role of the Senate; and (iii) the elections for the CNA should coincide with elections for governorships and state legislatures.

Social movements exerted strong pressure to prevent the CNA from not having the only role in the drawing of the constitution. Many debates took place, and one amendment was put to the vote to launch a plebiscite to decide whether the CNA should be an exclusive legislature or an ordinary one. Thousands of letters and cables arrived in Congress calling for the former alternative. The debates at the Plenary started in October and the final amendment was approved only on 27 November 1985, through Constitutional Amendment No. 26¹⁸.

The work of the CNA started on 1 February 1987, with its installation by the President of the Federal Supreme Court José Carlos Moreira Alves. The following day the CNA elected Guimarães as its president. Guimarães was also the president of the Chamber of Deputies and the national president of the PMDB. As president of the Chamber he also served as acting President in the absence of the President of the Republic. Guimarães, a moderate politician, had a strong and wide leadership which he used to arbitrate on the various conflicting forces not only in his divided and contradictory party but also in the CNA and in the relationship between Congress and the Executive. The results reached in the final draft of the Constitution, where many sensitive issues were avoided, can be credited to Guimarães's conciliatory leadership.

However, before the CNA took its seats, the Sarney government was in full swing, in his second year¹⁹. Sarney built up his fragile political and parliamentary support over the parties, trying to decrease PMDB's and Guimarães's powers. According to Senator Passarinho,

Sarney was Guimarães's prisoner. The PMDB delayed as much as possible the decision regarding Sarney's term in office to keep him under control. Guimarães appointed, fired and vetoed ministers [21 May 1993].

Sarney was doomed by his lack of legitimacy and by the impossibility of accomplishing the country's high expectations, stimulated by previous events such as the *Diretas-Já*, Neves's victory in the indirect election, the propositions of the Democratic Alliance and the first

¹⁸ Published on 28 November 1985, p. 17422, in the *Diário Oficial* (the official journal of the government).

¹⁹ See Campello de Souza (1989) and Fleischer (1986).

excellent results of the *Cruzado Plan* in early 1986. Uncertain policies, populists' concessions to still powerful segments, suspicions of corruption, the failure of the *Cruzado Plan* and, most of the time, the paralysis in the decision-making processes, were the main legacies of the Sarney administration. His presidency was also notable for the beginning of the struggle between Congress and the federal Executive. This tension is one of a permanent type in every democratic country, especially under the presidential system, but in Brazil the 1964 authoritarian regime kept Congress open and elections were used to give the military some legitimacy. As mentioned above, Congress had the requisites to regain its powers even before the promulgation of the Constitution. Among the reverses the Sarney administration suffered in Congress was the federal government proposal to pass a tax reform to increase local governments' finances. The government proposal was replaced by a more comprehensive bill presented by federal deputy Airton Sandoval, giving the initial signs that financial decentralisation was to be achieved ²⁰.

The second battle within the CNA concerned its functioning, a subject of hot debate between two competing groups, which would later split into several subgroups. On the one side, were members from the PFL, PDS, PTB and many from the PMDB, who formed the conservative group. On the other, were some of PMDB's delegates and those from the progressive parties who were pushing for radical changes and a for a total break with the past. The battle behind the definition of how the CNA should work was mainly around how far the CNA should go in the task of removing authoritarian legal instruments, known as *entulho autoritário* (authoritarian refuse). President Sarney was against the right of the CNA to remove the laws promulgated during the military regime, especially because he was becoming extremely unpopular. Already, in the streets there were calls to shorten his term ²¹. Other sensitive topics were already being discussed before the inauguration of the CNA, such as the form of government, either presidential or parliamentary, land reform and, led by mayors and state governors, financial decentralisation.

Senator Fernando Henrique Cardoso (then PMDB-SP) was the rapporteur for the

²⁰ Through this proposal, which became Constitutional Amendment No. 27 issued on 28 November 1985, the municipalities gained from the federal government an increase of 1% in their FPM's share.

²¹ According to the previous Constitution, the President had a six-year term.

Internal Rules of the CNA. On 24 March 1987 the Internal Rules were finally promulgated²² with a speech by the President of the Chamber, Guimarães, and he highlighted (i) the novelty of the Internal Rules because the Constitution was going to be drawn from below, i.e. there was not going to be only one committee to design a draft of the Constitution, but twenty-four subcommittees that later would be merged into eight committees and finally into a systematisation committee of ninety-seven members, and plenary sessions with two rounds of voting; (ii) the arrangements with radio and television to broadcast daily the works of the CNA; (iii) the performance of the rapporteur, Senator Cardoso, for his 'talent, flexible and creative behaviour' and (iv) the performance of the twelve party leaders²³ who had contributed to 'clearing up misunderstandings, enriching the Internal Rules with suggestions and changes, promoting consensus'.

One innovation of the Internal Rules was to allow the proposal of amendments to come from outside Congress in two ways. One, from the state and local legislative chambers plus the Tribunals, which was not much used during the process; and the other coming directly from the population, when up to 30,000 voters could sign a proposal under the responsibility of three associations accountable for the signatures. This mechanism was widely used by social movements and organisations to lobby in favour of issues blocked by the conservatives. These amendments were included in the Internal Rules as part of the negotiations with the progressive parties following the ideal of strengthening collective citizenry as opposed to isolated political behaviour. Thousands of demonstrators arrived in Brasília from all over the country during the debates on the Internal Rules to pressure in favour of what was called 'popular participation' in the CNA. In another direction, but also stimulating the participation of the population in the writing of the Constitution, a branch of the Senate, the PRODASEN, accountable for Congress's sophisticated informational technology, established a system through the network of post-offices in which any citizen

²² The Internal Rules were approved through *Resolução* No.2, published by the *Assembléia Nacional Constituinte* (1987).

²³ The parties leaders at that time were: Luiz Henrique (PMDB-SC), later replaced by Mário Covas (PMDB-SP), José Lourenço (PFL-BA), Amaral Netto (PDS-RJ), Brandão Monteiro (PDT-RJ), Gastone Righi (PTB-SP), Luiz Ignácio Lula da Silva (PT-SP), Adolfo Oliveira (PL-RJ), Mauro Borges (PDC-GO), Haroldo Lima (PC do B-BA), Roberto Freire (PC-PE), Jamil Haddad (PSB-RJ) and Antonio Farias (PMB-PE). When party affiliation and the state from which the parliamentarian has been elected are used in the text, they are identified by the name of the parliamentarian, with the acronyms of the party and state in parenthesis.

could write his or her suggestion for the Constitution. Under the PRODASEN's scheme 72,719 suggestions arrived in Congress, making this participation, plus the one related to the amendments sponsored by the social movements, unique in the world, as Monclaire (1991) suggested. The Internal Rules also allowed public hearings at subcommittees level, to encourage the participation of invited specialists and even those who came spontaneously.

There were 69,166,963 electors enrolled to vote in the 1986 elections; 122 popular amendments were signed by over 12,000,000 voters and eighty-three fulfilled the requirements set up in the Internal Rules, achieving the right to defend them at the Systematisation Committee ²⁴. These schemes of popular participation were unique as compared to other countries which had their constitutions rewritten in the 1970s and 1980s ²⁵.

The enthusiasm that the CNA was able to trigger can be seen by the results of a survey by IDESP in the city of São Paulo from 1974 to 1988. It shows that while in 1974, 1978 and 1982 only 11% of the respondents were said to have a great interest in politics, in 1986 and 1987, i.e. the years when the Constitution was being debated, 21% and 20%, respectively, were said to have great interest. By 1988 the high interest in politics was down again; only 13% of the respondents still expressed their high interest in politics (Muszynski and Mendes, 1990: 63). A comparison between the results of that survey with another by *Jornal da Tarde* on 26 October 1987, which shows that only 25% of the respondents approved the performance of the members of the CNA, gives grounds to an affirmation that there was a movement towards direct participation as a result of the popular participation that happened during the initial years of the transition to democracy. These figures, plus more than twelve million signatures for the popular amendments and over 72,000 persons who signed proposals under PRODASEN's scheme, show the high confidence that people had in the CNA and,

²⁴ This figure is approximate because each voter was entitled to sign three popular amendments. The lobby in favour of the preservation of tax allowances for *quangos* administered by employers' confederations to sponsor training schemes for workers was the one with the highest number of signatures (1,111,916), followed by amendments in favour of the preservation of private schools to receive grants from the government, which was led by the catholic universities, with 750,077 signatures. On the progressive side, an amendment sponsored by the workers' union CUT calling for the expansion of workers' rights, higher protection for workers by the social security system and the right of retirement for rural workers, was able to collect 743,718 signatures and an amendment in favour of the agrarian reform had 638,469 signatures. The first three amendments were incorporated in the Constitution and the one on agrarian reform lost in the Plenary. For more details on the popular amendments see *Comissão de Sistematização da Assembléia Nacional Constituinte* (1987).

²⁵ In Spain, for instance, the subcommittees worked under strict secrecy and the joint committee, with eleven members, was characterised by its secret talks (Bonime-Blanc, 1987).

therefore, the high degree of political efficacy the CNA was able to trigger ²⁶.

The presence of all kinds of lobbies, unions and corporatist groups was the CNA daily routine and for twenty months Congress and Brasília were the centre of Brazilian life, the core of power, a visible exercise in democracy and political participation. This participation became an important instrument for the legitimisation of redemocratisation.

3.2.3 Internal Functioning of the Constituent National Assembly

The internal functioning of the CNA was as shown in Table 3.2. According to the Internal Rules, each subcommittee and committee was headed by a president, two vice-presidents and one rapporteur. The committees had around sixty-three members and the subcommittees around twenty-one. The president and the vice-presidents were elected by the members of the subcommittee or committee and the president nominated the rapporteur. Members of the subcommittees and committees were chosen according to their party representation, which meant that the biggest parties, the PMDB and the PFL, monopolised the main positions. However, the progressives managed to control several important positions.

Within a subcommittee and a committee, the main position was that of the rapporteur because he or she was in charge of drafting the first version of the topic. Unless endorsed by the majority of the members, the rapporteur was not obliged to accept proposals coming from other members or from other forms of participation.

The roots of the CNA were marked by confrontations on some issues, coalitions in most of the cases and postponements when consensus could not be reached. Coalitions were made and remade. For almost every issue or roll-call a new bloc was created and later dismissed. The whole process of constitution-making had its own logic distinct from that of a political party platform or ideological coherence but coalescence could be found within each group and subgroup, a point to be developed more in the next chapter.

²⁶ Political efficacy means, in this sense, the extent to which citizens feel confident of their ability to participate in the political process and to influence government policies.

Table 3.2 Committees and Subcommittees of the CNA

Subcommittee	Committee
.Nationality, Sovereignty and International Relations	Sovereignty, and the Rights of Men and Women
.Political Rights, Collective Rights, and Guarantees	
.Individual Rights and Guarantees	
.Union, Federal District and Territories*	Organisation of the State*
.States*	
.Municipalities and Regions*	
.Legislative Power	Organisation of the Three Powers and System of Government
.Executive Power	
.Judicial Power and Public Prosecutors	
.Electoral System and Political Parties	Electoral System, Parties and Institutional Guarantees
.Defense of the State, Society and their Security	
.Safeguard of the Constitution, Its Reforms and Amendments	
.Taxation, and Sharing and Distribution of Revenues*	Tax System, Budget and Finance*
.Budget and Fiscal Oversight	
.Financial Systems	
.General Principles, Intervention of the State, Ownership of Underground Resources and Economic Activities	Economic Order
.Urbanisation and Transport	
.Agricultural Policy, Rural Policy and Agrarian Reform	
.Rights of Workers and Public Servants	Social Order
.Health, Social Welfare and Environment	
.Blacks, Indigenous Populations, Disabled, and Minorities	
.Education, Culture and Sports	Family, Education, Culture and Sports
.Science and Technology and Communication	Science and Technology and Communication
.Family, Minors and Elderly	
Systematisation Committee*	
Plenary Sessions*	
(Two rounds of roll-call voting)	

Note: * Subcommittees and Committees to be analysed in Chapters 3 and 4.

3.3 Coalition-Building within the Subcommittees

The subcommittees were the first stage of constitution-making. At that level negotiations were strong only for issues promoting important changes when compared to the previous scheme, as detailed below.

3.3.1 Subcommittee on the Union, Federal District and Territories

This subcommittee had as president Jofran Frejat (PFL-DF), first vice-president

Meira Filho (PMDB-DF), second vice-president Rubem Figueiró (PMDB-MS) and as rapporteur Sigmaringa Seixas (PMDB-DF). The composition of the main positions in the subcommittee, with three of its four main members elected by the Federal District, shows the priority of the subcommittee: to achieve the political independence of Brasília ²⁷. The subcommittee, also in charge of the jurisdictions and powers of the Union, concentrated all its efforts on expanding the political representation of Brasília and assuring financial resources for the Federal Capital.

The report delivered by Seixas stressed that the main alteration made in the subcommittee was related to the federation. The argument had been a common cliché among politicians: in previous years, especially after the promulgation of the 1967 Constitution, the federation was centralised under the Union. Seixas asked in his report: who does not know that states and municipalities are always begging for federal revenues and are supported by federal transfers?. The autonomy of states and municipalities, according to the report, even if formally assured, could not be put into practice because of the concentration of revenues in the Union. According to Seixas, this imbalance stimulated regional disparities which affected not only national development but also political interrelationships within the federation. Seixas mentioned that the long practice of centralised federalism could not be abolished overnight, which is why he proposed the expansion of the common responsibilities between the three tiers of government.

The subcommittee received 289 proposals and held five public hearings with a strong presence of personalities from the Federal District and the territories that were lobbying for their transformation into states. Public hearings at all phases of the CNA are a good source for the identification of the interest groups which had access to the decision-making process.

Among the measures adopted by the subcommittee were: (i) the maintenance of the traditional statement on members of the federal pact, which includes the Union, the states and the Federal District. Only later did the municipalities become members of the federal pact; (ii) the expansion of the Union's assets and powers as compared to the previous Constitution ²⁸;

²⁷ One of the commitments of the Democratic Alliance was to enact the political representation of Brasília, meaning that the Federal District could elect its own legislative and executive branches. So far elections were for only the Chamber of Deputies and the Senate. The governor of Brasília was appointed by the President of the Republic.

²⁸ For a comparison between the 1946, 1967, 1969 and 1988 Constitutions, see Senado Federal (1991).

(iii) the expansion of common responsibilities between the three tiers of government. When this subcommittee was incorporated by the committee of the Organisation of the State, all the common responsibilities were eliminated, but they were later approved; (iv) the right of the municipalities to promulgate their Organic Law, which functions like a municipal constitution; (v) restriction on the right of the municipalities' legislative chamber in determining the salary of their councillors, which, according to the proposal of the subcommittee, should be decided by the state. At the Systematisation Committee the councillors were given the right to define their salary within limits established by the constitution of each state. Lordello de Mello, a supporter of the autonomy of local institutions, said that the Constitution exaggerated this issue [13 April 1993]; and (vi) the military police of the Federal District should be organised and maintained by the Federal District itself. At the Systematisation Committee this jurisdiction returned to the federal government. According to Seixas, this issue was crucial for the Federal District, which wanted, but did not achieve, control over the military police and the Judiciary [13 May 1993].

Seixas acknowledged that he was not under pressure during his term, from state governors, mayors or officials from the federal government or from corporatist groups. In his own words: I used to say that I had no prestige because nobody would pressure me [13 May 1993]. He believed that the lack of pressure was because decentralisation would occur only if resources were also decentralised.

However, the political status of the Federal District required intense negotiations. Seixas's commitment in strengthening the Federal District's resources was fundamental in assuring Brasília the collection of both state and municipal taxes. In the words of Seixas:

Negotiations were hard and sometimes I thought that autonomy was not going to be achieved. There was also the problem of revenues, because the Federal District had always had federal transfers and autonomy could block the possibility of receiving more resources and this would bring serious problems for some services. However, I cannot say that there were pressures against political autonomy for the Federal District, but there were difficulties in convincing the federal government to support the degree of autonomy we wanted [13 May 1993].

The events in this subcommittee show that concerns about the design of new intergovernmental relations, how to cope with new conflicts brought about by decentralisation, and discussions about the new role of the federal government in a decentralised political and financial system were not issues at that time. Therefore, decentralisation was adopted without a clear definition based on a social consensus of what

was to be achieved.

3.3.2 Subcommittee on Municipalities and Regions

This subcommittee had as president Luiz Alberto Rodrigues (PMDB-MG) and as rapporteur Aloysio Chaves (PFL-PA). The North-East and the Centre-West, which are traditionally accused of practising clientelism through local and state governments, were over-represented, which shows the importance these regions gave to the issues under discussion at the subcommittee. Surprisingly, given the number of former mayors and local councillors who were members of the CNA, only one member of the subcommittee had been a city councillor before, one had been mayor three times and two had been mayors and city councillors before their election to Congress.

The subcommittee held eight public hearings with the participation of several mayors, city councillors and some practitioners. It was influenced by the proposals of IBAM, the private institution committed to the defence of local governments' demands. IBAM's proposals were lobbied by Lordello de Mello.

In his report Chaves summarised the main proposals of the subcommittee. First, the inclusion of the municipality as part of the federal pact, despite some theoretical considerations against this proposal. The reason, argued the rapporteur, is that this inclusion is the political aspiration of every Brazilian. Second, a detailed definition of what should be considered as a municipal responsibility was introduced. This detail should be included because the citizen will claim the provision of the service from the municipality, even at the risk of being too much of a detail for a Constitution, said the report. The detailed definition of fourteen services was not approved either within the subcommittee or later at committee level. According to Lordello de Mello, pressures coming from the technical staff of the rapporteur of the committee of the Organisation of the State were responsible for the exclusion of the list of services [13 April 1993]. Hence the conflict between facilitating the citizens' claim for the provision of the services and the requirements for flexible functional allocations in a federal system was resolved in favour of the latter. Third, the subcommittee made proposals to increase local revenues and transfers from the state and federal governments, although this issue was not within its jurisdiction. In justifying the proposal to expand the powers and the revenues of the municipalities, the rapporteur argued that there was no time or space to mention the outcries of mayors, city councillors, practitioners, community leaders and of the people in favour of strengthening the municipality. He said

nobody contradicts the idea that the municipality is the tier of government more capable than the others of fulfilling the permanent aspirations of the people. This assumption was in line with the normative features of development theories reviewed in Chapter 1, thus ignoring broader political and economic contexts.

The second vice-president of this subcommittee, José Dutra (PMDB-AM) asserted that decentralisation was a consensus among the CNA's members. Dutra said that no pressure group influenced the subcommittee, except one, sponsored by himself, 'to defend the tax-free zone of Manaus against the threat of a President of the Republic or a Minister of Finance to abolish the tax privileges of the area by decree' [3 May 1993]²⁹. Dutra asserted that the state governors and mayors were only interested in the tax system.

The lobby in favour of the municipalities had long been strong in Congress. In 1979, at the very beginning of the political opening, Congress held a CPI - *Comissão Parlamentar de Inquérito* (Parliamentary Inquiry Committee) on the 'causes of the increasing impoverishment of states and municipalities'. The words of the final report were strong, accusing the federal government of fiscal tyranny and stating that sub-national governments were on the verge of a total breakdown, with serious consequences for the social order. The report concluded that centralisation affects the autonomy of the states but, above all, of the municipalities³⁰.

Although most of the CNA was committed to the strengthening of local governments' powers and revenues, the achievement of the idea was not easy because of differences among municipalities and regions. The over-representation of the North-East and the Centre-West was a sign of the interest both regions had in the topic. It also shows the dependence of the politicians of both regions on 'parochial' links. Lordello de Mello suggested that the greatest lobby within this subcommittee was made by IBAM. Other municipal associations were weak, including the Municipalist Front led by Quércio³¹ [13 April 1993]. IBAM published a booklet with eighteen proposals to the CNA on local issues. Out of these, seven were totally

²⁹ Clause 40 of the Transitional Dispositions of the 1988 Constitution guarantees for twenty-five years tax privileges to the tax-free zone of Manaus.

³⁰ The final report of this CPI was published on 5 December 1979 in the *Diário do Congresso Nacional*.

³¹ Quércio is São Paulo's former governor and senator and was known during the military regime as a defender of local government. He created a nationwide association of mayors, the Municipalist Front, capable of putting strong pressure on Congress each time a bill was voted about local finances.

incorporated in the Constitution, three were partially incorporated and eight were rejected, which accounted for IBAM's success [13 April 1993]³².

Again in this subcommittee the goal to decentralise was not followed by a clear definition of what was to be achieved. Also the rapporteur was prodigious in expressions that showed a populist, vague and sometimes normative approach to decentralisation. Here, again, the federal government was absent from the discussions.

3.3.3 Subcommittee on the States

The subcommittee had as president Chagas Rodrigues (PMDB-PI) and as rapporteur Siqueira Campos (PDC-GO). Campos was the main lobbyist in favour of the creation of new states because he was committed to the creation of the state of Tocantins to be carved out of the northern of Goiás, in the Centre-West. The creation of Tocantins had been approved before by both houses of Congress but it was vetoed by Sarney by the allegation that the federal government could not fund the creation of new states because of its financial constraints. The regional composition of the members of the subcommittee shows that the North was over-represented, having 22% of its members, while its representation in the CNA was 11% of members. The subcommittee did not have any outstanding leader in Congress and the progressive parties did not show any interest in it. The subcommittee was devoted to only one issue: the creation of new states, as recognised by Campos himself in his report.

The small importance of the subcommittee is also shown by the low number of proposals received: 148. Eight proposals were about the creation of new states, especially in the North. The rapporteur accepted the creation of the states of Tocantins; Santa Cruz, carved out of the southern part of Bahia; and Triângulo, carved out of the western part of Minas Gerais. He also approved the transformation of the federal territories of Roraima and Amapá into states.

The subcommittee held eight public hearings with a strong presence of lobbies in favour of the creation of the new states. In his report Campos acknowledged that two issues polarised his attention: (i), the organisation of the member states; and (ii) the territorial division of the country. He wrote extensively about the latter. Campos regretted that he could not make a broader territorial redivision because of the 'lack of financial resources, the

³² Among the proposals rejected was one that limited the practice of negotiated grants from state and federal governments to the municipalities. Negotiated grants have always been a source of survival for most politicians and an important instrument for the federal government in building up governing coalitions.

existence of conflicting political interests, of regional prejudices and of the weakness of local structures'. The newly created states, he argued, could count on the federal government's financial support, which was not difficult because it had been very prodigal in helping the state banks to solve their severe financial problems.

Intense territorial cleavages were the mark of this subcommittee. Those cleavages occurred mainly in areas of late development, i.e. in the Centre-West and the North. Old disputes about the boundaries of the states were brought up, such as the one between Pernambuco and Bahia. Sub-regions within states that felt they had little attention from the state government mounted for independence, such as in Bahia, Minas Gerais and Paraná. One state created by the military regime, Rio de Janeiro, reacted against the anti-democratic way the decision was made. The territorial arrangements within the federation were threatened by those cleavages as a reaction against the way the military had treated territorial disputes. Territorial cleavages are an expression of intra- and inter-élite dissatisfaction and show that existing boundaries were not able to accommodate the struggles between different political interests.

The over-representation of the North, plus the lack of an outstanding Congress member in the subcommittee, shows the relationship between territorial cleavages and 'parochial' links. These links were expressed by the lack of discussion on the consequences of a new territorial design. Territorial dissatisfaction polarised the subcommittee as another reaction against the previous territorial centralisation that had blocked political re-arrangements in new and old areas outside those which the military had used to support their policies in Congress³³.

The creation of the state of Tocantins, rejected later at committee level but reintroduced in following stages, shows the struggle for power between Congress and the federal Executive. Congress's will to confront the Presidency and to exercise its power was successful in this episode.

As in other subcommittees, the financial predicaments of the federal government shown in Chapter 2 were ignored. The rapporteur's cynical comment that the federal government had no reason to argue financial constraints against the creation of new states

³³ Between 1964 and 1986 the military promoted the creation of four states in the North, one in the Centre-West and merged the states of Rio de Janeiro and Guanabara, in the South-East. Poor states are more dependent upon federal revenues, therefore more likely to support the government. These new states increased the military support in Congress to counterbalance the growing number of opposition votes in the big state capitals.

because it was supporting the state commercial banks shows that the idea of an all-powerful federal government was still in the minds of the CNA's members.

The events that took place in the two subcommittees in charge of the restructuring of the State display several points. First, no figures or evidence were used to support the cliché that sub-national governments had been in a weak position during the last twenty years. Data and academic research which was available then, show that the discourse on the dependence of sub-national governments, especially the municipalities, was not based on empirical evidence (Serra and Afonso, 1991). Second, there was a lack of acknowledgement that decentralisation could also contribute to an increase in regional inequalities. One of the political reasons behind a federal system is the solidarity between regions that can be better implemented through the transfer of resources from better-off regions to worse-off ones by the federal government. Third, the subcommittees were not particularly under pressure on issues related to intergovernmental relations and its conflicts, which signals that the real battle was to be developed in the territory of financial resources. This lack of pressure proves that the decentralisation of responsibilities and the new role of the federal government in a decentralised system were not issues at the level of the subcommittees. However, each subcommittee was bound to a specific issue and their rapporteurs were in those positions because they represented the lobby for the main goal of each subcommittee. However, negotiations did occur for anything considered to be a priority. Fourth, the defence of decentralisation was based on the argument dear to development theories of increasing efficiency, as if unitary states could not have efficient local managements. Fifth, the choice of the intense use of common responsibilities has been blamed today for many federal problems. In the attempts to change the Constitution ³⁴, the lack of clarification about decentralisation of responsibilities is pointed out as one of the main issues to be addressed. Last, a paradox emerged because the anti-centralist position of the subcommittees was not reflected in the powers of the Union and in the new responsibilities delegated to it.

To sum up, the reform of Brazil's intergovernmental relations and of the centralisation-decentralisation continuum under the federation was left to the territory of 'parochial' politics

³⁴ According to clause 3 of the Transitional Dispositions, Congress should review the Constitution after 3 October 1993. Because some of the progressives were against the revision, and because the starting date was too close to the 1994 elections, Congress did not review the entire constitutional text, although changes have been made on specific issues, such as in the tax system, as shown in the previous chapter.

and to the interests of less developed regions. This means that the ideal of decentralisation was not followed by a clear definition of its impact on the federation, on intergovernmental relations and on policy results.

3.3.4 Subcommittee on Taxation, and Sharing and Distribution of Revenues

The North-East had the main positions in this subcommittee. Benito Gama (PFL-BA) was the president and Fernando Bezerra Coelho (PMDB-PE) the rapporteur³⁵. Regions more dependant upon federal revenues and transfers, i.e. the North, the North-East and the Centre-West, had 54.2% of the subcommittee's members. The subcommittee had among its members some party leaders, outstanding members of Congress and parliamentarians with previous experience in this topic. The subcommittee received 818 suggestions from CNA members and forty from society, which placed it in the third position on the number of suggestions received by subcommittees³⁶. Among the suggestions, five came from the popular amendment scheme, with 114,103 signatures (Michiles et al., 1989: 104).

The public hearings held by the subcommittee showed a great presence of specialists in fiscal matters. Local and state lobbies were also strong. The federal government attended one public hearing through the secretary of the Federal Revenue Bureau and one civil servant from IPEA. According to the rapporteur, the main issue addressed by the subcommittee was the fact that there was a concentration within the federal government of the most productive taxes. He blamed this concentration for the financial predicaments of states and municipalities. According to Coelho, this concentration was responsible for the weakness of the federal system, for bureaucratic delays, for delays in the decision-making processes, for the increase in corruption and waste. Coelho stressed in his report that the main goals of the subcommittee were to (i) strengthen state and municipal finances; (ii) decentralise responsibilities; (iii) redistribute revenues, with privileged treatment for less developed states; and (iv) to make the tax system more progressive.

A comparison between the tax structure proposed by the subcommittee and the one

³⁵ Conflicts were strong on the appointment of this rapporteur. One interviewee declared, asking for anonymity, that another federal deputy was chosen for the position but 'he had no understanding of the topic and the draft was becoming irrational and out of control'. The interviewee acted to withdraw the original rapporteur and Coelho was then chosen because he was better prepared for the task.

³⁶ In the first place was the subcommittee on the Rights of Workers and Public Servants, with 1,418 suggestions, and in second the subcommittee on Individual Rights and Guarantees (Michiles et al., 1989: 62).

approved by the Constitution shows the following points. First, not many changes were made from the first to the last stages of the constitutional process in the taxation framework regarding the allocation of revenues to the federal government, which suggests a consensus for its losses. The inclusion of one additional tax not proposed by the subcommittee, the Tax on Large Fortunes, occurred afterwards as a result of a late awareness of the losses imposed on the federal government. Second, the disputes over revenues between states and municipalities did not achieve consensus and important changes were made during the constitutional process. Third, the subcommittee proposed a higher increase on state governments' revenue than that which was finally approved, which means that the states held more power to influence the draft at that stage than the municipalities.

As mentioned in Chapter 2, the most important decision taken in the fiscal system was that to increase federal transfers to sub-national governments. However, the amount to be transferred was not yet clear at the subcommittee level, as Table 3.3 shows. The large increases in sub-national revenues during the constitutional process, especially of transfers to the states of a percentage of Income Tax (IR) and of the Tax on Industrial Products (IPI), shows the struggle between less developed regions and the more industrialised ones. The changes in the amount to be distributed to the regions also show a clear pact between the North, the North-East and the Centre-West. In the previous Constitution only the North and the North-East were entitled to receive 2% of the revenues from IR and the IPI. The Centre-West was included in the scheme as a reward for voting in favour of the requests sponsored by the two others.

The subcommittee proposed that the sub-national governments should retain IR paid by state and municipal civil servants. It proposed also that the three tiers of government could institute 'compulsory borrowing' under certain circumstances, but this power was restricted only to the federal and the state governments at committee level. The subcommittee's proposal that 60% of new taxes introduced by any level of government after the promulgation of the Constitution should be shared with the other levels was not later approved. The idea behind this proposal was to discourage changes in the tax system. After being subjected to different versions, this clause was approved with a smaller percentage, 20%, and applies only from the federal to the state government level.

Table 3.3 Revenue Transfers to Sub-National Governments Proposed by the Subcommittee and Approved by the Constitution

Transfers	Subcommittee	Constitution
From the Union to the states	.18% of IR and the IPI	.21.5% of IR and the IPI
	.2% of IR and the IPI to the states situated in the North and North-North-East and Centre-West	.3% of IR and the IPI to the states situated in the North, North-East and Centre-West
	.5% of the IPI to states according to their total industrial production exports	.10% of the IPI to states according to their total industrial production exports
From the Union to the municipalities	.22.5% of IR and the IPI	.Same
		.50% of the Rural Property Tax
From the states to the municipalities	.50% of the Inheritance, Gifts, Property Transfers, Motor Vehicles Registration and Rural Property Taxes	.50% of the Motor Vehicle Registration Tax
		.25% of the Value-Added Services and Hydroelectricity Tax
		.25% of the share of the IPI that is transferred to the states according to the amount of their industrial production exported
		.25% of the Value-Added, Communication and Transportation Tax
		.Same

Sources: Senado Federal (1988 and 1987a)

The most important regional dispute was concentrated on one aspect of the 1988 fiscal reform which highlights an important issue: the concept of 'autonomy' for sub-national governments. The concept is shown by the changes made in the levy of the most important tax nationwide, the ICMS, the Value-Added, Transportation and Communication Tax collected by the states. As noted in Chapter 2, the Constitution broadened this tax by adding activities and services previously not included in its composition. However, the struggle was about the criteria to be applied when goods or services are produced in one state and bought in another³⁷. The proposal endorsed by the most complete study on the issue at that time by

³⁷ This issue is an old one and was one of the bases of the creation of the USA as a federal country. The problem raised at that time was how goods should circulate on a competitive basis from coast to coast. In Brazil, when the decision to industrialise was taken, one of the main measures adopted was to empower the federal

IPEA, a federal government agency, was to change the characteristics of this tax by defining that it should be levied only by the state that bought the goods or services. No taxation should occur in operations between states. The proposal intended the allowing of more freedom to the states to define their own rates for the levy of the ICMS, therefore, giving them more autonomy in determining their fiscal policy and management. According to one of its authors, the idea was received with no enthusiasm. The more developed regions were not interested because they would lose too much and the less developed ones because they would rather rely on federal transfers than assume the responsibility for administering their revenues with more autonomy (Rezende, 1990: 145). Another reason that should be added is the fear of state governments being pressured by regional élites in favour of reducing the ICMS's rates or even its exemption, as had occurred in the past. The ICMS maintained its previous characteristic of being levied partially at the place of origin and partially at the destination ³⁸.

Another of IPEA's proposal was that federal transfers to sub-national governments should comprise of percentages of the entire revenue collected by the federal government and not only of percentages of IR and the IPI. The reason was to stimulate progressive increases in tax collection and to decrease the degree of conflict between the three levels of government. Despite IPEA's efforts to influence this subcommittee, the head of these works Fernando Rezende recognised that IPEA was not backed by the government, which absented itself from the discussions (Rezende, 1990: 144).

If IPEA's proposals were not voiced because of regional conflicts and the lack of support from the government, this subcommittee was the only one to show worries about the outcomes of decentralisation. It presented the only scheme for attaining the goal of the decentralisation of responsibilities. It was the proposal for the creation of a decentralisation fund, with resources from a federal fund, the FINSOCIAL, now CONFINS, which, for the

government to regulate external and inter-state exchange rules. The reason was the need to unify the territory commercially and to deny the states, i.e. regional oligarchies, the right to prescribe their external and internal trade rules. This change was made by the 1937 Constitution, immediately after Vargas's coup, as mentioned in Chapter 2.

³⁸ One of the consequences of maintaining the principle of taxing goods at their origin and at their destination is related to food consumption. A study by Rezende shows that after the promulgation of the Constitution, the states increased taxation on staple food by more than 50%. This fact puts Brazil in an uneasy position among the so-called modern economies because it is the country with the highest tax on staple food (UNAFISCO, 1992: 176). Less developed states are the biggest producers of grains consumed by the poor and they depend upon the taxation of these products for a better budget.

following five years, would implement decentralisation. At the end of five years the FINSOCIAL was to be abolished. According to the report, it was assumed that with the revenue from the FINSOCIAL, plus the increases in municipal and state finances, the sub-national governments could easily absorb the responsibilities transferred to them and that the federal government would not have been penalised because its responsibilities would have been transferred. This scheme was rejected at every stage of the constitutional process and reintroduced again by its creator, José Serra. Serra explained that at the end he did not lobby for his proposition because the federal government's losses were high and it could not afford to lose another source of revenue [2 Feb. 1994].

The subcommittee recognised that the fiscal reform carried out in 1966 by the military was one of the reasons for the high indebtedness of the sub-national governments. To address solutions to that problem, it was proposed that Congress should set up a committee to evaluate the effects of the 1966 fiscal reform. The committee should find ways for the federal government to help sub-national governments clear up their domestic and foreign debts. This clause was later withdrawn.

This subcommittee showed a clear regional axis. Disputes among states and between states and municipalities were high. The consensus on reducing federal revenues was clear. However, the degree of losses that were about to penalise the federal government were not yet clear. It was not clear either how the gains of sub-national governments should be regionally distributed. However, one thing became transparent about regional cleavages: the high degree of negotiations which took place every time a region was penalised by a proposal that benefitted another, which promoted a positive-sum game through increasing every region's revenue by 0.9% (Rezende, 1990: 163) ³⁹.

To sum up, this subcommittee chose to decentralise tax revenue but with less impact on federal revenue than was later to be approved. A scheme was also proposed to support decentralisation and to call for the stronger action of sub-national governments in delivering services and in assuming more responsibilities as a result of their financial strength. Here again, the same intriguing lack of pressure from the federal government was registered.

³⁹ Taking into account only tax transfers per capita revenue by region remained with the same distortions as the previous scheme, with the North-East receiving the lowest share, followed by the North (Rezende, 1990:163).

3.4 Conclusions

Brazilian constitutional engineering was noticeable for efforts to legitimise the return to democratic order through the promulgation of a constitution rooted in mechanisms of popular and societal participation rather than in worries about policy results or in building a social consensus of what was to be achieved with the measures it adopted, especially under the topic of decentralisation. Furthermore, the decentralised and democratic way the constitutional procedures were designed did not guarantee that any level of decision was to be taken as final, which meant that bargaining and compromises had to be made several times, broadening the number of players. Finally, redemocratisation was not only a process without rupture but one which incorporated old and new players aiming at its legitimation and at defending the new order against threats from the old regime. These features could only amplify the number of players in the decision-making process, therefore increasing power fragmentation but not disintegrating old political coalitions.

Whereas for substance, three points should be highlighted to summarise the events that took place at the subcommittees in charge of designing a new organisation of the State and a new tax system. First, there were no doubts about the decision to decentralise but few CNA members were aware of the consequences of decentralisation for the federal government and for the political system. Second, there was a consensus on rejecting whatever existed before the CNA sat and an attitude of confronting the federal Executive, which was partially responsible for the enthusiasm for decentralisation. Congress's rebellion was eased because Sarney was a weak President. Furthermore, the federal Executive did not react to measures that are now held responsible for its difficulties in governing. Third, strong regional cleavages, weak party discipline, deficiencies in party guidelines, a lack of ideological polarisation and the absence of a national project on a new role for the State made each CNA member an individual player and a solitary negotiator. This process also created a game where everyone had the power to become an individual veto player. In this kind of game proposals had to be submitted to intense negotiations with each particular veto player.

One aspect of the constitutional process deserves special attention: the intriguing absence of the federal government not only at the subcommittees but at other stages of the constitutional process, as shown in the following chapter. The strong reaction against centralisation among politicians, and the involvement of the Sarney government in short-term

issues, like his term in office and the system of government ⁴⁰, plus the weakening of the federal bureaucracy, are probably the reasons. What is puzzling is why segments that today blame decentralisation for many of the country's diseases did not manifest themselves against such a clear policy of weakening the federal government. What is also puzzling is that most Congress members depend upon either the state governor or the political leaders of the interior (or both) for their political survival, given their 'parochial' links. This kind of relationship requires Congress members to allocate revenue for their constituencies in the federal budget. The allocation of federal revenue requires a federal government with enough resources to support the demands of over 500 Congress members, each of them with interests in several constituencies, given the electoral system of open-list proportional representation ⁴¹. It requires, also, a federal government incapable of enjoying support from a political party commanding a congressional majority. As Ames (1995) pointed out, presidential survival in Brazil depends on the distribution of construction projects and political jobs to crucial governors, mayors and deputies. Since these coalitions have to be remade for practically every vote, the fiscal pressure on the Executive becomes intense. More than that, the bargaining power of Congress is increased remarkably. The decision to decentralise taken in the initial days of the constitutional process is at the basis of the 'peripheralisation' of the country's federal and political systems.

The events analysed show that the developments of the Democratic Alliance and the outcomes of the first stages of the constitutional process piloted Brazilian redemocratisation to a unique process of decentralisation of power, where several unequal but competing power niches had the strength to play a part in the decision-making process. Hence the features of a consociational democracy as discussed in Chapter 1 were deepened at that moment. This kind of game or model led the political system towards a 'paralysed competitive arena', where decisions and players cancel each other out. The incursion into the first stages of the decision-making process highlighted the importance of bringing to the policy-making analysis the

⁴⁰ The decision about the system of government is not a short-term issue. However, the change from presidentialism to parliamentarism was discussed as a way to shorten Sarney's term because of his low popularity and lack of legitimacy.

⁴¹ Brazil has a system of open-list proportional representation. According to this system, those who run for election are voted for in many constituencies within a state. Therefore, candidates are linked to large, multimember districts.

intersection of conflicting interests as a critical arena in explaining policy-making and policy changes. This chapter showed how tensions between governmental spheres have been suffocated by the previous regime. It also showed the influence of 'parochial' demands in shaping the decision to decentralise. These forays signal the complexity surrounding a decision and show how incomplete is the literature reviewed in Chapter 1 in explaining how reforms become part of the political agenda. The incompleteness of the literature is especially noticeable in cases in which legislators take decisions about issues usually treated as belonging to the territory of practitioners and officials.

In the next chapter the study details the stages of the constitutional process which followed, as well as the aftermath of decentralisation, where the building of coalitions and the management of conflicts and alliances were broadened. Chapter 4 also provides greater detail of how political and institutional reforms evolve and why the decision to decentralise was taken. By showing the ways used by sub-national politicians, both collectively and individually, to influence and to veto national policies and to show how tensions between levels of government are dealt with, the chapter further explores the constitution-making process from which sprang the final decision to decentralise.

Chapter 4 The Constituent National Assembly and Its Aftermath: The Management of Conflicts and Alliances

Introduction

In theory, one of the main tasks of a constituent assembly is to strike the proper balance of power between the legislative and the executive branches of government (Elster, 1993: 182). Furthermore, a major dilemma in democratic regimes concerns a divergence between what representative assemblies do best and what executives must do if democracy is to function well (Shugart and Carey, 1992: 3). However, not only does the tension between branches of government have to be addressed by a constituent assembly, the relationship between levels of government is as important, especially in federal countries. How to build up a federal system based on power sharing without causing partition of one of its components is intrinsically contradictory.

In Brazil redemocratisation and decentralisation have given Congress and sub-national governments an increasingly-assertive role, bringing imbalance to the political process and to intergovernmental relations. Congress has replaced the federal government in mediating regional and 'parochial' conflicts and in defining the allocation of revenues. Congress's strength in a milieu of weak parties, Presidents without the support of parties or society, together with strong regional cleavages brought about a decision-making process designed to drive the federal Executive to compromise with too many veto players. On the other hand, and as Elster (1994b: 18) reasoned, power, to be effective, must be divided. The CNA was successful in legitimising the new democratic order and in fostering democracy through strengthening Congress and sub-national governments. Nevertheless, by the time the Constitution was being drafted, Brazil faced (and still does) many unresolved issues that needed to be tackled nationwide. Why did those drafting it choose to decentralise financial and political power? The answer to this puzzle is the aim of this chapter.

The chapter deals with the intermediate and the final stages of the constitution-making, where conflicts and alliances were stronger than in the previous phase. The localist and regionalist features of the CNA went much further than the policy of transferring revenues from the federal to the sub-national governments. The decision to decentralise has been interpreted as a less polemic topic when compared to the discussions around land reform, workers' rights, nationalist measures and the length of the President's term (Sadek, 1991).

Nevertheless, the developments in the CNA show that despite a consensus to weaken the federal government, cleavages between municipalities and the states, and among states, were strong but played in the shadows.

The already mentioned feature of the Brazilian constitution-making, in which individual players became more important than collective ones, leads to the recognition that analyses based exclusively on the party composition of the CNA cannot explain the outcomes of the Constitution. The decision to decentralise can be better understood through the analysis of three dimensions: (i) the relationship between political parties and the State; (ii) intra- and inter-party competition; and (iii) regional cleavages¹. These variables are developed in this chapter to shed some light on the basic conflicts and cleavages in the constitutional debate which led to political and financial decentralisation.

The chapter proceeds as follows. Section 1 deals with the decisions taken at the committees related to the research's topic. Section 2 analyses the final stages of the constitution-making. Section 3 investigates why the decision to decentralise was taken. Section 4 examines the main results of decentralisation, both for the fiscal system and for the balance of power. Section 5 presents some conclusions.

4.1 Coalition-Building at the Committees' Level

4.1.1 Committee on the Organisation of the State

The president of the committee was José Thomaz Nonô (PFL-AL), from the North-East, and the rapporteur was José Richa (then PMDB-PR), from the South². A short report was written by Richa, in which he reasoned that the main aims of the committee were 'the question of autonomy and the problem of decentralisation, because democracy requires decentralisation of power'. Commenting on the drafts received from the three subcommittees analysed in the previous chapter, Richa found grounds to support the Federal District's plea for political, financial, administrative and legislative autonomy, but not to support the creation of any new state.

A comparison between the draft issued by this committee and the final version of the Constitution shows that many changes were made during the constitutional process. One of

¹ The importance of analysing the outcomes of the CNA beyond the political parties was raised by Campello de Souza (1989: 357).

² The committee's members were the same as those who had participated in the previous subcommittees.

them was the way to put decentralisation to sub-national governments into action. The Constitution introduced many concurrent powers between the three tiers of government that had been rejected by this committee and which reappeared at the Systematisation Committee. When asked the reasons for this decision, Richa said he did not remember [5 May 1993]. Another difference relates to the expansion of federal government powers and assets when compared to the previous Constitution. This expansion was smaller at the committee than that finally approved.

According to Richa, the state governors and mayors did not put pressure on the committee, which he regretted.

The state governors were absent and the mayors do not have technical skills. The corporatist groups put no pressure on the decentralisation of responsibilities either. All the constitutional improvements, mainly financial decentralisation, should be credited to Congress [Richa, 5 May 1993].

In an ex-post *mea culpa*, Richa reckoned that

we went only half way regarding decentralisation, because we did not propose an administrative correspondence to financial decentralisation. Financial decentralisation should correspond to the decentralisation of responsibilities, so the population can claim the delivery of the service [5 May 1993].

Richa, former mayor of Curitiba and former governor of Paraná, classified himself as a defender of decentralisation, but he gave a strong argument against it.

The mayors treat tax collection as a political rather than a financial issue and they are more open to accepting pressures against tax collection than the governors or the Presidents of the Republic [Richa, 5 May 1993].

The committee received 536 suggestions from Congress members and 109 were selected to analyse the three variables mentioned above for a better understanding of the decision to decentralise. Table 4.1 shows an aggregation of the topics presented. Several contradictions can be found in the analysis of the table. First, there was a concentration of proposals about territorial cleavages, meaning the creation of new states, and few suggestions on what was actually the main reason for the committee, i.e. the definition of a new format for the State and ways of achieving decentralisation by sub-national governments. Second, the suggestions reflected a feature that cut across the entire constitutional process: the intention to change whatever had been done by the military governments or buffered by them. The military created new states in the North and Centre-West, but had always rejected proposals

for territorial rearrangement outside these two regions. The military had also rejected the introduction of more decentralised formats for the administration of large territorial areas, areas experiencing fast urbanisation, and the introduction of schemes to distinguish powers and responsibilities between municipalities that are so different from each other (Medeiros and Souza, 1993; Souza, 1990). Although several proposals had been presented for a more decentralised and democratic way of governing intra-state and municipal areas³, they were not accepted by the committee or the Constitution. Third, some issues decided at the level of the three subcommittees were threatened at the committee level, e.g. the creation of the state of Tocantins, and the decision to introduce the model of concurrent powers to address the issue of intergovernmental relations, both rejected by the rapporteur. These rejections meant more bargaining and negotiations at the following stages in the constitutional process.

Table 4.1 Selected Amendments Proposed by the CNA Members to the Committee on the Organisation of the State

Topic	Number of Proposals
.Territorial cleavages	30
.Local autonomy, municipal powers and different political status according to local characteristics	15
.Organisation of metropolitan regions and other forms of intra-state organisations	15
.Special tax benefits to some municipalities, regions and sectors	10
.Federal government powers and assets	10
.Issues concerning the Federal District	9
.Concurrent powers	2
.State and local borrowing and debts	2
.Others	16

Source: Aggregation based on PRODASEN's data

The intensity of regional cleavages is shown by the number of proposals presented about territorial re-arrangement⁴. Here alliances were made cutting across party affiliations and geographic representation. Every region was involved in struggles for a different territorial division. The North sought the creation of two new states (Juruá and Tapajós) and the transformation of the federal territories of Amapá and Roraima into states. The North-East urged the creation of two new states (Maranhão do Sul and Santa Cruz), and there was a resurgence of old disputes involving the boundaries between the states of Bahia and

³ Each municipality is divided into several districts which do not have elected bodies.

⁴ Although based on different reasons, territorial cleavages were the stickiest and the most emotional of the constitutional issues in Spain (Llorente, 1988) and India (Hermet, 1988).

Pernambuco and Bahia and Sergipe. The Centre-West lobbied for the creation of the state of Tocantins. The South-East argued for the creation of two states (São Francisco and Triângulo), and for the re-creation of the state of Guanabara; and the South for the creation of the state of Iguacu. However, and following the military tradition, the states created by the Constitution were only those located in the North and in the Centre-West.

For inter-and intra-party competition, again proposals for the creation of new states clarify the understanding of coalitions and dissensions. The PFL presented three proposals against the creation of states by the Constitution, but other PFL members were the main lobbyists for the creation of five states. The PDT presented several proposals for the re-creation of the state of Guanabara, against the will of its main national leader Brizola. A member of the PMDB called for the creation of the state of Santa Cruz, carved out from the state of Bahia, against the will of Bahia's governor, Pires, who was also a member of the PMDB. The progressive parties other than the PDT were not involved in those cleavages.

Here again the parties which supported the creation of new states are considered as having strong 'parochial' links, suggesting their close ties to the State apparatus. The relationship between political parties and the State can also be found in the number of proposals calling for a broader role for the federal government, either in its jurisdiction or in its assets. The PMDB presented the highest number, but the PDT, PFL, PDS and PT also wanted a federal government with expanded powers. The reasons could be different. Proposals coming from the progressives were more likely to be argued on ideological grounds, but most of the PMDB, PDS and PFL's discourses favoured reducing the role of the State.

This committee was marked by a rejection of what was achieved at the subcommittees. A permanent tension was identified between the proposals of the subcommittees and those of the committee, stressing the importance of the following phases of the constitutional process. The presence of Richa, a well-known politician with great visibility during the transition, allowed him to block what he considered the 'excesses of the subcommittee' [5 May 1993]. These 'excesses', however, were to be re-introduced later and were the mark of the way decentralisation was built up. The outcomes of the issues related to the restructuring of the State show that decentralisation was more a matter of financial resources than a banner for the restructuring of the State.

4.1.2 Committee on the Tax System, Budget and Finance

This committee was one of the most important within the CNA given the nature of its remit⁵. Some of the most prominent figures were among its sixty members. The president was a former Minister of Finance, Francisco Dornelles (PFL-RJ). The rapporteur, Dr José Serra (then PMDB-SP), is a well-known economist with great experience in fiscal matters. The South-East held the main positions, but less developed regions held 53.3% of the committee's members. The committee received 1,164 suggestions. In his report Serra mentioned the main problems he had had to face in accomplishing his task: (i) disagreements among the members of the committee because of their different ideas and their distinctive knowledge on the subject; and (ii) the tendency to detail every aspect of the subject.

Serra underlined the most important results reached by the draft. First, a broadened basis for the main state tax, the ICMS, and more freedom for the states to define its rates. Second, the creation of a tax on retail sales for the municipalities. Third, the increase in constitutional transfers to sub-national governments. Fourth, the blocking of the earmarking of revenues. Fifth, the prohibition of the federal government from allowing tax exemptions on revenues to be transferred to sub-national governments. Sixth, the creation of a fund with resources from FINSOCIAL to promote a phased decentralisation. On the latter Serra mentioned that 'decentralisation of responsibilities is essential for the financial equilibrium of the three spheres'.

Serra called the attention of his colleagues to two points. First, the increase in taxation that the measures adopted in the draft would bring. He argued that at that time there was no answer to this concern because some things were not yet defined, for instance the rates of several taxes, the creation of new responsibilities for the levels of government that the Constitution was about to launch and the future behaviour of the governments at the three levels. Second, the losses of the Union's revenues. Serra called for an effective transference of responsibilities to sub-national governments and for the importance of the complementary legislation to tackle the issue of federal fiscal equilibrium. In his second report, Serra showed deeper concern at the losses of revenue that the federal government was about to face:

It is well known that between the mid-1960s and mid-1980s the federal government enjoyed

⁵ The importance Brazilian drafters gave to fiscal issues was in opposition to their counterparts in France in 1958. The French founders decided that fiscal issues belonged to the domain of the law, therefore no discussion took place on this point during the drafting of their constitution (Foyer, 1988: 45).

an excessive concentration of revenues and of tax collection, at the expenses of states and municipalities, thus bringing a strong imbalance to the federation. The new Constitution will correct this mistake, but it would be another mistake to maintain such an imbalance with changed signals.

Two major changes were introduced in the draft issued by the subcommittee. First, the exclusion of hydro-electricity from the municipal Value-Added on Goods and Services Tax. This tax, plus the increase in the percentage that the states would transfer to the municipalities out of its ICMS, from 20% to 25%, should compensate the municipalities for the exclusion of the Services Tax, the ISS, which would become part of the ICMS. Surprisingly, the mayors of the state capitals, where the ISS is generally the main tax, were not against its abolition, because of the compensation given by the state transfers of ICMS [Serra, 2 Feb. 1994]. Congress members, however, strongly opposed the abolition of the ISS and managed to re-introduce it at a later stage. Parliamentarians from different political spectra, such as PC do B and PTB leaders, lobbied for the re-creation of the ISS. Later, the increase in the percentage of the ICMS to be transferred to the municipalities to compensate them for the incorporation of the ISS could not be withdrawn because the lobby for keeping it was too strong [Serra, 2 Feb. 1994].

Second, the sub-national governments' share in their participation in Income Tax and in the Tax on Industrial Products, which constitute the FPE and FPM, were increased from 18% to 18.5% for the states and from 21.5% to 22.5% for the municipalities. Serra argued that his behaviour over the transfer of revenues was that of resistance because not much could have been done:

If I had not resisted, the federal government's losses would have been greater, maybe 60 or 70% of Income Tax and the Tax on Industrial Products [2 Feb. 1994].

New federal taxes approved by the Constitution were not proposed at the committee level.

Serra declared that he was not subjected to pressure by any kind of interest group, because 'everyone knows I am not a person to be pressurised' [2 Feb. 1994]. His words do not mean, however, that conflicts were few. Surprisingly again, the main pressures would not come from entrepreneurs or the federal government, but from Congress members themselves ⁶. In the words of a member of the committee, Osmundo Rebouças:

⁶ During the CNA, according to one of Serra's technical assistants, there was a broad lobby by entrepreneurs to pay less taxes and a specific one by the building industry to maintain the tax on fuels earmarked for road construction. They did not succeed. Another lobby was from some federal civil servants, especially from the

The whole environment regarding the fiscal system was emotional and irrational. I saw depressing displays. A heated debate occurred among the delegates of several regions on how to define the percentages of the FPE and FPM. Members from the North, North-East and Centre-West wanted this percentage to be as high as possible, whereas the ones from the South and the South-East wanted them to be the lowest possible because they do not depend upon these transfers. In exchange, an agreement was settled to increase by ten the number of federal deputies to be elected by the state of São Paulo (UNAFISCO, 1992: 172-3) ⁷.

Party leaders and opinion formers interviewed tended to be evasive when questioned about the issue of regional cleavages. Leaders of parties with more internal coherence, whether conservative or progressive, such as PT's Genoíno [12 May 1993], PC do B's Lima [30 April 1993] and the PDC were said to have counterbalanced these cleavages with the guidelines of their programmes for the nation. Despite that, the PDC's leader Eymael said that an agreement had to be made by representatives of every region stating that their delegates should think of the country as a whole and not about particular regions [28 April 1993]. Within the PMDB negotiations were intense. According to its leader, his main aim was to keep the coherence of the party [Covas, 19 May 1993]. The PFL was evaluated by its leader as not being affected by many conflicts, because 'there was a sense of national unity, but the press exaggerated the occurrence of regional conflicts' [Lourenço, 10 May 1993]. For the PTB's leader, one of the most 'physiological' parties ⁸, negotiations were high and took too long, which was interpreted by the press and the public opinion as neglect [Righi, 29 April 1993].

Serra's concern at the way decentralisation was conducted made him write a personal letter to President Sarney stating his worries and sending it through Ulysses Guimarães. Sarney replied verbally that Serra should go even further in decentralising resources to sub-national governments. Serra acknowledged that

Sarney was a President unable to see Brazil as a whole. Also the Ministers of Finance at that

federal universities and from social services who did not want their jobs transferred to sub-national governments [Afonso, 16 April 1993].

⁷ The 'victory' of the *paulistas* was counterbalanced by the creation of Tocantins and the elevation of two territories to statehood, adding sixteen new deputies and nine senators, thus skewing the agreement. Paradoxically, the final roll-call voting in favour of the creation of these new states was approved with only one vote against it. All the delegates from São Paulo voted in favour.

⁸ 'Physiological' parties means, in this sense, those parties which have no limits in negotiating with the government in exchange for political goods. Saint Francis's sentence 'he who gives shall receive', endorsed by a PTB member from São Paulo, Roberto Cardoso Alves, became an accurate definition of the behaviour of these parties and groups.

time were too busy tackling inflation and making stabilisation plans, and they could not think about the Constitution [2 Feb. 1994].

Serra then became the most visible figure (and a solitary one) in defending the role of the federal government against further losses. Serra's ex-post evaluation is that the Union's losses to sub-national governments were not that important, but he found serious conundrums in other issues. First, the tax privileges given to the tax-free zone of Manaus, which decreases revenues to be distributed to states and municipalities and the entire country has a heavy burden to sustain few industries and jobs. Second, Congress is not technically prepared to fulfil its role in fiscal matters given by the Constitution, especially over expenditure and budget⁹. Third, Congress does not show any political will for becoming co-responsible for public sector performance, as the model proposed by the Constitution requires. Finally, the federal Executive does not have the political will to carry out measures that will imply losing more power¹⁰.

However, Serra reckoned his main defeats were in two areas, which happened after the committee was dismissed:

First, in the impossibility of implementing larger autonomy for the states to define their own fiscal policy through more freedom to decide the rates of the ICMS. The route taken in the Constitution and in the regulations of the ICMS was that of a great uniformity among the states. Second, the lack of backing among my colleagues in setting up institutional mechanisms to materialise decentralisation of services. Disparities among municipalities and states are very big, and this requires planning and coordination through the federal government [2 Feb. 1994].

In the second phase of the committee, 692 suggestions were made and 279 were culled to analyse the three selected variables to understand the outcomes of the Constitution, shown in Table 4.2. The highest number of proposals were on tax privileges to regions, states, municipalities and the Federal District. There was no agreement on the amount of federal revenue that should be transferred, with variations from 35% to 52% of Income Tax and of the Tax on Industrial Products. The rates to be transferred among states and between states and municipalities also varied. The strength of sub-national finances was led by the North-East and by the PMDB's and PFL's delegates, whereas the South and the South-East led the

⁹ Both the Senate and the Chamber of Deputies have a large and well-paid staff of senior officials to provide parliamentarians with technical support. However, these advisors have no expertise in fiscal matters because during the military regime Congress did not have much say in budgetary matters.

¹⁰ Serra pointed out those problems during his interview for this research and in an article (Serra, 1989:102).

proposals aimed at tax exemption and at the granting of incentives. Serra rejected every proposition related to the latter ¹¹. Considering that the South and the South-East are less dependent on federal taxes, it is understandable why they presented more proposals towards exemption of federal taxes than the other regions.

For regional cleavages those proposals which favoured the North and the North-East on the one hand, and the South and the South-East on the other, were listed. Here again the proposals to increase revenues for the North and the North-East were sponsored only by members of the PFL and the PMDB.

Contradiction can be found in proposals against the decision taken by the rapporteur to transfer the collection of the Rural Property Tax (ITR) from the federal to the state government. The argument against Serra's suggestion was that in the past the ITR was under the states' jurisdiction and it was not properly collected, 'given the political structure of the states', according to one of its supporters, Vivaldo Barbosa. Later Serra withdrew his suggestion 'because it was the only plea made to the committee by the Minister of Finance at that time, Dr Bresser Pereira, even though I don't know why he asked for that' [2 Feb. 1994].

Table 4.2 Selected Amendments Proposed by the CNA Members to the Committee on the Tax System, Budget and Finance (*)

Topic	Number of Proposals
.Tax privileges for regions, states, municipalities and the Federal District which implied in the reduction of federal revenues	84
.Tax exemption and incentives to specific segments, like pensioners, companies and institutions	56
.Regional cleavages	43
.Increasing Congressional powers in fiscal and budgetary matters	38
.Calculi, procedures and regulations of tax collection	29
.Earmark of public and private resources	11
.Creation of more federal taxes	8
.Keeping under federal jurisdiction tax collection transferred to other tier of government	7
.Against the creation of the Decentralisation Fund	3
.Limits on public expenditure and taxation	2
.Limits on the power of Congress to amend the budget	2

Source: Aggregation based on PRODASEN's data

Note:(*)Does not include proposals about the financial and banking systems.

¹¹ Tax exemption on books, newspapers, journals and papers for their printing, political parties, education and welfare institutions, churches of any religion, workers' unions and for pensioners over 65 years of age whose income are only from their pensions was approved by the committee and by the Constitution against Serra's will..

The reaction against the creation of the decentralisation fund came only from the North-East, with the exception of Bahia. The argument of one of the authors against the fund, Ismael Wanderley, was that the resources to make up the fund, from FINSOCIAL, should continue to be allocated only to welfare programmes. Serra counteracted using their colleagues' traditional line of reasoning: revenues to social programmes and services should be applied at the tiers of government closer to the community. The proposal was approved by the committee but was rejected at every further constitutional stage. It was re-introduced by Serra several times and always defeated. The rejection of the decentralisation fund was not surprising, given that resources from FINSOCIAL are one of the methods used by Congress members and by the federal Executive for negotiations between them ¹².

The high degree of regional cleavages and of conflicts between states and municipalities can be verified by the way party leaders avoided a direct answer to the question posed to them about this topic, by the changes in the rates of the federal taxes to be transferred to sub-national governments, and for the later gains by the municipalities in keeping 25% of the ICMS and in regaining the ISS. Despite the intensity of these cleavages, every individual state and municipality was a winner, not only because their revenues had risen, but also because issues apparently outside the sphere of the committee were included in the negotiations, e.g. the increase in the political representation of São Paulo, a state which benefitted less from the policy of expanding federal transfers to sub-national governments.

Inter- and intra-party competition played the same role as in the committee previously analysed. Parties' delegates behaved more according to their individual commitments or to their regional representation than to their parties' programme. An example is that one would expect a party like the PL, which some analysts such as Campello de Souza (1992) reckoned as the one which best expresses the New Right ideology in Brazil, would be very active in the committee, but only one proposal was presented by a member of the PL. The amendment in favour of tax exemption for the press brought together parliamentarians from the PMDB,

¹² Resources from FINSOCIAL end up becoming the main source of corruption in scandals over Congress brought up in 1993 that resulted in a CPI (Parliamentary Inquiry Committee). The CPI was set up to investigate members of the Budget Committee and the process by which it had been reallocating expenditure within budget lines, in response to amendments put forward by individual members of the Chamber of Deputies who had pocketed funds mainly from FINSOCIAL. Eighteen members of Congress were incriminated by the CPI which revealed a chain of corruption in the process of budget appropriations and the involvement of legislative, executive agencies and building industries. It was no coincidence that eight federal deputies out of the eighteen investigated were members of this committee and seven were from the North-East.

PDT, PDS and PFL. Against the proposal to transfer to the states the collection of the ITR were members from the PFL, PMDB, PCB and PDT. These facts show, as in the previous committee, that at least for the two topics analysed, inter- and intra-party competition was developed more on an individual than on a collective basis and could vary according to the issue.

The relationship between political parties and the State had two different roots. The strengthening of sub-national governments' finances, mainly of the municipalities, has different lines of reasoning. For progressive parties, there is an ideological correlation between decentralisation and democracy. But there are also practical reasons: since the 1985 elections the progressives started a steady increase in mayoral elections. Therefore, the strength of local government finances is an important asset for the building up of governing coalitions. However, the progressives were not involved very much in this committee, as it was opposed to their involvement in agrarian reform, nationalist measures and workers' rights. Financial decentralisation should be credited mainly to the PMDB and PFL. On the other hand, there are parliamentarians with 'parochial' links who operate under a clientelist style. For them, the strengthening of local finances meant a recognition of the importance of local leaders for their political careers, expressed by more revenues to their allies and more jobs for their protégés. Given that in most of the municipalities of the interior the political battle has been polarised between the PMDB and the PFL, more revenues are needed to form governing coalitions. Even from their different roots, both the progressives and the 'parochial's had good reasons to support financial decentralisation because it increased their room for manoeuvre through the control of more revenues at the local level. As for governorships, the PMDB and the PFL together have been the main parties since the re-introduction of popular election.

Who was responsible for the decision to decentralise? Party leaders and opinion formers interviewed show that there is no consensus about this, even if a slight majority credited the decision more to the parliamentarians than to state governors or mayors. However, a former state governor made an assessment that the governors 'acted en bloc during the CNA to introduce provisions to favour the states' finances' [Pires, 23 April 1993]. In the second place the leaders identified the result as a consequence of pressures from both state governors and mayors, as much as pressures coming more from state governors than from mayors. The leaders were almost unanimous in identifying President Sarney as a weak President, indirectly elected, and the governors as strong leaders, who had come out of the

1986 elections with great political support. This partially explains the defeats suffered by the federal government, the victories of the states at subcommittee and committee levels, but it does not explain why the municipalities were the winners in the end concerning tax resources.

The cleavages between the municipalities and the states resulted in higher tax revenues for the former at the end of the constitutional process¹³. There are four reasons for this. First, a reaction against the military practice of discrediting the mayors, who used, more than the governors, to be labelled by the military as irresponsible managers, more than the governors. Second, the struggle towards more local revenues was the oldest one in Congress, symbolised by the CPI mentioned in Chapter 3. Third, there is the ambition of most federal deputies to hold executive positions, which are more likely to materialise at the local level¹⁴. Finally, the commitment of parties with strong 'parochial' links in favour of decentralisation. Therefore, the decision to decentralise was taken more on the grounds of 'parochial' needs and stimuli, which favour the municipalities more than the states, rather than on democratic requirements or better policy results.

Other points are paramount in summing up the events that took place at this committee. The adoption of a tax framework for the sub-national level based more on constitutional transfers rather than on the collection of their own revenues may have three meanings. First, the assumption that in most of the states and municipalities, especially in the less developed regions, economic activities are scarce and their financial survival relies on federal transfers. Second, federal transfers are necessary for promoting horizontal balance, given the great economic differences within the country. Third, the fear of the parliamentarians that sub-national governments were not strong enough to cope with the interests of local and regional economic groups. Another aspect relating to the tax framework is the concept of autonomy. It is not only decentralisation that has different meanings to different people and groups, the same happens with the concept of autonomy. The final features of decentralisation show that the idea the drafters had in mind was shaped more by expanding federal transfers than by political and financial freedom.

The recognition of Serra's skills in the subject was enough to attract his colleagues

¹³ The same happened with the Venezuelan Constitution of 1966 (Manrique, 1988).

¹⁴ In the 1992 local elections around 100 Congress members ran for mayoral positions (*Gazeta Mercantil*, 1992)

only to his proposals at this level. As at the previous committee, what was decided here could not be taken as final. The open conspiracy against the federal government was facilitated by the existence of a weak President, strong state governors, mayors and individual interests of members of the CNA to jump to executive positions or to increase their 'parochial' links¹⁵. In a conjuncture like this there was little room for technicalities or for worries about policy results.

Pressures from less developed regions and severe regional cleavages were not counterbalanced by parties' guidelines or by different ideologies because of the lack of cohesion between the members of the parties that dominated the CNA. This imbalance brought about a decision-making process where individual views prevailed over collective ones. As a result, the process of constitution-making had to expand the number of players in the decision-making process, each of them playing the double role of proposers and vetoers.

These sub-sections answered some of the puzzles raised previously on how to understand the absence of the federal government in discussions on its role in a decentralised fiscal system. However, another puzzle raised is still to be answered: what made the legislators, so dependent upon the mediation of the federal government to sustain their 'parochial' links and to accommodate their regional and local cleavages, take the decision to weaken their mediator's power?

4.2 Decentralisation in the Broad Sense

4.2.1 The Systematisation Committee

This committee, with its ninety-three members, was conceived to filter and to give coherence to the drafts coming from the eight thematic committees. According to Internal Rules No. 2, the Systematisation Committee should be composed of fifty-three members, plus the presidents and the rapporteurs of the thematic committees. Every party should be represented, assuring the minorities' rights to representation and following the democratic spirit of the constitutional process. Party representation at the committee was similar to that of the CNA. However, the same did not happen for regional representation. Table 4.3 shows the struggle between the North-East and the South-East and that the North and the Centre-West delegated their requests to the North-East. Two other great battles for political

¹⁵ Brazilian framers did not fear a weak central government, like their Indian counterparts (Morris-Jones, 1988: 131) nor a weak executive, like the German framers of 1949 (Sontheimer, 1988: 230).

leadership happened in the CNA. One for the position of leader of the PMDB, decided at the beginning of the CNA, and another for the rapporteur of the Systematisation Committee. The latter was characterised as a dispute among orators, both from the PMDB. Pimenta da Veiga was the favourite of PMDB's leader, Covas. Bernardo Cabral is a well-known orator, which is why he was elected to one of the most powerful positions in the CNA [Passarinho, 21 May 1993]. The president of the committee was Afonso Arinos (PFL-RJ), the head of the Commission of Notables. Later, two more vice-presidential positions were created because of pressures to speed up the work of the committee. Fernando Henrique Cardoso and Passarinho then became vice-presidents.

Table 4.3 Percentage Composition of the Systematisation Committee and of the CNA by Region

Region	Systematisation Committee	CNA
North	5	11
North-East	38	32
Federal District	1	2
Centre-West	5	8
South-East	37	32
South	14	15

The Systematisation Committee issued seven drafts, between June 1987 and July 1988. It held 125 meetings and received 35,111 amendments from Congress members and 122 from outside groups. These figures, plus future developments within the committee and the CNA, show that here again the process of drafting the Constitution started from a zero-point.

An account of both of the topics analysed shows the evolution of negotiations and compromises, as opposed to confrontations over a few issues not related to decentralisation. A chronological view of the drafts discloses the return of pressures for the creation of seven new states, although only the creation of Tocantins and the elevation of Roraima and Amapá to statehood status remained. In June 1987 sub-national governments were benefitted by the introduction of a clause stating that they should be compensated for the exploitation of natural resources in their territories. In August 1987 concurrent powers were re-introduced and approved in the following drafts. In October 1987 the victory of the drafters who advocated the re-introduction of the Services Tax was assured. Another municipal gain was the creation of a local tax on the Retail Sales of Fuels Except Diesel (IVVC). Also in this draft the alliance between the North and the North-East with the Centre-West was achieved,

through the inclusion of the latter in the scheme of federal revenues to be applied in less developed regions. The decentralisation fund was eliminated after the first draft and never re-introduced. In the drafts issued in August and in October 1987 there was a clause establishing federal and state plans to transfer responsibilities to the municipalities for programmes such as combatting illiteracy, primary schooling, health and welfare services. The plans should contemplate the transfer of civil servants, revenues and assets. These schemes disappeared in the draft of February 1988. In the draft issued in February 1988 a Tax on Large Fortunes was introduced at the federal level. In the draft of July 1988 a curious mediation emerged between centralism and decentralisation. In this draft the changes in the tax framework that weakened the federal government had been made, but several new obligations were incorporated among the Union's jurisdictions. These new obligations remained in the Constitution. Also in this draft a new measure strengthening sub-national finances was inserted: gold, when taken as a financial asset or as an exchange instrument, should be considered as being under the rules of the Tax on Financial Operations and Insurance (IOF), to be collected by the federal government but entirely transferred to sub-national levels.

Cabral wrote extensive reports in rhetorical and vague language. Two points in Cabral's reports are worth mentioning. The first was about what he called 'the high degree of consensus-reaching, showing that the Constitution was building up a new and durable social pact'. Confrontation was viewed as undesirable. However, he recognised that consensus had not been possible on some issues. The second point was on 'the strengthening of the federation', though Cabral's examples mentioned only the strengthening of sub-national governments.

Consensus was reached mainly through a scheme implemented by the PMDB's leader Covas. According to Passarinho, Covas created a kind of UN Security Council model within the CNA. The scheme, called the College of Leaders, put together the leaders of every party in the CNA, each with veto power. Passarinho added that

Covas's leftist origin, together with the messianic efforts of the radical left, plus the neglect of the right, were responsible for the right's defeats. The right could only minimise certain measures but could never win a battle [21 May 1993].

Because of the routes that the draft was taking, especially the threats to Sarney's term in office, plus the adoption of several measures with which the business community disagreed, a group was then created to fight against what they called the leftist features of the drafts. The

group was named the *Centrão* (Big Centre)¹⁵. It included 152 parliamentarians from the PFL, PMDB, PDS, PTB, PDC and PL. The group also reflected the PFL's reaction against the conservative's latest defeats¹⁶. President Sarney played all his cards by supporting the *Centrão*. He distributed political benefits, such as radio and television licences, public work contracts and appointments to public offices¹⁷. Sarney relied also on the military's position against the parliamentary system and against the shortening of his term. He used their position to threaten the CNA [Passarinho, 21 May 1993]¹⁸. Although the *Centrão's* intention was to support the requests of both the business community and Sarney, the latter was much more successful in his demands to the CNA. According to the president of the FIESP, São Paulo's powerful industrial federation, in 1988 he went eighty-five times to Brasília to lobby for the industrialists' interests. Out of the twenty-four points for which he lobbied, he was defeated on twenty-one (*Folha de São Paulo*, 1993)¹⁹.

The issues that brought this coalition together were not related to decentralisation²⁰.

¹⁵ At the beginning of this conservative reaction, Passarinho was invited to become its leader by a group of the PFL and the PMDB. The invitation came because the group wanted a respected leader. However, Passarinho's invitation was blocked by other of *Centrão's* members, especially Roberto Cardoso Alves (PFL-SP), Amaral Netto, (PDS-RJ), and Gastone Righi (PTB-SP) [Passarinho, 21 May 1993]. Those parliamentarians were famous for their lack of ethics when negotiating political benefits. Lourenço, the PFL's leader, became the *Centrão's* spokesman.

¹⁶ Since its creation the PFL had dominated Congress because it used to rely on the PMDB's fear of its own internal divisions. The PMDB had been avoiding confrontation because it did not trust the coherence of its members in a roll-call voting. PMDB's leader Covas himself said that giving coherence to the party was not always possible [19 May 1993].

¹⁷ The methods used by Sarney and by the business community to influence the CNA are described by Baaklini (1992), Campello de Souza (1989 and 1992) and Fleischer (1990).

¹⁸ The military were not only the feared members of the transitional pact but they were used by Sarney as an extra-constitutional force to counterbalance the alliance between leftist parties and social movements.

¹⁹ Since the political opening whenever Congress has to choose between the interests of the business community and those of the federal government, the latter prevails. The most significant episode happened in 1993 when 500 institutions from the business community and the workers' unions were unanimously against the creation of the IPMF tax (*Folha de São Paulo*, 1993), which was approved by Congress. This attitude does not mean that the business community is powerless, but that whenever Congress is confronted with conflicting interests between the federal government and society, most of their members are more likely to do business with the federal government. An interesting attempt to identify the motivations of the Brazilian Chamber of Deputies was made by Ames (1995).

²⁰ *Centrão's* agenda varied according to different analysts. However, some issues arrived at the Plenary sessions without consensus and most of them belonged to *Centrão's* concern: Sarney's term in office; the system of government; measures concerning domestic and foreign companies; workers' rights and unionisation; land reform; measures to strengthen democratic participation; abortion; and whether Brazil should keep diplomatic

The tax framework and the organisation of the State had already been decided by the time the *Centrão* was created, despite a lack of consensus on some details. However, the creation of the *Centrão* had four important points which relate to this research. First, in December 1987 the group succeeded in amending the process by which the draft document was to be considered at the Plenary. As a result, Internal Rules No. 3 was adopted, which practically allowed a new draft to come out. Second, the *Centrão* broke the fragile coalition built by the Democratic Alliance, broadening the number of players in the decision-making process. Third, the *Centrão's* victories in supporting Sarney's demands showed that the federal government was not an actor to be ignored and that it could exercise its power, if it wanted. Finally, the late awakening of the conservatives in the CNA shows that the groups and institutions they represented did not know how to cope with democratic and pluralistic ways of decision-making. The *Centrão* represented mainly those who were active in the old political and economic alliance. It took those actors some time to react to the democratic and pluralist procedures through which the Constitution was to be designed. The old alliance not only managed to organise their demands within a specific group, but were also responsible for some victories relating to their demands.

The constitution of groups cutting across party lines was not the *Centrão's* monopoly. Some of these groups were ideologically homogeneous and waged a concerted campaign over issues facing the CNA; others were temporary alliances of diverse individuals with little in common except certain issues in the Constitution. The existence of so many groups was an expression that political engineering was still in full swing, shown also by the fact that around 15% of Congress members changed parties during the CNA ²¹. The constitution of so many groups, the changing of the parties' affiliations and the subdivision of parties into new ones show two main things. First, the tendency to subdivision instead of mergers was an indication that groups were still searching for their positions in the new political arrangements. Second,

relations with countries where apartheid was tolerated. For an account of the roll-calls that went to the Plenary without consensus, see Coelho and Oliveira (1989) and Kinzo (1990). Apart from these issues, other topics polarised Congress during the CNA. According to Passarinho, the state monopoly on petrol, the nationalisation of mining activities and the right to strike were also subjected to polarisation [21 May 1993].

²¹ A major split occurred in June 1988 when more than fifty delegates, mainly from the PMDB, left their parties to create the PSDB. Among those were several interviewees: Seixas, Richa, Serra and Covas. The PDC was the party which registered the highest number of new affiliations during the CNA, seven. The second was the PSB, with four. The PDT increased its members by two. The most harmed party was the PMDB, which lost sixty-seven members.

the lack of a relatively homogeneous group to lead the constitution-making could only strengthen individual practices, meaning that each clause or amendment was negotiated and renegotiated innumerable times. If the progressives were mostly hegemonic until the level of the thematic committees, based on their messianic behaviour²² and on their ability to use the so-called popular forces, at the level of the Systematisation Committee they had to draw back and negotiate every single issue with the conservatives. At that stage consensus-reaching was the way to cope with differences. These events made room for more political negotiations over issues not directly related to decentralisation but negotiated under its name.

4.2.2 The Plenary Sessions

There were 1,021 roll-calls covering both rounds of voting. More than 95% of the final text of the Constitution was already decided by the time the CNA got together for the two rounds of roll-call voting. Out of more than 1,000 roll-calls, 115 were selected as relating to the organisation of the State and the fiscal system shown in Table 4.4.

Table 4.4 Selected Roll-Calls in the Plenary Sessions Related to the Organisation of the State and the Fiscal System

Topic	Number of Proposals
. Fiscal system and public expenditure	61
. Inter and intra-governmental conflicts	31
. Regional cleavages	13
. Role of the State	10

Source: Aggregation based on PRODASEN's data base

An average varying between 350 and 400 of the CNA members attended the roll-calls selected by this research. This number was also the average presence in most roll-calls²³. Out of these 115 roll-calls, 82 were rejected and 33 were approved, meaning that more than 70% of the proposals were presented without negotiation, and were, therefore, defeated. However, 83% of the proposals presented achieved a high consensus, either for their approval or for

²² The view of the messianic behaviour of the progressives was shared both by Passarinho [21 May 1993] and by the PB do B's leader Lima [30 April 1993].

²³ Only the roll-call voting for the form of government managed to bring together at the Plenary the 559 parliamentarians. Another roll-call that came close was the one on Sarney's term in office, attended by 554 delegates. Roll-calls on the interests of the business community never managed to bring to the Plenary more than 490 parliamentarians. These figures confirm the argument on the strength of the federal Executive. It also shows that parliamentarians in Brazil are more likely to support the Executive's demands than those coming from society or interest groups.

their rejection ²⁴. Only eleven roll-calls were subjected to tough disputes ²⁵. Seven were related to the tax system, three to inter and intra-governmental conflicts and one to the role of the State ²⁶. Most of the proposals sought to change parts of specific taxes. Only one proposal was presented to change the entire chapter governing the tax system. It was roll-call No. 417, sponsored by a member of the PL. Following the New Right tradition, this proposal aimed at limiting taxes and at a more decentralised federal system. The proposal received 125 votes in favour out of 345.

Cleavages among regions were less intense at the Plenary, given the strategy of consensus-building. However, some confrontations still occurred, as Table 4.5 shows.

Table 4.5 Selected Roll-Calls Voting Among Regions Showing Their Internal Divisions or Coherence

Region	R o l l - C a l l							
	811		904		913		708	
	Yes	No	Yes	No	Yes	No	Yes	No
North	25	15	30	11	28	10	14	31
North-East	49	44	64	55	75	6	60	77
South-East	43	80	53	77	15	120	69	64
Centre-West	23	9	3	23	26	4	13	21
South	25	33	36	38	3	68	38	31
Fed. Dist.	4	5	1	9	4	5	6	3
Total	169	186	187	213	151	213	200	227

Source: Aggregation based on PRODASEN's data base.

At that stage the South-East was more successful and more united than the North-East. If the North-East was the winner in the previous stages and proved its efficiency in individual negotiations, the South-East proved its power at the Plenary as a less divided

²⁴ By a high consensus those proposals in which two-thirds or over of Congress members voted equally are meant.

²⁵ By tough disputes those proposals which were approved or rejected by a 5% difference are meant.

²⁶ Roll-call subjected to tough disputes were: 202 (the states should have the power to provide public transport between municipalities); 246 (prohibition of states and municipalities from hiring private companies to mediate in matters concerned with their interests); 438 (changes to the Union's power to levy taxes); 460 (changes to the distribution of revenue from the Union to the states and municipalities); 677 (returning to the states the lands that had been transferred to the Union by the 1946 Constitution); 708 (the Union should pay interest of no more than 3% a year on the balance of the foreign debt); 811 (reduction of the powers of the three tiers of government concerning the organisation of agricultural production and food supply); 901 (exclusion of the power of the states from levying up to an additional 5% of Income Tax); 902 (exclusion of individual taxpayers from the payment of the state tax of an additional 5% of Income Tax); 904 (to levy taxes on petrol, fuels and electric energy when they are moved from one state to another); and 909 (reduction of the rates of the ICMS).

group. Roll-calls numbers 811, 904 and 913²⁷ are examples of how the South-East won confrontations as a united force, whereas the North-East was defeated because of its divisions. It also showed in roll-call No. 708 that whenever the regions voted differently, the North, the North-East and the Centre-West could impose their will. Surprisingly, the South, Brazil's most homogeneous region, tended to vote differently in the selected roll-calls, except in No. 913.

In the opposite direction, i.e. in showing the high degree of negotiations among regions, four roll-calls can be cited as examples (Table 4.6)²⁸. All these roll-calls represented the particular interest of a certain area or region, but the others were united in voting according to what had been negotiated. Sometimes an agreement on a measure to benefit an area could later become a liability. This happened in roll-call No. 718, which created three new states, therefore decreasing São Paulo's intention to strengthen its influence over Congress.

Table 4.6 Selected Roll-Calls Voting Among Regions Showing Their High Degree of Compromise

Region	R o l l - C a l l							
	453		463		464		718	
	Yes	No	Yes	No	Yes	No	Yes	No
North	23	12	32	5	3	34	35	1
North-East	21	87	91	20	2	115	111	0
South-East	9	107	103	10	48	80	116	0
Centre-West	1	24	32	1	4	31	34	0
South	6	59	59	4	8	58	62	0
Fed. Dist.	2	7	6	0	3	3	9	0
Total	62	296	323	40	68	321	367	1

Source: Aggregation based on PRODASEN's data base.

Some inter-regional cleavages occurred at the Plenary. Roll-call No. 679 is an example that individually the states were weak and could be defeated if alliances were not made at least within the region. The proposal was to earmark for twenty years the allocation of federal revenues to sectoral programmes. It was endorsed by thirty parliamentarians, twenty-seven from Rio de Janeiro. The North-East and the South voted in favour, but the South-East, where Rio de Janeiro lies, voted against. The result was for approval but the number of votes

²⁷ Roll-call 913 proposed changes to the distribution of federal revenue between states.

²⁸ Roll-calls in such situation were: No. 453 to exclude wood and semi-manufactured wood from states' taxes; No. 463 proposing that half of the Union's revenue that was to be transferred to the North-East should be invested in the drought-affected areas; No. 464 to include the north of Rio de Janeiro among the regions that should receive a privileged tax treatment; and No. 718 for the creation of the state of Tocantins and the transformation of two territories into states.

did not reach the necessary quorum ²⁹. Two more roll-calls were related to inter-regional cleavages. Roll-call No. 676 was intended to determine that for the next twenty-five years the state of Piauí, in the North-East, should have a 50% reduction in the federal taxes levied on that state, therefore decreasing the amount of federal revenues to be shared. Most regions voted against it. Roll-call No. 912 sponsored by a parliamentarian from Maranhão, in the North-East, tried to change the proposal that stated that half of the federal revenue to be invested in the North-East should be allocated to the drought-affected area. Every region voted against it, showing that previous negotiations were to be respected. This result also shows the importance of politicians from the interior, which is the area most affected by droughts. Roll-call No. 812 is an example of how the regions were articulated in favour of the creation of new politically appointed positions. The proposal was presented by two members of the PFL and one of the PDS. They wanted to abolish the clause which obliged the states to create a state-owned company to exploit gas pipeline services. Every region and every party voted to keep the obligation, except the PFL.

Two proposals were again presented to materialise decentralisation. Roll-call No. 726, sponsored by Serra and by several other parties from every region except the North, was intended 'to reinstate the proposal about transfer of responsibilities and jurisdictions from the federal to sub-national governments and from the states to the municipalities and to define the procedures and limits of decentralisation'. The proposal was defeated in every region. Roll-call No. 727 was introduced by a member of the PDT from Paraná to list public services and welfare activities that should be transferred to the municipalities. Here again the proposal was rejected by every region.

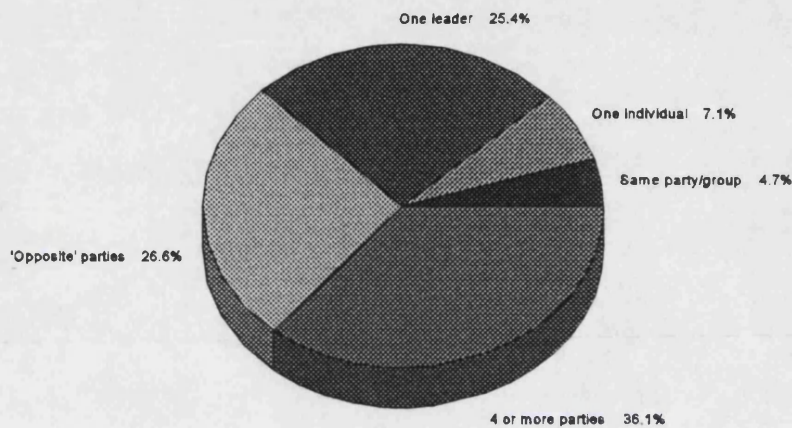
The high consensus achieved by issues concerning decentralisation was built up by putting together members from different parties. Figure 4.1 shows that the best way to guarantee the approval of a proposal was to obtain the support of four or more different parties. Even so, not all proposals with such an orientation passed, e.g. roll-call No. 726. The second best way was to put together two or three members from 'opposite' parties or groups. Here all kinds of combinations occurred, but the most common was between the PMDB and the *Centrão*. The third most successful way was registered by proposals presented individually

²⁹ Party leaders extensively used the tactic of not approving a proposal by recommending that their colleagues should not show up at the Plenary for voting.

by parliamentarians with some sort of leadership support, by a party leader, a rapporteur or a representative of a pressure group or the business community. Here the three party leaders who presented proposals, from the PFL, the PDC and the PTB, failed to have them approved because they reduced federal taxes or assets. A leader of the building industry, Luiz Roberto Ponte (PMDB-RS) also saw his proposal to reduce federal taxes rejected.

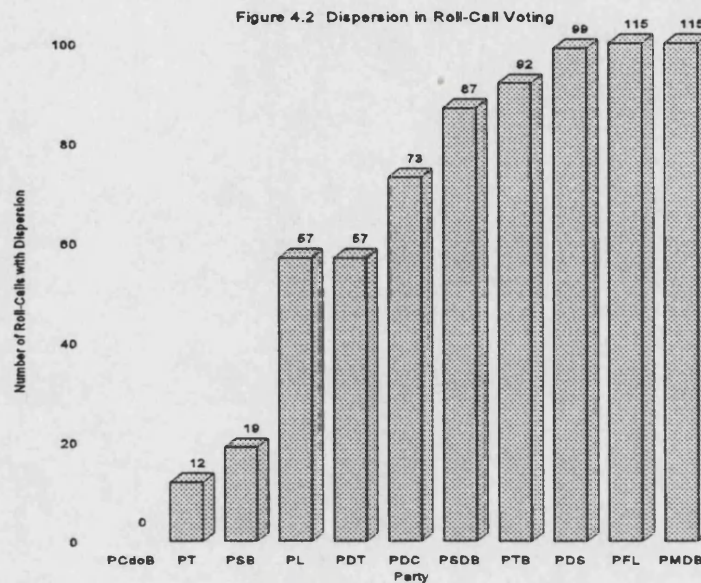
The worst way to achieve a proposal was to collect the signatures of parliamentarians from the same party or group. Only 8% of their proposals were approved. This performance was even worse than proposals presented by a single parliamentarian without clear leadership support, which scored 12% of approvals.

Figure 4.1 Coalition-Building at the Plenary Sessions
Rate of Approval According to the Way the Proposal Was Presented



Although roll-call voting on decentralisation obtained a high consensus, a significant degree of dispersion was found within each party, except the maoist PC do B. Not surprisingly there was not one roll-call vote among the 115 analysed in which members of the PMDB and the PFL had not disagreed. Figure 4.2 shows that parties with more ideological identity among their members, such as the PC do B, PT and PSB, presented no, or a low degree, of dispersion.

Another group was constituted by the PL and the PDT, both with fifty-seven proposals without agreement among their members, which means that they agreed in half of the votes. Another group was integrated from the PDC and the PSDB.



Notes: (1) Includes those who abstained.
 (2) Excludes parties with less than 4 members and parliamentarians without party affiliation.

These two parties could

be labelled as the most representative of the centre-right, the PDC, and the centre-left, the PSDB. Their members disagreed in a ratio above what would be expected, especially in the PSDB, a newly created party. However, this high disagreement can be explained by the fact that both parties were constituted of politicians coming from the less ideological parties. Finally, there was a group integrated from the 'physiological' parties PTB and PDS.

Every party had more victories than defeats on their propositions. Considering the roll-calls where most of their members voted for the winning proposal, the PMDB was the overall winner. There could be no other possibility, given that most of the votes were previously negotiated and that the PMDB's enormous representation made the party the most important collective player. In the second place was the PSDB, with only nine defeats, including the one on the scheme to bring decentralisation of responsibilities into being. Here the influence of Richa and Serra as ex-rapporteurs, Cardoso's vice-presidency in the Systematisation Committee and Covas's leadership could be felt. The PFL was third, with fourteen defeats against 101 victories. In the fourth place came parties with a more ideological identity: the PT registered nineteen defeats, the PDT twenty, the PC do B and the PDC twenty-two each. Another group was that integrated from the 'physiological' parties: the PTB and the PDS. The party with the highest score in defeats was the PL, with thirty-five, showing that the New Right's demands were the least successful in the two topics analysed. Nonetheless, the number of defeats suffered by every party in the CNA over the two constitutional chapters analysed

was very low. What these figures show is that everyone was a winner and every party or group is to be held accountable for the decision to decentralise³⁰.

4.3 Reasons for the Decision to Decentralise

Why was the decision to decentralise taken? Three groups of reasons can be noted aggregating at nine different motivations, shown in Table 4.7.

Table 4.7 Reasons to Decentralise

Group	Motivation
External	Agenda of the Transition
External + Internal	Cleavages between the Legislature and the Executive
Internal	CNA's peculiarities

The first group was constituted for reasons based on external motivations over the agenda of the transition. Five reasons can be classified in this category. First, the decision was a reaction against the authoritarian regime. Centralisation and dictatorship have historically been associated in Brazil, as previous chapters have shown. Second, issues of decentralisation, such as fiscal and federal equilibrium and public deficit control were not on the agenda of the transition. Politically, the main issues addressed by the CNA were to end the transition and to legitimise redemocratisation. It was in this broad framework that the issue of decentralisation was addressed. Third, the lack of a national project, or consensus over a new format for the State and a new economic model, made the decision-making process fragmented and, therefore, regionalist. Decentralisation was the result. As the basis for the decision was fragmented, decentralisation was adopted without a definition of what was to be achieved. Fourth, there was a great euphoria in the country when the Constitution was being drafted, stimulated by previous political and economic achievements. Few politicians would mention problems such as the financial constraints of the federal government. Finally, there was an environment favouring normative assumptions on the

³⁰ This positive-sum game happened also with other constitutional measures. The best example was roll-call No. 623. Based on a collective amendment sponsored by the PMDB, PTB, PFL, PDT and PDC, it called for the revision of the Constitution five years after its promulgation. The proposal was approved by 327 votes in favour, 165 against and 18 abstentions, showing that the parties were confident that their 'victories' could be expanded. Every party and every region, except the PFL, voted in favour of the amendment, including the progressive parties that later boycotted the revision. Contradictorily, the PFL is the party which now puts more pressure on the goal of constitutional revision.

efficiency and the accountability of sub-national units.

The second group was constituted for reasons based on both external and internal motivations over cleavages between the Executive and the Legislature. After a model where the institutions were subordinated to the federal Executive, and following the 'anti-model' approach partially adopted by the CNA, Congress was fighting for power with the Presidency and decentralisation was a weapon with which to threaten the federal government³¹. Two reasons can be included in this category. First, the idea of a powerful federal government still prevailed among parliamentarians. There was a false notion that the federal government was financially fit. Second, Sarney was a weak President, as opposed to the governors and Congress members who were surrounded by the image that they were rebuilding the country and wiping out the old order. Congress's power was also aggrandised because parliamentarism was to be adopted until close to the end of the constitutional process. Later, despite its defeat, many measures typical of a parliamentary system were kept, such as the President's right to issue the *Medidas Provisórias* (Provisional Measures)³².

The third group was constituted for reasons based on the CNA's and Congress's peculiarities. Three reasons can be listed in this category. First, few parliamentarians were known nationwide and thus could act and think nationally on issues. 'National' members of Congress are generally elected by states that do not depend, for their daily performance, upon federal fiscal revenues. The majority of Congress members are what Serra [2 Feb. 1994] calls, 'federal councillors'. They do not have access to the media and the only way to show their loyalty to their constituencies is to favour their demands. Second, issues regarding the fiscal system are difficult to understand; the average parliamentarian does not understand them. Figures were generally ignored. Third, 54% of the CNA's members who had had previous political experience had been city councillors, mayors, state deputies and governors. Also, members of Congress are always potential candidates for the executive branches of the state and local levels.

The Constitution was designed to set up the basis of the new democratic order and to legitimise redemocratisation. Decentralisation was seen as an important aspect of

³¹ The expression 'anti-model' was used by Lamounier to define the Brazilian Constitution, meaning a rejection of the previous authoritarian model (Lamounier et al., 1991: 9).

³² Provisional measures allow the President to enforce ordinary legislation without previous approval by Congress, although conditional to Congress's further decision.

redemocratisation and as a way of restructuring the State. In the sense that it accomplished its main goals, the Constitution was successful. However, the decision to deepen decentralisation was marked by conflicting interests among regions and between the states and the municipalities. Those conflicts tended to be intensified by the momentum through which the decision took place, namely in the turbulence of changing the regime from authoritarianism to democracy. Furthermore, the decision was characterised by normative assumptions rather than evaluations about consequences for intergovernmental relations and for the balance of territorial power within the federation. On the other hand, the decision expressed the 'value concept' behind Brazilian federalism, namely the accommodation of conflicting regional demands and the country's deep regional inequalities.

4.4 The Aftermath of Decentralisation

The first reaction against decentralisation occurred before the Constitution's promulgation. On July 1988 President Sarney delivered a speech against the draft, concluding that the Constitution was going to make Brazil ungovernable. Sarney's disagreement was, among other issues, with 'the federal government's losses of revenue to sub-national levels, estimated at \$12,6 billion'. An immediate reaction came from Guimarães. He argued that the measures adopted were the 'only way to provide governability for the country because it transferred resources to the municipalities, pensioners, educational programmes and to those receiving social benefits'. Two days before the Constitution's promulgation Sarney gave up his confrontation with Congress and accepted the Constitution, because its promulgation meant the 'peaceful end of the transition'³³.

Nevertheless, many constitutional mandates needed regulation to be put into force but the political actors, instead of concentrating in its enactment, opted for changing them. This trend was in opposition to what happened in Germany, where constitutional amendments were adjustments to new situations rather than attempts to alter the Constitution (Sontheimer, 1988: 231) but similar to Australia, where proposals for changing the Constitution have been prompted by the need to cope with immediate political problems on the part of the central government and not from any broadly based consensus on the need for constitutional adaption (Sharman, 1988: 110).

³³ Complete versions of these speeches are in Andrade (1990: 911-20).

4.4.1 The Regulation of the Constitutional 'Grey Areas' *Versus* Attempts to Change the Constitutional Mandates

The 1988 Constitution was full of what became known as 'grey areas', meaning that whatever was impossible to reach consensus on was left to be decided by complementary or ordinary legislations. However, seven years after its promulgation few of its provisions have been issued ³⁴. The proposals presented in Congress since the Constitution's promulgation over the regulation of the 'grey areas' show a lack of interest by both the federal government and Congress in the bringing forward of several constitutional mandates. On the organisation of the State, 120 proposals were made and only four were about intergovernmental relations. None of these few proposals has been approved.

As for the fiscal system, the number of proposals to regulate the constitutional clauses were surpassed by the number of proposals to change them. Until April 1993, out of the 306 suggestions by parliamentarians since the Constitution's promulgation, only forty-three were to regulate constitutional measures. The highest concentration, 107, was destined for tax incentives, tax exemptions, subsidies and tax benefits. This figure shows that increases in tax privileges are putting pressure on the tax system. The political system's lack of commitment to the enactment of the Constitution means also that those who benefit from the lack of regulation are preventing the political system from making decisions ³⁵.

Here again the presence of the progressive parties in fiscal matters is scarce. However, the PSDB was very active, with forty-eight proposals, the majority to regulate the Constitution and to expand tax incentives ³⁶. The agenda of the federal Executive was also more concentrated in changing the fiscal framework than in consolidating it.

The private sector rejected the fiscal system and the policy of creating new taxes to sort out the federal government's cash flow problems, especially the increases in the Social

³⁴ An ex-Minister of Justice reckoned that the Constitution requires the enactment of some 285 ordinary statutes and forty-one complementary laws in order to put its provisions into action (Rosenn, 1990: 778).

³⁵ The idea that political power has more than one dimension and that power may also be exercised by preventing an issue from being brought up for decision was developed by Bachrach and Baratz (1962 and 1963).

³⁶ Fernando Henrique Cardoso presented the highest number of proposals on the fiscal system. This fact means that the PSDB was the party with the greatest commitment to the implementation of the fiscal system, but it may also mean that Cardoso and his party were preparing the way to hold executive positions, which happened in 1993, when he became Minister of Finance, and in 1994, when he was elected President.

Contribution based on the payroll, which, they argue, decrease their competitiveness³⁷. International investors also call for constitutional changes (*Forbes*, 1993; *The Economist*, 1991).

The following government also reacted against the Constitution, and especially against the tax system. Under the argument that he was the first elected President, Collor put pressure on Congress and on society against several constitutional mandates. His uneasiness with the 1988 Charter became visible from two episodes. First, in October 1991 he sent six bills to Congress proposing deep constitutional changes, known as the *Emendão*, mentioned in Chapter 2. One bill was destined to alter the entire chapter on the tax system. Second, in trying to fight the Constitution Collor chose as Ministers the most outstanding leaders in the CNA and those who most enthusiastically advocated the Constitution, even if some disagreed with many of its measures³⁸. Collor's impeachment, the financial scandals involving members of Congress's Budget Committee and the coming of the 1994 elections temporarily changed the political agenda and the threats to the Constitution, despite several changes in the tax system, as mentioned in Chapter 2.

Collor's intention of backing down from financial decentralisation has been replaced by Cardoso's strategy to create the conditions so that the sub-national governments can shoulder more responsibilities for delivering services in a more planned and coordinated way. This is to happen through the most important programme launched by Cardoso: the *Comunidade Solidária*, the Solidarity Community. The policy is to decentralise social programmes such as nutrition, rural development and urban services to sub-national governments. To counteract the traditional clientelism and corruption in such projects, the programme intends to transfer federal resources to sub-national governments but to ensure that the implementation of the programmes will be carried out mainly through NGOs and community groups. Yet it has to be seen if the federal government will effectively transfer responsibilities to the sub-national levels, given that the management of such programmes has meant more room for political manoeuvre, either through the appointment to political

³⁷ For the entrepreneurs' view on the Constitution, see Mercadante (1990).

³⁸ Passarinho, for instance, who became Collor's Minister, spoke on the day of the Constitution's promulgation that 'nobody has the right to be against this Constitution because it represents the demands of the majority of Brazilians' (*Jornal da Constituinte*, 1988). Five other members of the powerful Systematisation Committee, including its rapporteur, also became Collor's Ministers.

positions or through the allocation of federal revenues, which have been crucial for building governing coalitions.

Despite the existence of a broad consensus on the need to reform the 1988 Charter, the reform agenda is overloaded: tax system; privatisation; divestiture of state monopolies; strengthening the Executive's position in fiscal policy; reforms in the civil service and of the pension scheme. They all affect the role of the State in the economic and social spheres. This congested agenda means more compromises within the framework of a fragmented political system where consensus-reaching prevails over confrontation.

4.4.2 Balance of Power After Decentralisation and Redemocratisation

Apart from the strength of sub-national politicians and Congress, two other aspects of the political system should be mentioned for a better understanding of Brazil's current balance of power. These aspects influence the position of the federal government in the federation. The first aspect regards the Chamber of Deputies' regional representation. As mentioned above, since the promulgation of the 1932 Electoral Code smaller and economically weaker states hold proportionally more seats in the Chamber than bigger constituencies, whereas in the Senate the criterion is parity: each state has three senators. The largest difference in the Chamber is found between the South-East and the North regions. The former has 46% of the electorate but occupies 33.6% of the seats, whereas in the North 4.8% of the voters elect 11.3% of the Chamber (*Folha de São Paulo*, 1992). This over-representation was maintained by the 1988 Constitution and was reflected in the hegemony of the three less developed regions within the CNA's committees and subcommittees. Arguments against this over-representation emphasise two points. First, it acts against the principle of electoral systems based on proportional representation such as Brazil's, i.e. the goal of 'one man, one vote' is not totally met. It is also criticised because parliamentarians from smaller states tend to act according to 'parochial' demands. Despite recognising the problems raised by those in favour of increasing the South-East's representation in the Chamber, there are important historical and political facts favouring this over-representation. First, the scheme was set up in the 1930s as a way to decrease the control of São Paulo and Minas Gerais over the whole country, as mentioned in Chapter 2. The concentration of economic and human resources in the South-East, especially in São Paulo, has since decreased, but the gap among regions is still wide. Second, the over-representation of smaller units of the federation is one element reinforcing the relationship between federalism and

consociational democracy according to Lijphart's (1984) formulation. Third, in line with this study's argument, the over-representation of weaker economic units of the federation forces the political system, the federal government and Congress to incorporate the problems of Brazil's regional inequalities into the political agenda.

The second aspect regarding the country's balance of power is related to the locus where intergovernmental conflicts are mediated. The 1988 Charter brought Congress and sub-national governments to the fore in the decision-making process, especially in approving the federal budget. Kugelmas, Sallum and Graeff (1989) traced the events that took place in the 1989 budget showing the new role of governors and of Congress in facing intergovernmental conflicts. With that budget, the first after the Constitution's promulgation, the government intended to solve its reduction of revenues by decreasing its share in programmes of regional development, transport, housing and urban development and to oblige sub-national governments to pay part of their domestic and foreign debts. This attempt was known as *Operação Desmonte*. When the channels of negotiation between the governors and the Executive became blocked, the issue was transferred to Congress' s Budget Commission. Their members found a way to decrease the amount sub-national governments were initially to pay for their debts, which was finally accepted by the federal government, although the scheme was not later honoured by the states. They also reacted strongly against the transfer of programmes with the allegation that without the transfer of assets and personnel, sub-national governments would have to spend more money, therefore increasing the public deficit.

From then on Congress and sub-national governments have enjoyed much freedom in increasing the annual budget proposal, not only through negotiations with the Executive and through direct amendments in the budget proposal, but also during the extra-budgetary rounds mentioned in Chapter 2. The power to increase budget proposals works as follows. The 1988 Constitution enabled Congress to change the budget proposal sent by the Executive, which was denied during the military regime, but not to increase it ³⁹. However, parliamentarians have been using the following manoeuvre: with the false allegation that the Executive has underestimated its revenue, Congress has considerably expanded overall

³⁹ The military regime would set aside around \$100 million out of the budget proposal to be distributed among their supporters in Congress for allocation in their constituencies (*Veja*, 1993).

spending⁴⁰. On the other hand, Congress amendments to the budget are not compulsory and the President has the power of veto, including that over unrealistic estimated revenues. The President, however, does not use his power of veto and ends up yielding to politicians' pressures to spend the amount allocated, which he uses, again, to negotiate with Congress and sub-national governments.

The power gained by extra-Executive and extra-parliamentary forces to decide on federal expenditure shows the vulnerability of the federal government in the intergovernmental relations game. The tendency of sub-national units to increase expenditure is natural in any democracy. But as Franco (1993: 34) put it, the case of Brazil is that, with the end of authoritarian rule there are no institutional guidelines or procedures to establish fiscal discipline and there is no market to which ^{to} bring demands for expenditure to levels consistent with budgetary balance and price stability. Moreover, because parliamentarians are more loyal to their constituencies than to their parties, the federal government and the President of the Republic are left to 'float over a vacuum, over an unruly and atomised parliament', as Sartori (1994: 95) described the position of the Brazilian Presidents. The power of extra-executive forces over spending also stresses the puzzle raised in the previous chapter: how can one explain the drafters' decision to financially weaken the federal government when they need its mediation and resources to face disputes in their several constituencies?

4.5 Conclusions

Issues on the organisation of the State and the tax system during the constitutional process were less politicised and more regionalised and individualised, but these features are not only a Brazilian bias. Shugart and Carey (1992: 3) assessed that assemblies are ordinarily expected to be 'parochial' in nature and Elster (1994a) made the evaluation that the interests of constituencies are the most important ones. Despite some distrust of mayors and governors shown in the reports and interviews relating to the subcommittees and committees analysed, the drafters took the risk of increasing 'parochialism' and the power of their constituencies. Other factors have contributed to furthering the localist and individualised feature of the Brazilian CNA. The lack of a national project, and of ideological polarisations and confrontations, which could impose losses on certain groups, brought fragmentation and postponements to the political system. Some conclusions can be drawn from the events that

⁴⁰ In the 1989 budget parliamentarians 'created' an extra revenue of 3% of GDP (Afonso, 1994: 75)

took place in the CNA and, afterwards, from the ones directly concerned with decentralisation.

First, if an 'anti-model' was embraced for certain issues, the same did not happen for other measures, which lingered as reminders of the military heritage. Second, in the name of decentralisation, many clauses were negotiated. Therefore, regional fragmentation and pressures on the federal revenues went much further than revenue transfers to sub-national governments. Third, the concept of autonomy as an element of decentralisation has proved to mean different things to different groups, regions and even individuals. Fourth, few Congress members admitted their responsibilities for the outcomes of decentralisation. The reason can be found in the traditional high turnover rate in Brazil's Congress. High turnover is likely to induce political behaviour based more on short-term issues rather than on commitments to policy results. Fifth, the option for a consensual strategy rather than confrontation meant two different things: (i) it promoted a positive-sum game in the constitutional chapters analysed; and (ii) the consensus approach blocked the possibilities of addressing solutions to Brazil's most difficult conundrums. The institutionalisation of a veto power scheme could only result in more fragmentation and in postponements, symbolised by the high number of 'grey areas' that remain unresolved.

Another set of conclusions can be drawn about coalition-building as a result of decentralisation. First, the failure to bring to being the decentralisation of responsibilities has been held to be responsible for the federal government's predicaments. Some parliamentarians blame the federal government, either accusing it of inertia or making an assessment that it does not want to lose power. However, the preservation of its large bureaucracy, plus the use of additional federal revenues are the ways found by the federal government to build up governing coalitions and to cope with a fragmented political system. In this sense its power continues to be immense, given that it has managed to push through every bill that it considered important. On the other hand, the weakness of the federal bureaucracy mentioned in Chapter 3 contributes to the federal government's difficulties in proposing and implementing policies.

Second, financial decentralisation to sub-national governments has only partial responsibility for the Executive's problems in building up coalitions to govern. Other constraints come from Congress itself, especially from its increasingly assertive role. At the end of the day Congress replaced the federal government in the mediation to sustain

'parochial' links and to accommodate the country's regional cleavages. Congress now plays a double role. First, it decides where the federal resources are to be allocated. This role was made possible through Congress's enormous power to amend the budget, which, in practical terms so far has no limits. Congress's new roles have fostered power fragmentation, encouraging the making of decisions by a case-by-case approach from each individual player. Congress is the most important player in the decision-making process, less as a proposer and more as a vetoer, given its expanded powers and the lack of support to the civilian Presidents. Congress exercises this power by blackmailing the Executive and broadening the scope of the issues under negotiation. This tactic is aggravated by Congress's traditional consensus-building approach. The fragmentation of Congress was heightened by the death of Guimarães in 1992 and no one has taken his place either as a negotiator with the Executive or as an arbitrator between the fragmented and contradictory demands of parliamentarians.

The Constitution's main goal of legitimising the new democratic order brought Congress and regional and local politicians to the centre of the decision-making process. Too many players, all with veto power, are congesting the political agenda with their contradictory demands. State clientelism cements this uncertain coalition.

Through the exploration of Brazilian constitution-making, this study has generated evidence for an understanding of the emergence, discussion, and the consequences of a reform decision. In particular, it has focused on the conflicts and the interests of groups and individuals involved in Brazil's constitutional engineering and its aftermath. Analysing the role of legislators allowed the study to map out the factors that influenced the choices they made. The evidence show that legislators were actively engaged in changing intergovernmental relations, the centralisation-decentralisation continuum and to the promotion of a more decentralised federation. Their perceptions, activities, motivations and the impact of their decisions deserve more systematically analytic attention than has generally been given in the literature reviewed in Chapter 1.

Building on particular instances of the decision to decentralise, this study gives grounds for an explanation of the subsequent course of the decision, namely its implementation. The outcomes of political and financial decentralisation are clear at the federal level, which is experiencing the financial constraints mentioned in Chapter 2 and facing difficulties in building coalitions to govern. However, at the sub-national level, the results are still unclear, especially with regard to what sub-national governments are doing with their

increased financial resources and increased political power. This issue is addressed in the following chapter, which paves the way for the research's downstream approach. It answers the question of whether decentralisation under democratic rule has changed the allocation of public expenditure in the twenty-six states and their capitals, especially to education. The following chapter also discusses the extra-constitutional and extra-parliamentary mechanisms used by sub-national politicians to influence and to veto national policies.

Chapter 5 Decentralisation at Sub-National Level

Introduction

The literature on intergovernmental relations, decentralisation and federalism has stressed the permanent tension between levels of government, both in unitary and in federal states. This tension has lately tended to favour sub-national units of governance, given that many countries with different cultural, social, political and economic features are witnessing movements towards more decentralised governments and institutions. This chapter analyses the political and financial performances of sub-national governments in a federal country that has been decentralised and redemocratised. It stresses the importance of incorporating the states and regions into the framework of the analysis of decentralisation because at their level one can grasp a set of details about processes which remain too general at the national level or too specific at the local level. Bringing out empirical evidence of the political and financial developments of the Brazilian states and municipalities may contribute towards developing sharper questions about decentralisation and redemocratisation. The inclusion of the performance of both states and municipalities fills a gap in the literature of intergovernmental relations, decentralisation and federalism which pays little attention to a whole range of problems which remain under the political domain of other spheres, such as the states and regions, and which tends to focus on only one of the sub-national spheres.

The main issue addressed in this chapter is whether decentralisation and redemocratisation have changed the way local and regional goods (political or material) and services are distributed between different groups and whether they have changed political practices. Furthermore, the chapter addresses the question of whether decentralisation under democratic rule has changed the agenda of public expenditure at sub-national level, especially expenditure on education. As mentioned in Chapter 1, two aspects of decentralisation are pursued. First, intergovernmental, or a decentralisation of governance and power from the federal to sub-national level. Second, the allocation of resources to sub-national levels. This approach may shed light on the country's power structure and on the quota of power enjoyed by each group and each level of government. Both aspects of decentralisation can provide a sharper definition of political decentralisation which implies that sub-national units of government become part of the decision-making process both at the national and sub-national

levels, either by deciding on policies affecting their jurisdiction or by influencing/vetoing national policies. This definition suggests that centralisation-decentralisation is a continuum rather than a dichotomy.

This study argues at several points that sub-national governments are now at the centre of both the political and financial scenes as a result of redemocratisation and decentralisation. The strengthening of sub-national governments has introduced a fragmentation of power in Brazil's political structure. In the absence of party-oriented politics, sub-national politicians, especially the state governors of the most important states and the mayors of the state capitals, provide the federal government with governing coalitions. This chapter introduces the research's downstream approach and acts as a bridge between the decision to decentralise and the results achieved by the sub-national governments in a decade. The chapter also provides a link between a more general analysis of the political and financial performance of sub-national governments and the three case studied. This link deepens the argument about the role of sub-national governments in a 'paralysed competitive arena' and in a 'peripheralised' federation. It provides evidence to further the theoretical formulations discussed in Chapter 1 regarding the way sub-national politicians play the intergovernmental game. By investigating the results of decision making, the chapter attempts to answer some questions which remain unanswered in the literature spanning political science and public administration, especially the links between a policy decision and its implementation.

The chapter proceeds in four sections. Sections 1 and 2 analyse political and financial decentralisation at the state and at the local levels. Furthermore, Section 1 shows how the states' indebtedness became a national issue and the great freedom for political and financial manoeuvre enjoyed by the states through their commercial banks. Section 3 presents an overview of the state of education in Brazil and investigates the expenditure on education by both sub-national levels. Section 4 draws some conclusions.

5.1 Decentralisation at the Level of the States ¹

The states in Brazil have always had great political power. Financially, however, their participation in the national revenue has been unstable and not always proportionate to their political strength. Inequalities among states and regions are a common feature. Attempts to

¹ An earlier version of this section was presented at the Institute of Latin American Studies's Seminar on Contemporary Brazil. See Souza (1995).

overcome them have been made, but the gap between the regions is still wide. Brazil has twenty-six states, plus the Federal District. The country is divided into five regions. The state of São Paulo, in the South-East, is the centre of the Brazilian economy. In 1985 the South-East accounted for 70% of the country's industrial production and for 58% of the country's GDP, 34% of which was from São Paulo. In 1970 São Paulo's share of the country's GDP was higher: 39%. Since 1975, national wealth has been more widely dispersed, mainly through the state of Bahia, in the North-East, and the Centre-West and the North regions. Even given this relative dispersion, the gap between São Paulo and the other states is enormous².

The North-East is the country's poorest region. It holds 29% of the total population and Brazil's worst social indicators. Life expectancy in the North-East is 58.8 years against the country's average of 64.9. Per capita GDP is \$918, much lower than the country's average of \$2,241. Income concentration is the country's second worse: the region's Gini Coefficient was 0,638 in 1988, while the country's coefficient was 0,625 (Albuquerque, 1993: 41). As discussed in the previous chapter, less developed regions compensate for such an imbalance by retaining the rule introduced in the 1930s which makes the South and the South-East under-represented in the Chamber of Deputies.

5.1.1 Political Resources

The formation of the Brazilian State had its roots in two contradictory bases, namely, strong central and local powers. However, the states have in post imperial times been important political actors (Ames, 1987; Camargo, 1993; Medeiros, 1986; Skidmore, 1967). Two attempts have been made in Brazilian history to break down the power of the states, both of which were associated with authoritarian regimes. The first was made between 1937 and 1945 by Vargas, during his dictatorship. Seeking greater political and administrative unity, Vargas strengthened the federal government by centralising resources and by appointing 'interveners' to replace popularly elected state governors. The second attempt to reduce regional powers was made by the 1964 military coup. But, despite promoting the

² In 1990 the participation of the other strongest economies in the country's GDP was as follows: Rio de Janeiro, 11%; Minas Gerais, 9.5%; Rio Grande do Sul, 7.8%; Paraná, 7.7% and Bahia 5%. São Paulo and Rio de Janeiro's percentage in the GDP decreased in a decade, Minas Gerais and Rio Grande do Sul presented a stable participation, and Paraná and Bahia increased their participation by 1% each (CEI, 1991a: 8). However, among the states GDP per capita shows a different hierarchy. The highest one is found in the Federal District (\$ 4,498); São Paulo comes second, with \$3,993; followed by Rio de Janeiro, with \$3,352; Rio Grande do Sul, with \$2,738; Santa Catarina, with \$2,344; and Paraná, with \$2,037. Minas Gerais comes seventh, with \$1,850 and Bahia, tenth, with \$1,226 (Albuquerque, 1993: 41).

centralisation of the national revenue and prohibiting popular elections in the states and in their capitals, sub-national politicians remained important political actors for the legitimisation of the military regime, as argued by Medeiros, 1986.

In 1982 the states were the first level at which the military allowed direct elections for the Executive Branch. These elections were the first under the electoral reform of 1979 which eased the re-introduction of the multiparty system. Six new parties were created and three managed to elect state governors. Table 5.1 presents the results of governorship elections since 1982. In 1982 the PDS, a party which replaced the one which supported the military regime, won twelve governorships. The PMDB, a party then identified with resistance to the military and which later became Brazil's biggest party, won nine governorships. The PDT, a party created by former refugee Brizola, won one governorship. The following state election, in 1986, made the PMDB the overall winner in twenty-two out of twenty-three states. The main reason for the massive victory of only one party was the temporary success of the *Cruzado* Plan at that time, which was credited to the PMDB. The results of the following election, in 1990, presented a broader participation by political parties, which contributed to the fragmentation of national politics given the dependence of parliamentarians upon state governors. In 1994 the number of parties governing the states decreased from ten to eight. Those elections also saw the rise of centre and leftist parties to governorships.

Table 5.1 Results of the 1982, 1986, 1990 and 1994 Elections for Governorships

Party	Number			
	1982	1986	1990	1994
PMDB	9	22	7	9
PFL	-	1	5	2
PDS	12 (*)	-	5	-
PPR	-	-	-	3
PDT	1	-	4	2
PSC	-	-	1	-
PSDB	-	-	1	6
PRS	-	-	1	-
PTB	-	-	1	1
PTR	-	-	1	-
PSC	-	-	1	-
PT	-	-	-	2
PSB	-	-	-	2

Source: Tribunal Superior Eleitoral

Note: (*) There were 23 states at that time. The PDS had one more governorship in Rondônia, then a federal territory. Its governor was nominated in 1981 by the President of the Republic.

By region, the North-East and the North are mostly governed by conservative parties and leaders; the Centre-West shows a preference for the centrist PMDB; and in the South and South-East, there is a pulverisation of parties. With only a few exceptions, the state elections have maintained the tendency of the electorate to reject the candidates of incumbent governors for the state Executive ³. Nevertheless, the governors increased their influence over Congress by supporting their protégés' candidacies and by being elected themselves ⁴.

The role of the state governors has to be analysed more in the light of their personal strength and the economic strength of the states they govern than in the features of the political parties to which they are affiliated. The reason for this choice is twofold. First, as mentioned above, Brazil has a weak party system. Second, Brazil's electoral system of open-list proportional representation tends to exclude the parties from forming the government's support. Many members of the Legislature are elected with the leftover votes of those who have accrued 'excess' votes. They are free to search for electoral support where they want and how they can. These politicians are not accountable to their parties because they do not owe their election to them. They are also not accountable to the government because they have an independent mandate, they court the electorate directly and the government's success or failure does not necessarily determine their future career. Additional constraint comes from the party's legal impossibility in preventing their members from changing parties at any time ⁵. With such a feature, in which parliamentarians are more loyal to their constituencies than to their parties, it is only natural that politicians are likely to negotiate specific issues in exchange for governmental favours.

The governors elected in 1986, although all but one were affiliated to the PMDB, tended to be either politicians who were in exile, such as Pires in Bahia and Arraes in Pernambuco, or those who had been on the political scene for a reasonable time, like Quércia in São Paulo, Moreira Franco in Rio and Newton Cardoso in Minas. In 1990 the same thing happened. Magalhães and Brizola were re-elected in Bahia and in Rio; São Paulo came to

³ Presidents, governors and mayors cannot stand for re-election, but may be elected again after at least a four year interval. They can also resign six months before elections to run for legislative positions.

⁴ In the 1994 elections a record number of twenty-two former governors made their way to Congress (*Folha de São Paulo*, 1994).

⁵ Ames (1995) found that almost 40% of the members of the 1986-90 Chamber did change parties during their four-year mandate.

be governed by Luiz Antônio Fleury, an unknown civil servant, thanks to Quércia's personal endorsement; and Minas Gerais saw the election of Hélio Garcia, a politician with ties to the military regime. The 1994 elections started to change this tendency, with the ascension to governorships of ex-state capital mayors, such as Covas in São Paulo, Alencar in Rio, Lerner in Paraná, Azeredo in Minas and Buaiz in Espírito Santo. Pernambuco and Bahia kept the old pattern, with Arraes's return and the election of a Magalhães protégé. The state of Ceará has been an exception to this pattern because, since 1986, their political bosses have failed to agree on a candidate for governor. The result was that a young business leader, Tasso Jereissati, took over the government. Since then the Jereissati group has been leading the state's politics. This picture shows that, at least until the 1994 elections, the politicians who have been governing the most important states had their roots either in the populist regime previous to 1964 or were part of the military regime, either as members of the military pact or as reliable opponents.

The political strength of the state governors *vis-à-vis* the federal government became visible after the 1982 elections. According to the PFL's federal deputy Aleluia, the governors took office saying they did not owe anything to Brasília [20 May 1993]. Since then the political and financial powers of state governors have become intertwined, and each of these powers strengthened the other. Although enjoying great political power, which varies from state to state, the governors do not enjoy great popularity. Close to the end of their term, in 1994, opinion polls showed that only three governors had the approval of a majority of their electorate, in Ceará, Bahia and Paraná, the first two in the North-East and the third in the South (*Folha de São Paulo*, 1994). The press, however, had been assessing the good administrations of three of the poorest states in Brazil: Piauí, Paraíba and Ceará, all in the North-East. As stressed by *The Economist* (1991) referring to Ceará, 'being poor is no obstacle to being well governed'. These states had a balanced budget, paid their debts according to the schedule, proportionally made more investments than the others, and had reduced the expenditure on payrolls (*Veja*, 1993). Here a comparison can be made with Italy. Before the corruption scandals which swept through Italy in the early 1990s, it was said that regional reform was more successful in the rich North than in the poor South (Putman, 1993). The economic and political features of Italy's Mezzogiorno are always compared to Brazil's North-East. In Brazil, however, examples of better use of public revenue after the 1988 fiscal reform come from the poor North-East.

The most visible way in which governors exercise their power over national issues is through Congress members. Fleischer (1990: 254) mentioned the governors' power over Congress in budgetary issues; Ames (1995) showed the control of Bahia's governor, Antônio Carlos Magalhães, from the PFL, over the state's PFL's delegation in the CNA. The press constantly assessed the role of São Paulo's ex-governor and PMDB's ex-president Quéricia in blocking fiscal reforms (*Folha de São Paulo*, 1991). This vision is shared by PFL's Senator Marinho, who stressed that 'the governors' authority is respected in Congress' [23 April 1993]. The results of the CNA also prove the governors' power over Congress. Either by commanding a large share of their party, as Quéricia did within the PMDB and Brizola within the PDT, or the majority of the members of the Chamber elected by the state, as Antônio Carlos Magalhães from Bahia still does, they have blocked solutions to the federal government's fiscal constraints, as such solutions might affect their own political influence.

The governors, however, complain that they have no voice in the federal decision-making process. In a survey by *Folha de São Paulo* (1994) they argued that the federal government never consult them when it comes to macro-economic decisions, as if such decisions could be shared with conflicting regional interests. They recognised, however, some governors' influence over the state's delegation in Congress. They also recognised the governors extraordinary veto power, although analysing it as conjunctural, citing that in 1987 the governors of São Paulo, Minas Gerais and Rio de Janeiro successfully articulated the fall of the Finance Minister Funaro. They acknowledged also the game played by the federal government in trying to counterbalance their power: Ciro Gomes, then Ceará's PSDB governor and an ally of the President, had to swallow the nomination of a foe for the presidency of a federal bank in his state. Therefore, and as mentioned in previous chapters, the governors' strength does not mean that the federal government is an absent player. The use of federal political appointments, the success in passing bills to temporarily overcome its cash-flow problems and the approval of several stabilisation plans prove this. The governors' strength has created patterns of additional intergovernmental relations, in which extra-constitutional and extra-parliamentary structures and processes are as important as ordinary ones. The existence of those structures and processes thus support Anton (1989) and Chapman's (1993) suggestion that intergovernmental conflicts are entanglements across national and sub-national systems.

5.1.2 Financial Resources

There is a myth in Brazil which overshadows the debate on the role of the public sector in the economy. This myth, reproduced by opinion formers, the media and Congress, is that states and municipalities have nothing to do with the need for fiscal austerity (Serra, 1991). However, for several reasons, sub-national governments are important partners in any fiscal policy. First, in 1992, 44% of the national public revenue was retained by them. Half of the remaining 56%, which belonged to the federal government, was earmarked for expenditure such as pensions, health care and regional development programmes. Sub-national governments are more free to spend their revenue, given that the only earmarked resource is the 25% that they have to spend on education. Second, sub-national governments' expenditure on payrolls is almost twice as much as that spent by the federal government. Third, sub-national governments invest around five and a half times more than the federal sphere and in 1991 they were responsible for 75% of the resources invested in GFCF. Fourth, in the 1980s, sub-national governments' current expenditure increased by 114%, whereas that of the federal government increased by 77%⁶. Despite these figures, the analysis of sub-national government expenditure has received scant scholarly attention. Moreover, policy results at sub-national level have, with a few exceptions, so far been ignored by the political and academic spheres⁷.

The orchestrated way in which the governors operate politically towards the federal government does not mean, however, that the states are an harmonious entity. Disputes among them are hidden by the complexity of the way their main tax is administered. Conflicts are common, especially concerning the granting of tax benefits to businesses through the ICMS. The system works through a scheme for avoiding what the specialists term fiscal war. Any measure to grant tax benefits in one or more states must have the unanimous approval of the others. This scheme operates through the federal institution CONFAZ - *Conselho de Política Fazendária*, presided over by the Minister of Finance. The North, North-East and Centre-West are united against the South-East and the South. As the former are constituted by nineteen states and the latter by seven, the less developed regions have successfully

⁶ Data from Serra (1991).

⁷ As mentioned above, one exception is the research carried out at the University of Campinas, but it is restricted to the state of São Paulo. See Castro (1992).

approved measures to benefit businesses located in their states. This confrontation among regions is hidden by the rule of unanimous decisions required by CONFAZ. For the last twenty years less developed regions have increased their participation in the distribution of the ICMS because of their political strength and because recession has affected the ICMS's collection in more developed regions. However, the gap among regions is still wide, as Table 5.2 shows.

Table 5.2 Regional Relative Participation in the Collection of the ICMS, 1974-1992 (Percentages)

Region/Year	1974	1980	1985	1988	1992
North	1.0	1.7	2.3	2.5	3.4
North-East	9.5	11.6	13.4	11.6	12.5
Centre-West	3.9	4.8	6.4	5.5	6.7
South-East	67.9	63.7	58.9	63.3	60.6
South	17.7	18.3	19.0	17.0	16.8

Source: Ministério da Fazenda *apud* *Gazeta Mercantil* (1993).

Although sub-national governments' financial vigour and the existence of the participation funds FPE and FPM to address the goal of fiscal justice, or horizontal balance among unequal governmental units, there are some states and hundreds of municipalities which cannot survive without additional financial help from the federal government given Brazil's high regional inequalities. A survey showed that seven Brazilian states collect less than 0.5% of the ICMS levied in the country (IPEA and IBAM, 1994: 16). Bremaeker (1994: 16) showed that more than 200 municipalities in the North-East have no chance of levying their own revenue. They have to rely on federal transfers and resources, given the lack of any outstanding economic activity and the poverty of their population. Therefore, Brazil's regional inequalities act against the goal of decentralisation given that decentralisation has weakened the possibilities for the federal government to play one of its roles in a federal system, i.e. to transfer resources from better-off regions to worse-off ones. Even in countries where there are schemes aiming at horizontal balance, like those of Brazil's FPE and FPM, these schemes are insufficient in situations of high inter- and intra-regional inequalities. This picture shows the limits of financial decentralisation in countries cut across by regional inequalities.

5.1.2.1 Constitutional and Negotiated Grants to Sub-National Governments

With redemocratisation and the 1988 Constitution the financial strength attained by sub-national governments assumed different forms. First, as mentioned above, sub-national governments had an increase of 1% of GDP in their constitutional transfers. This increase has

not meant as much to the states as it has to the municipalities. The states' share in the national tax revenue was increased by 3.5% and the municipalities' by 4.6%. However, when negotiated transfers are added to the constitutional ones and when the analysis incorporates the size of the states' debt to the federal government and the role of the states' commercial banks, the states were the main beneficiaries of fiscal decentralisation⁸. In 1985, the states' net revenue accounted for 7.2% of GDP, whereas the federal government's share was 5.8% and the state capitals' share was 0.9%. In 1989 the states' percentage rose to 8.9%, the state capitals to 1.2%, while the federal government's decreased to 4.3% (IPEA, 1992a: 15). Inflation and high interest rates also played a short-term positive role in the sub-nationals' revenue because they were able to invest their revenue and were freer to adopt a policy of wage compression than the federal government, because their civil services were not as strong as those at the federal level.

The second way to show the strength of sub-national governments is through the mechanism of negotiated grants. One way by which the federal government builds coalitions is by transferring resources to sub-national governments through negotiated grants to attain their support. This scheme was used by the military to compensate sub-national governments for the losses imposed by the 1966 fiscal reform⁹. With fiscal decentralisation this scheme was maintained, but with different results. Given the financial and political vulnerability of the federal level, sub-national governments use their strength not to recover their revenues, as in the past, but to increase them. The states get the biggest share of the negotiated grants: in 1987, for instance, nearly 90% of those transfers, excluding those to enterprises, went to the states (Shah, 1991: 44).

The use of negotiated grants to pursue different objectives is a common practice in any country¹⁰. Some are destined for less developed areas or for those affected by natural

⁸ As mentioned in previous chapters, the states also benefitted by accruing the biggest tax in the country, the ICMS. Twenty-five per cent of the ICMS is transferred to the municipalities.

⁹ The 1966 fiscal reform concentrated control over tax bases and rates at the federal level and expanded the importance of negotiated and earmarked federal transfers in the sub-national's revenues. It also (i) determined criteria for the allocation of constitutional transfers according to federal priorities; (ii) set up strict and patronising rules about accounting and budget; and (iii) centralised programmes in housing, sanitation and urban transport.

¹⁰ There is a vast literature on intergovernmental transfers and grants to sub-national governments. See Musgrave and Musgrave (1973) for typologies; Bahl (1986) for a methodology of analysis; and Afonso (1992b) for a comparison of the Brazilian experience with other federal countries.

disasters; others are to encourage the sub-national levels to pursue policies or to implement services which are considered a national priority or which should be provided nationwide; and others to build political coalitions. In Brazil, negotiated grants are used for all of these purposes, including the implementation of the decentralised health programme adopted shortly before the 1988 Constitution. However, the debate on the use of negotiated grants reveals that the system has been subjected to distortions. First, negotiated grants were used to privilege the President's home state and those states which form the government's support, sometimes contributing to fiscal injustice. In 1988 President Sarney sent to his home state Maranhão 25% of the resources destined for the North-East, but 60% of the total transfers went to the South-East, 90% of them to the state of São Paulo. In 1991, President Collor sent to his home state Alagoas 26% of the total transfers to the North-East. As Collor's main allies were also from the North-East, the region gained 52% of the transfers¹¹. Those years were marked by Presidential despair: Sarney because the CNA was deciding about the length of his term in office and Collor because of procedures for his impeachment. A second distortion found in the practice of negotiated grants was that they were at the centre of the corruption scandals involving Congress and the building industry in 1993.

In 1990, negotiated grants represented 3.7% of total transfers from the federal to the sub-national governments. In 1991, this percentage jumped to 9.2%. The worse performance was in 1988: 22% of total federal transfers were made under the negotiated grants scheme (*Relatório Reservado*, 1992). After 1992 negotiated grants started to decrease because of the federal policy of tight fiscal control and because the Presidents were not seriously threatened by Congress. However, in 1993 negotiated grants still represented 1% of GDP, being accountable for one-fifth of the total transfers from one level of government to another (Afonso, 1994: 35)¹².

A third way to evaluate the financial and political importance of the states is through their indebtedness.

¹¹ Figures from *Relatório Reservado* (1992).

¹² A constitutional ban on negotiated grants was proposed by IBAM in the CNA. Despite having the support of a few politicians, such as former Finance Minister Krause (*Relatório Reservado*, 1992) and the CPI's rapporteur in charge of the investigation of the 1993 corruption inquiry (*Gazeta Mercantil*, 1993), it has not so far been formally proposed.

5.1.2.2 The Indebtedness of the States

The states have two additional financial advantages not shared by the municipalities. The first is the size of their debt to the federal government. The second is the role of the state commercial banks (SCB) controlled by each state.

The states' debt to the federal government has, so far, been an unresolved issue. First, the total size of the debt is subjected to heated debate. Second, attempts to find solutions for payment are threatened by the fact that the debt is treated as a political rather than a financial issue. Third, because of the influence the governors exert over their backbenchers in Congress, the federal government has to compromise with them in order to build governing coalitions. The federal government has systematically postponed the payment of the states' debt to win the approval of the bills it sends to Congress, especially those to minimise the Treasury's cash-flow problems. Table 5.3 presents the position of each state's debt, both domestic and foreign¹³. The table shows that the size of the debt corresponds to the size of the state's economy¹⁴. As in the USA, the governmental jurisdictions of the states are not equal in their ability to borrow or in the cost of their borrowing (Hildreth, 1993). Five states, São Paulo, Rio de Janeiro, Minas Gerais, Rio Grande do Sul and Bahia, are responsible for 65% of the debt. An important aspect in analysing the size of the debt is the relationship between the debt and the state's net revenue. This relationship tends to be bigger in smaller states, which makes the solution to the problem harder to achieve. Another relationship has to be made between the debt and the GDP. In 1993, São Paulo's debt accounted for 9% of the state's GDP, which was relatively low when compared, for instance, with Argentina's. The latter has been praised because it decreased its debt from 112% to 26.6% of GDP in 1993 (*Gazeta Mercantil*, 1993).

Since the late 1980s, the federal government has been struggling with the states to find solutions for their debt problem. After 1989, the states slowly started payment of part of their

¹³ A great part of the states' foreign debt is now considered a debt to the federal government because in the past the federal government used to guarantee their loans. According to the Central Bank, the federal government has paid 25% of the states' foreign debt.

¹⁴ Figures presented in Table 5.3 do not include the states' debt to the Social Security System. Together with the municipalities, the states' debt to the Social Security System is estimated at between \$18 and 20 billion (*Gazeta Mercantil*, 1993). Negotiations for payment have not yet started. Several attempts were made during the CNA to write off those debts. Neither do they include the \$1.2 billion debt of the eighteen state hydro-electricity companies to ELETROBRÁS, the federal holding company (*Folha de São Paulo*, 1995).

interest, but a broader and more institutionalised solution has yet to be found. The states' indebtedness has its roots in the 1966 fiscal reform and in the federal policy of using new loans to finance previous ones in order to maintain a high rate of investment. The states not only had their own resources reduced but were stimulated by the federal government to borrow. With the promulgation of the 1988 Constitution, this disarray in the states' finances was sorted out, but a web of unpaid debts remained, leading to a chronic disorder in federal finances.

Table 5.3 States' Debt to the Federal Government, 1993

Region/State	Debt in \$ Million		Total
	Domestic	Foreign	
North			
Acre	222	10	232
Amazonas	660	266	926
Amapá	6	0	6
Pará	189	240	429
Rondônia	116	30	146
Roraima	15	19	34
North-East			
Alagoas	483	53	536
Bahia	2,419	745	3,164
Ceará	1,004	82	1,086
Maranhão	1,013	390	1,403
Paraíba	910	184	1,094
Pernambuco	1,028	82	1,110
Piauí	496	172	668
R.G. do Norte	392	35	427
Sergipe	259	24	283
Centre-West			
Federal District	341	0	341
Goiás	1,322	645	1,967
Mato Grosso do Sul	1,174	408	1,582
Mato Grosso	636	269	905
Tocantins	75	0	75
South-East			
Espírito Santo	415	127	542
Minas Gerais	4,325	1,243	5,568
Rio de Janeiro	5,620	119	5,739
São Paulo	9,570	4,024	13,594
South			
Paraná	1,437	715	2,152
Santa Catarina	1,120	227	1,347
R.G. do Sul	3,083	643	3,726
Total	38,330	10,752	49,082

Source: Calculation based on unpublished figures by the Secretaria do Tesouro Nacional, Coordenação de Responsabilidades e Haveres Financeiros da União, Divisão de Estados e Municípios.

Note: Does not include loans from the private banks and non-federal banks.

The second 'hidden' political and financial strength of the state governors is the state

commercial banks (SCB). In theory, a country's currency can be issued only by its Central Bank. Under Brazilian practice, every state has created its own SCB (some have created more than one), and whenever a governor asks its SCB for more currency than it has, the Central Bank is obliged to cover the deficit and to throw more currency into the market, thereby pushing up inflation. As a result of the 1966 fiscal reform and of the federal fiscal policy at that time, the SCBs were granted permission to make loans to their main shareholders, and therefore controllers, the states¹⁵. The 1982 state elections played a role in this disorder. At the first election after the political opening, the state governors played all their cards with the blessings of the federal authorities in order to elect their successors. From then on, with more or less emphasis, the SCBs have been used to finance the governors' allies (*Folha de São Paulo*, 1993)¹⁶. In 1992, the SCBs' debt to the Central Bank was 64% bigger than their assets. Here again, the biggest debtors are also the biggest SCBs: São Paulo held 60% of the debt of the ten biggest SCBs (*Folha de São Paulo*, 1993). A Central Bank's ex-governor declared that until 1993 the Central Bank had spent \$4 billion to try to recover the SCBs (*Folha de São Paulo*, 1993).

The federal government and the Central Bank are tackling the problem by passing new laws, threatening to enforce others which already exist, closing-down some SCBs in smaller states and intervening in others. Law 4595 issued in 1989 prohibited the SCBs from making loans to their controllers, but it was seldom enforced. Constitutional Amendment No. 3, promulgated in 1993, prohibited the issue of new bonus to the states. Between 1990 and 1991 six SCBs were closed by the Central Bank because of their high debts to the federal government. In early 1995 the Central Bank decided to intervene in eleven SCBs, the most important ones being those of Rio de Janeiro and São Paulo, the former for the second time in the decade, because they owed \$7.6 billion (*Folha de São Paulo*, 1995).

The SCBs are one of the main levers of the state governors. Because of the governors' strength, the SCBs have always managed to evade federal control. However, the SCBs are

¹⁵ The same situation is found in Argentina, where the provinces also borrowed from the Central Bank via provincial banks to cover their deficits. The provinces have also tried to obtain federal grants by running up high fiscal deficits and asking the federal government to step in. In 1986, provincial deficits, before transfers from the federal government, were 6.2% of GDP, about \$4 billion (Wallich, 1992: 53).

¹⁶ It was reported that on the eve of the 1990 elections, BANESPA lent \$600 million to the Quêrcia administration which it did not have. With interest and monetary updating, this bill, which remained unpaid, rose to \$1 billion in 1993 (*Veja*, 1993).

more transparent than private banks because negotiations of their debts are on the political agenda. On the other hand, the states' use of institutions and financial schemes other than their own reveals fragmentation in fiscal policy and politics. The political significance of fragmented government and policies is that regional politicians are assured a great deal of autonomy as political actors.

5.1.2.3 States' Expenditure

The analysis of the aggregate data on the states' expenditure shows not only the structure of their expenditure but also identifies the political priorities which are reflected in the share gained by each item of expenditure in public spending. Table 5.4 shows that the states maintained their pattern of spending more on consumption than on capital expenditure. Despite this, in 1990 the states were responsible for 61% of the country's investments, whereas federal and local governments were responsible for 15% and 24% respectively, excluding investment by the state-owned companies (IPEA, 1992a: 16). Therefore, the states' importance as investors and consumers increased not only because of the amount they spend but also because of the decrease in federal spending.

Table 5.4 shows also a strong relationship between elections and increases in expenditure. The period saw six elections. The pattern of expenditure increases varies according to the election's geographic dimension and the nature of the political regime. In the 1982 state elections, the incumbent governors did not put pressure on fiscal resources for investment (or were not allowed to by the military) but instead used the resources of the SCBs. With redemocratisation, the pattern changed. In the 1986 and 1990 state elections, expenditure rose on payroll, as a way of winning the votes of the vast contingent of civil servants¹⁷. A different pattern is observed at local elections, in which governors become involved in maintaining their grassroots leadership and in supporting their local protégés. In the 1985 and 1988 local elections, increases occurred in capital spending, both through direct investment in the municipalities and through the increase in states' transfers to them. The increase in investment and in current transfers registered in the 1989 fiscal year is probably because the governors were starting projects for the 1990 state elections rather than because

¹⁷ In 1992 Brazil had around eight million public servants working in the three levels of government, state-owned companies, the Legislature and the Judiciary. Public servants account for 12.4% of the Economically Active Population and for 36% of the formal jobs. In many less developed states payroll expenditure is higher than tax revenue (*Gazeta Mercantil*, 1992).

they were supporting candidacies for the Presidency. The 1989 presidential election did not affect the states' expenditure, probably because of the pulverisation of candidacies. In that election, twenty-two governors were affiliated to the PMDB, and the party's candidate, Ulysses Guimarães, was never well placed in the opinion polls.

Table 5.4 Selected Items of Expenditure by the States as a Percentage of Total Expenditure According to Economic Categories, 1981-1991

Year	Current Spending	Payroll	Current Transfers	Capital Spending	Investment	Capital Transfers
1981	72.7	31.7	34.4	27.3	8.3	16.6
1982*	74.3	31.6	36.6	25.7	7.6	15.0
1983	77.1	32.3	38.9	22.9	5.8	14.6
1984	74.2	28.9	39.0	25.8	6.7	15.6
1985**	71.5	27.9	37.7	28.5	7.5	18.3
1986*	72.9	30.7	36.2	27.1	7.6	16.8
1987	74.4	30.4	37.6	25.6	6.9	15.7
1988**	70.7	27.7	34.7	29.3	7.0	17.8
1989***	73.0	28.1	36.3	27.0	7.9	15.6
1990*	75.1	29.7	36.8	24.9	6.3	14.0
1991	77.8	28.3	40.6	22.2	6.0	13.7

Sources: Ministério da Economia, Fazenda e Planejamento (1992:12 and 1993:19)

Notes: Only main items of expenditure are presented in the table. Payroll and Current Transfers are part of Current Spending. Investment and Capital Transfers are part of Capital Spending. Capital and Current Spending together represent the totality of the states' expenditure.

(*) State elections

(**) Local elections

(***) Presidential election

Average expenditure by function is shown in Table 5.5. The most significant increases were registered in the Legislature and in the Judiciary, showing their strength not only at the federal level, where these expenditures were also boosted. The states gave priority to investments in infrastructure (communications and transport). Health and sanitation increased only after 1988 as a result of the decentralised health programme adopted shortly before the 1988 Constitution. Administration and Planning, where the payment of interest and part of the payroll are allocated, increased only a little when compared to the above mentioned items. Two reasons explain this relatively low increase. First, the state governments in general were not paying their debts regularly. Second, the state governments have a policy of wage compression in periods outside elections. Annual disaggregation of the expenditure by function between 1981 and 1991 derived from the states' balance sheets (Ministério da Economia, Fazenda e Planejamento, 1992 and 1993) shows two points. First, expenditure

rose but its functional allocation was kept constant, meaning that the states did not change their functional expenditure much during the period, except in few areas not related to social services. This tendency means that decentralisation has not changed expenditure patterns on the provision of social services, as promised by the drafters of the 1988 Constitution. Second, even if some functions have registered an increase above average, no outstanding priority is revealed. This lack of priorities shows there is as yet no clarification of the role of the member states in the economic and social spheres as a result of decentralisation and redemocratisation.

Table 5.5 Average Increase Rate in the States' Expenditure by Function, 1981-1991 (Percentages)

Function	Average Increase Rate
Legislature	11
Judiciary	11
Communications	11
Health & Sanitation	9
Welfare & Pension	9
Transport	7
Housing & Urbanisation	6
Administration & Planning	5
Police	5
Regional Development	5
Education & Culture	5
Agriculture	1
Industry, Commerce & Services	0
Employment	-5
Electricity & Mineral Resources	-13

Source: Ministério da Economia, Fazenda e Planejamento (1992:18 and 1993: 20).

On the other hand, the lack of clarification of the role of the states in a decentralised financial system does not mean that the states aren't replacing the federal government in the provision of services and as investors. This replacement has occurred because the states are investing more and because the federal government is investing less. A calculation by Afonso (1994: 62), which considers the expenditure of all federal agencies, including decentralised agencies, shows that, slowly and inconstantly, the states are replacing the federal government in some spheres while others remain without governmental support caused by the backing down of the federal government. First, in governmental services and regional development, the federal government decreased its expenditure from 17.1% of GDP in 1989 to 8% in 1991, whereas the states moved their expenditure from 3% in 1989 to 3.6% in 1990 and to 3.2% in 1991. Second, in housing and urbanisation, the backing down of the federal government was dramatic: from 58.5% of GDP in 1989 to 9.1% in 1991, whereas the states have doubled

their expenditure using their own revenue, in a sector that was previously under the federal government's financing scheme¹⁸. However, the amount spent by the states is still low: 0.2% of GDP in 1991. Third, in economic activities such as transport, communications, electricity, agriculture, industry and commerce, the federal government invested 3.2% of GDP in 1989 and 2.8% in 1991, whereas the states were inconstant in their expenditure: 1.4% in 1989, 1.7% in 1990 and 1.2% in 1991. Fourth, in education, the federal government decreased its expenditure from 1.9% of GDP in 1989 to 1% in 1991 and the states increased theirs from 1.8% to 1.9%¹⁹.

Figures presented so far show that there has been an unplanned, uncoordinated and slow transfer of responsibilities to the states, which contradicts the view mentioned in Chapter 2 that the financial constraints faced by the federal government lay solely in the lack of responsibility transfer to the sub-national levels. This slow, unplanned and uncoordinated transfer of responsibilities, however, has not changed policy results at the state level much and is subjected to distortions. These distortions are more likely to be explained on the grounds that the decision to decentralise was taken without a social consensus on what was to be achieved. The problems faced by the federal government lay more in the power gained by sub-national leaders and Congress, which tend to have a regional and local view of national issues, and in the lack of a social consensus on what has to be achieved with decentralisation. These reasons are more likely to explain the federal government's constraints rather than the amount transferred to the sub-national governments or the lack of replacement of a role previously under the discretion of the federal government.

5.2 Decentralisation at the Local Level²⁰

A brief look back at the development of municipalities in Brazil is needed to understand the trends and their current position. Many studies have been undertaken on the historical role of local government and local politics, but few have considered its position in

¹⁸ For an account of the operation of the housing financial system during the military regime, see Batley (1983).

¹⁹ As is going to be shown later in this chapter, the municipalities have increased their expenditure, in proportional terms, much quicker than the states. Therefore, if the analysis considers both levels of sub-national government, the argument that there is a tendency to replace the role of the federal government in the provision of services and as an investor becomes stronger.

²⁰ An earlier version of this section was presented at the Ninth Urban Change and Conflict Conference. See Souza (1993)

recent years and none has deeply analysed local governments' performance after decentralisation and redemocratisation. A review of this literature was presented in Chapter 1, which showed that some works emphasise the hegemony of local politics and of private groups in the power structure of the country as opposed to others which assert that central government has always played the major role in Brazilian politics. An intermediate position was that taken by Ames (1987), Bursztyń (1985), Medeiros (1986) and Schwartzman (1988). They concluded that the polarisation of the debate is only apparently a paradox. They identified interdependence between central and local levels as generating a mutual legitimacy. This study argues, however, that this interdependence, properly identified by those scholars during the military regime, has now vanished. The relationship between the federal and the sub-national spheres has changed with the new balance of power brought about by redemocratisation. Brazilian politics, the federation and its intergovernmental relations present a diffused character, a fragmentation of power, where local and state politicians have their own political spaces and are partially responsible for the federal government's capacity to govern.

In Brazil local government is an important political institution, as are the mayors, similarly to those in the USA, besides being the oldest surviving political institution ²¹. Local government is associated with city government and urban management because Brazil is a very urbanised country. Geographical size, demographic characteristics, and the degree of development vary from one municipality to another. The official definition of urban places in Brazil is administrative, including all municipal and district seats, regardless of size. By these criteria Brazil's degree of urbanisation increased from 31% in 1940 to 45% in 1960, 68% in 1980 and 74% in 1990. These rates were extremely high in the regions of the agricultural frontier, the Centre-West and the North, during the 1970s, because of the combination of high fertility as well as in-migration, and they were lowest in the North-East because of a low migration rate towards the urban areas in this region. As a result of this process of internal migration and urbanisation, the South-East has the highest degree of urbanisation (89%) and the North-East has the lowest (57%).

As in the states, the cities exhibit deep differences in their occupational, social and

²¹ The first municipality, São Vicente, was instituted in 1532. For the history and description of Brazil's municipalities see Humes (1991: 155-67) and Lordello de Mello and Reston (1991).

physical structures because of heterogeneity and uneven social and economic developments. A major consequence of this rapid process of population redistribution is that the rural population has not only lost relative importance but has also stopped growing during the last two decades. Despite this demographic, social and economic variety a process of cultural unification is under way. Investment since the 1960s in transport and telecommunications, especially television, has contributed to a widespread diffusion of urban values in lifestyle and consumption patterns, as well as political standards ²².

In 1993 Brazil had 4,974 municipalities. The creation of new municipalities increased extraordinarily during the last two decades, partially as a result of redemocratisation. Over 1,000 municipalities were created between 1975 and 1993. One of the reasons for the creation of so many new municipalities was the spatial re-arrangement that followed increasing rates of urbanisation. However, regional politicians have sponsored the creation of many municipalities to generate more offices for local political leaders. This trend contributes to the diffusion of power that has characterised Brazil under redemocratisation and undermines the positive effects of federal revenue transfers. From these almost 5,000 municipalities, twenty six state capitals ²³, plus the Federal Capital (Brasília), have great political and economic importance and have 34,994,197 inhabitants, i.e. 24% of the country's population. In 1991 they were responsible for 16% of all governmental expenditure on consumption, 23% of public expenditure on payroll, 36% of governmental investments, raised over \$2,7 billion of their own revenue and \$7,9 billion of total revenue and owed over \$2 billion ²⁴. The nine metropolitan regions (Belém, Fortaleza, Recife, Salvador, Belo Horizonte, Rio de Janeiro, São Paulo, Curitiba and Porto Alegre) have 25,793,391 inhabitants, i.e. over 73% of the population of the state capitals and 17.7% of the country's population.

²² Brazil has an average of 237 television sets per 1,000, above the world average of 186 and the Latin American average of 184. About 75% of urban households have television as contrasted with 28% in rural areas. Radio reaches 70% of rural homes and it is also found in 90% of low-income urban houses (UNFPA, 1992:35).

²³ The state capitals are: Aracaju (Sergipe), Belém (Pará), Belo Horizonte (Minas Gerais), Boa Vista (Roraima), Campo Grande (Mato Grosso do Sul), Cuiabá (Mato Grosso), Curitiba (Paraná), Florianópolis (Santa Catarina), Fortaleza (Ceará), Goiânia (Goiás), João Pessoa (Paraíba), Macapá (Amapá), Maceió (Alagoas), Manaus (Amazonas), Natal (Rio Grande do Norte), Palmas (Tocantins), Porto Alegre (Rio Grande do Sul), Porto Velho (Rondonia), Recife (Pernambuco), Rio Branco (Acre), Rio de Janeiro (Rio de Janeiro), Salvador (Bahia), São Luis (Maranhão), São Paulo (São Paulo), Teresina (Piauí) and Vitória (Espírito Santo).

²⁴ Data from ABRASF (1992).

5.2.1 Political Resources

During the military regime the mayors of the main cities were not elected by popular vote ²⁵. The state capitals had their first popular election in 1985, followed by others in 1988 and 1992. In 1985, the PMDB, still a party identified with opposition to the military regime, won nineteen of the twenty-three state capitals. Since 1988, the progressives have experienced a steady increase in mayoral elections, with the victory of candidates from the PT, PDT and PSB. In the following local elections, the progressives commanded one-fourth of the population at municipal level and in 1992 the PSDB, PT, PDT and PSB together elected 61% of the mayors of state capitals. Despite their poor performance in the country as a whole, where the PSDB, PT and PDT held 15% of mayoral seats, the left and centre-left are now governing the main cities, as shown in Table 5.6, and are an emergent political group in the interior. In spite of this leftist rise, the conservative PDS elected the mayor of the most important city, São Paulo.

Table 5.6 1988 and 1992 Local Elections in State Capitals

Party	1988 (1)	1992
PSDB	1	5
PT	3	4
PDT	5	4
PMDB	4	4
PSB	2	3
PDC	-	2
PDS	5	2
PPS	-	1
PFL	4	1
PTB	1	-

Source: *Veja* (1992)

Notes: (1) The municipality of Palmas did not exist in 1988.

The results of the last two local elections show: (i) a reinforcement of the trend towards political fragmentation shown by the number of parties that govern the capitals; (ii) a tendency to decrease the participation of the conservative parties, with a reduction in the number of mayors affiliated to the PFL, PDS and PTB. The conservatives' defeats in the state capitals, however, were compensated for by a great number of municipalities won in the interior, especially in the North-East; (iii) the rise of the progressives and the decrease in the

²⁵ There were 201 municipalities forbidden from having popular elections, plus the state capitals, representing more than one-third of the urban population. Their mayors were indirectly elected by the state legislature because state deputies were considered more reliable supporters of the military regime than city councillors, especially those from the state capitals.

number of conservatives indicate an electoral shift, but this movement should not be overestimated because local campaigns registered a low degree of ideological polarisation; (iv) the victory of the PDS's candidate, Paulo Maluf, in São Paulo, after five consecutive defeats in former elections re-introduced an old political leader into politics and into a mayoral seat at a time when some former leaders seemed to be suffering reverses in the major cities; (v) no capital elected a mayor who belonged to the same party as the governor, showing that the electorate, in a certain way, voted against the state executive leader. Except in Fortaleza, the same phenomenon occurred in 1988.

Most of the mayors who left office in 1992 were highly regarded by the electorate, according to opinion polls. Only five state capital mayors out of twenty-six, from Rio Branco, Recife, Aracaju, Cuiabá and Salvador, had their administration evaluated as 'bad/very bad' (*Folha de São Paulo*, 1993). This positive evaluation is probably a consequence of the financial decentralisation that provided new revenues to the cities, which are noticeably much better kept. Only two former mayors were able to achieve the election of their proposed incoming candidates (Curitiba and Porto Alegre)²⁶. 'Collorgate'²⁷, however, was responsible for some defeats in the 1992 elections. According to an opinion poll 63% of the electorate in twelve state capitals would not vote for a candidate who had Collor's endorsement (*Folha de São Paulo*, 1992).

Although the results of the 1992 capital elections favoured the progressive parties, the country as a whole showed a preference for conservatives like the PFL, PDS and PTB who together won control of 1,697 municipalities, as shown in Table 5.7. A comparison between the results of the elections in the state capitals and in the country indicates that the progressives won 54% of the vote in the capitals and 15% in the country. The conservatives PDS and PFL obtained 8% in the capitals but, together with PL and PTB, received 41% of the votes nationally. The centre party PMDB won 33% in the country but only 16% in the capitals. As can be seen, voters' preferences in the capitals were very different from those in the rest of the country. These figures confirm a trend that also occurred in the 1988 local election, i.e. the two biggest political parties, PMDB and PFL, were losing the urban

²⁶ An opinion poll showed that the majority of the electorate would not take into consideration the mayor's candidate, even if they approved his/her performance (*Folha de São Paulo*, 1992).

²⁷ 'Collorgate' was the term used in referring to the financial scandals in which President Collor was involved leading to his resignation and impeachment. The impeachment procedures occurred during the local campaigns.

electorate's vote in the most important cities but still maintained a leading position nationwide.

Table 5.7 1992 Local Elections

Party	Number of Municipalities
PT	53
PSDB	293
PTB	295
PL	310
PDT	410
PDS	439
PFL	963
PMDB	1,633
Others	529

Source: *IstoÉ* (1992)

The growth of the progressives in local elections in the capitals should be credited to:

(i) the economic crisis of the period that tended to promote an anti-establishment vote; and
(ii) well-thought of administrations by the progressive parties in important state capitals, which were reflected positively in the national media and had an influence (like a 'demonstration effect') over the electorate in other cities due to widespread access to TV and radio stations. However, these electoral victories do not necessarily mean a consolidation of the vast number of parties nor do they mean the existence of a pluralist political party system. As argued by Sadek (1989) they show that a party keeps or increases its electoral support when it is able to maintain a distinguished performance compared to the other parties. This happened with the PMDB during the military regime and with the PT during redemocratisation.

A sample of the profiles of the country's mayors brought about by popular elections shows that from two aspects they were quite different from those elected during the military regime. First, the education of the mayors had improved: in 1973 17% of the mayors had higher education, whereas in 1989 there were 52%. Second, in 1977 63% of the mayors had had previous political experience, whereas in 1989 52% of the mayors were in an elected position for the first time (IBAM, 1990). These two facts show that redemocratisation incorporated new, and better educated, actors to the political scene at the local level.

The mayors of state capitals are also playing on other fronts than their local territories. They have been successful in lobbying for their interests, both in the media and in Congress. They have been acting through a professional organisation called ABRASF - *Associação Brasileira dos Secretários e Dirigentes das Finanças das Capitais* that brings together the

Financial Secretariats of the capitals and a political association, the *Forum dos Prefeitos das Capitais* constituted of the mayors of state capitals. These two nationwide organisations were created also to decrease the influence of São Paulo's former governor, Quércia, who for a long time exercised strong leadership among mayors. The lobby of local authorities proved its efficiency during the Collor administration when he tried to win congressional approval for a decrease in state transfers to local governments through the ICMS, from 25% to 20%. The reduction was intended to form a fund to be attached to the payment of states' debt with the federal government. The proposal was never put to the vote. Mayors are aware of their power and also of the tension between state and local interests. According to Manoel Castro, former mayor of Salvador and now a Congressman, parliamentarians express more loyalty to their local bases than to the state governors [27 Nov. 1992]. Humberto Ellery, several times a mayor, reasoned that parliamentarians are perfectly aware that they have to preserve their local political bases [3 Dec. 1992]. These opinions, together with others mentioned above regarding the governors' power over Congress, show that local politicians also have ways of having their demands voiced in Congress. The ways used by Brazilian mayors to influence and to veto national policies affecting their local interests reinforce Page's (1991) concept of political localism as discussed in Chapter 1. They also show the similarities between Brazilian local politicians and their Italian, Spanish and French counterparts.

Local elections and local politics became laboratories for the re-arrangement of political power stimulated by redemocratisation. In addition, local politics have been more open than the states to incorporating actors without links to the previous regime. Therefore, the results of local elections should be seen from a broader perspective than that of the simple election of mayors and council members.

5.2.2 Financial Resources

Despite Levin's assertion (1991: 5) that although various versions and combinations of centralisation/decentralisation ratios have been used, persistent reservations have been raised about their meaning and significance, Brazilian municipality has a significant discretion in allocating its own revenue, and for financing and administering its resources, especially since 1988²⁸. The only restriction on constitutional transfers and local revenues imposed on local spending is the 25% of their total revenue that has to be spent on education. Brazilian

²⁸ For an account of Brazilian local finances before 1988 see Batley (1984).

municipalities are also highly capitalised as compared to their counterparts in less developed countries. In 1992 it was estimated that no municipality had received less than \$400,000 a year just from the FPM, i.e. transfers from the federal government (Bremaeker, 1994: 18), as opposed to \$1,000 in Peru ²⁹. In Latin America a great number of municipalities have an annual budget of between \$5,000 and \$20,000 (Lordello de Mello, 1991: 215). In Brazil revenue transfers by the federal government alone amounted to \$5,5 billion in 1993 (Bremaeker, 1994: 37), a significant figure when compared to the total amount of \$2,2 million in Uganda, one of the African countries noticeable for decentralisation efforts (Villadsen, 1994: 7).

Current spending increased from 8% of GDP in 1980 to 16% in 1991 but in most capitals it has been proportionally lower than the increase in revenue, i.e. while the capitals' own revenue increased 31.6% in 1991 when compared to 1985, current spending was 16% of total governmental expenditure in 1991 and 10% in 1985 (ABRASF, 1992: 9). The municipalities more than doubled their expenditure on payroll in two decades, from 10% of the public-sector's payroll in 1970 to 23% in 1991, a major increase when compared to the federal government's, responsible for 42% of the public sector's payroll in 1970 and accountable for 28% in 1991, while the states kept their participation at 49% (ABRASF, 1992: 11).

The growth of local government spending is because of expenditure on education and health services, which registered 13% and 7% growth rates between 1988 and 1991. Table 5.8 shows the aggregate data of the state capitals. The figures show that some capitals have prioritised capital investment rather than current expenditure, which explains the positive variations in the expenditure on housing and urbanisation programmes. State capitals' expenditure in programmes like education, health, housing and urbanisation shows that they are playing a significant role in responding to the social pressures that emerged during the recession. This aspect of local government expenditure also indicates that there has been a decentralisation of responsibilities towards the local level, even if this decentralisation has occurred in an unplanned and uncoordinated way, as at the state level.

For state capitals as a whole, borrowing decreased and even became irrelevant, because of fiscal adjustment and of the lack of credit lines from the federal government. The

²⁹ Figure provided by Lordello de Mello in a personal communication to the author.

payment of interest has been accomplished and the net debt decreased, showing a trend towards surplus. The capitals have been able, since 1988, to reconcile their increase in size and relative importance within the public sector and in the economy with a fiscal adjustment pursuing a decrease in their debts and deficits. The state capitals are also changing the image stimulated by the military that mayors were irresponsible managers who were only interested in building superfluous assets such as shining fountains. As recounted by Selcher (1989), the view that localism and regionalism acted against the country's modernisation is an old one. Mayoral administration in the state capitals has been approved by the electorate, as mentioned above, by the media and by some enthusiastic academics, e.g. Camargo (1992). They are also aiming at one of Jones's (1985: 316) ideals about the role of local government, namely that of devising a financial system where the bulk of local finances comes primarily from local taxpayers and voters.

Table 5.8 Financial Data of the State Capitals, 1988-1991

Item	1991 \$ million	Per Capita Values \$/inhabitants (1991)				Annual Variation	
		1988	1989	1990	1991	90/91 Percentages	88/91
Revenue	7,906.8	154	180	201	237	18	15
Borrowing	581.7	36	13	9	17	99	-21
Net Revenue	7,272.2	119	167	192	218	13	22
Expenditure	8,210.9	197	190	221	247	12	8
Current	5,791.3	131	144	161	173	8	10
Payroll	2,798.1	51	64	69	84	22	18
Debt servicing	299.2	14	5	7	9	24	15
Capital Investment	2,450.5	66	46	60	73	22	3
Debt amortisation	1,398.0	45	26	33	42	29	-2
Non-financial expenditure	341.9	8	13	9	10	9	9
Budget balance	7,599.8	175	171	204	228	11	9
Legislature	(335.0)	(43)	(11)	(20)	(10)	-50	-38
Education	289.2	6	7	8	9	6	13
Housing & Urbanisation	1,407.5	29	33	40	42	6	13
Health	1,748.9	39	38	40	52	29	10
Transport	1,073.3	26	24	29	32	12	7
Funded debt	848.2	32	22	30	25	-16	-7
Net debt	2,157.3	74	72	68	65	-5	-5
	2,424.1	94	81	82	73	-11	-8

Source: ABRASF (1992:33).

On the other hand, the participation of the state capitals' revenues in the amount of revenues available to the municipalities as a whole decreased from 38.9% in 1982 to 31.7% in 1991. In this sense decentralisation went down further to the level of less important

municipalities. As shown by Paz (1993: 4), the municipalities which most benefitted from this shift were the middle-sized ones with an agro-industrial basis in the South-East, South and Centre-West.

However, in a country cut across by inequalities, the performance of the state capitals might not be the rule, although they can act as a 'demonstration' effect. The mayors who took office in January 1993 have had to face many negative legacies, especially those in the interior. In Bahia the following facts have been revealed: municipalities where no files were found, others with heavy debts and 'phantom' civil servants, delays in civil servants' salary payments, over-staffing and even the robbery of official equipment (*A Tarde*, 1993). This pattern was repeated nationwide (*Gazeta Mercantil*, 1993). On the other hand, the Municipal Tribunal of Accounts in Bahia has punished mayors and city councillors in an unprecedented way, according to one of its members. The reasons for this are that 'the Tribunal is engaged in a policy of tighter checking of local spending and because democracy makes people more aware of the duties of those they elect' [Pereira, 20 Nov. 1992]. The result was that 113 municipalities, all in the interior, out of 415 in Bahia had their 1990 accounts rejected by the Tribunal (*A Tarde*, 1991). The municipalities, however, tended to show a bigger commitment to education than the states, to be discussed below.

5.3 Overview of the State of Education in Brazil

Specialists agree that the main problems of basic education in Brazil are not of quantity but of quality and of social and regional inequalities, combined with a pattern which penalises the poor. As Schwartzman (1995) reports, no standardised tests are applied to students to assess what they learn in school, but the small evidence available shows very poor levels in the acquisition of basic reading, writing and arithmetic skills, even among students of private, middle-class schools. The problems of equity appear not only in the regional and urban-rural differences in school access and literacy, but also in the association between social class and education failure. There are also high rates of grade repetition, forcing students to leave the system (Ribeiro, 1991).

Although illiteracy has diminished over the years, the total number of illiterates is still significant: in 1989 16.8% of the population of fifteen years old and over were illiterate. The North-East held 38% of the country's illiterates, whereas the South and the South-East held 10% each. Compared to other Latin American countries, Brazil's illiteracy rate is high. In 1980, the illiteracy rate of the population, 15 years old and over, in Argentina and Chile was

6.7% and 7.5%, respectively (Wilkie, 1992: 215).

The Brazilian educational system is divided into three levels: first-grade or elementary education; second-grade or secondary education; and higher education. Pre-school provides for children under 7 years of age. The 1988 Constitution states that education is mandatory and free for all, including those who did not have access to school at the appropriate age. Elementary education is compulsory for all 7- to 14-year-old children and free at all state institutions. The duration of compulsory education is eight years, although it takes the students an average of 11.8 years to finish it (Wilkie, 1992: 120). Secondary education is also free in state schools, although not compulsory. Both the government and the private sector provide education, but state schools enrol about 88% of the students in elementary education (Ministry of Education, 1990: 20). States and municipalities are the main agents of elementary education; the states, of secondary education; and the federal government and the private sector, of higher education. However, the three tiers of government are free to act at any level of education, because the 1988 Constitution considered education a concurrent power.

In 1988 Brazil had a lower gross enrolment ratio in primary education than Argentina, Ecuador, Mexico, Venezuela and Colombia. However, the perverse aspect of Brazil's education is related to access to secondary education. In 1988, Brazil's gross enrolment ratio in secondary education was 38%, while Chile's was 75%, Argentina's 74%, Colombia's 56%, Venezuela's 54% and Mexico's 53% (United Nations, 1992: 40). The state system heavily penalises and excludes the poor. Table 5.9 shows the incidence of public expenditure on education by income level. A comparison with other Latin American countries shows that, in Brazil, public expenditure on education reaches very few of the poor.

Table 5.9 Incidence of Public Expenditure for Education by Educational and Income Level (Percentages)

Country	Primary Education			Higher Education		
	40% Poorest	40% Middle	20% Richest	40% Poorest	40% Middle	20% Richest
Argentina	57	32	11	17	45	38
Brazil	15	80	5	48
Chile	59	32	9	17	31	52
C. Rica	57	35	8	15	42	43
Venezuela	45	39	16	23	43	34

Source: United Nations (1992: 51)

The financing of the system is complex. The federal government must allocate to education no less than 18% a year of the total tax revenue, and sub-national governments no

less than 25% of their total revenue, including constitutional transfers³⁰. Part of the federal share of FINSOCIAL (Social Investment Fund) goes to education, especially to student aid programmes³¹. There is also a large discretionary fund created by the *salário-educação* (educational salary), a 2.5% tax on all salaries paid by industries and services and 0.8% of the commercial value of rural products. These resources are integrated into a national educational fund, the FNDE, administered by the federal government. The federal government retains one-third of the FNDE and transfers two-thirds to the states. However, the federal quota of the FNDE is also transferred to sub-national governments, mostly for investment.

In 1985 the country spent 3.7% of its GDP on education, which is close to the continent's average of 4%, but far from the average of industrialised countries at 5.4% (United Nations, 1992: 194). In 1990, the government spent \$19.9 billion on education, 45% by the states, 29% by the municipalities and 26% by the federal government (Schwartzman, 1995). Of the amount spent by the federal government, the majority goes to higher education. In 1987, 1988 and 1989, 54, 62 and 64% of resources from the Ministry of Education were spent on higher education³² (Ministério da Educação, 1992a: 37-9). Despite this amount, the federal system enrolls 21% of the students of high education, the states 13%, the municipalities 5% and private institutions enrol 61% (Ministry of Education, 1990: 27)³³. The federal government is also under constant pressure by a strong lobby of university lecturers and staff to maintain the network of federal universities free of fees. As competition to enter a federal

³⁰ Figures presented below will not reach the percentage required by the Constitution. Mayors and state governors who do not meet the target should have their accounts rejected by the Tribunal of Accounts. However, most sub-national governments argue that investments in infrastructure near schools, such as urbanisation works and sanitation, even allocated in different items of expenditure, are investment in education. The Tribunals generally accept this explanation.

³¹ FINSOCIAL had its name changed to *Contribuição Social para o Financiamento da Seguridade Social*, with the acronym of CONFINS, through Complementary Law No. 70, issued on 12 December 1991. CONFINS is one of the Social Contributions and is constituted of payments of 0.5% of the gross revenue of corporations, financial institutions and insurance companies and of 0.5% of income tax from the tertiary sector. In 1993 the corporations owed CONFINS around \$10 billion (*Folha de São Paulo*, 1993).

³² This percentage is unconstitutional, given that clause 60 of the Transitional Measures states that the three levels of government should spend 50% of their revenues to eliminate illiteracy and to provide universal access to elementary education. According to Senator João Calmon, every year someone takes the federal government to court because it is not accomplishing the constitutional mandate. By the time a judge of the Supreme Court analyses the case, the fiscal year is over and the case does not go to judgment because the case is against expenditure in a fiscal year that no longer exists [11 May 1993].

³³ The amount spent by the federal government is not only on payroll, given that they support teaching hospitals, museums and libraries.

university is high, those who make it generally come from private schools. Less prepared students go to state schools, but have to pay fees in private colleges where there is less competition.

The three levels of government face different problems in education. Despite the constitutional responsibility of local and state governments for elementary and secondary education, more developed municipalities and states have reached an unwritten agreement with the middle-class to set up colleges free of fees: in 1990, the states had nineteen universities and sixty-three isolated institutions of higher education, whereas the municipalities had three universities, three federations and seventy-eight isolated schools of higher education (Schwartzman, 1995: 118). This unwritten agreement accommodates the demands of the poor and of the middle- and high-income groups for education. The poor receive free elementary education and the high-income families receive free higher education. This unwritten pact is dramatically noticeable in the North-East, as discussed above.

Education is a sector where current spending dominates the pattern of expenditure. Between 1985 and 1990, the three levels of government spent 92% of expenditure on education on current spending, i.e. teachers' payroll and maintenance of schools (IPEA, 1992a: 76). Investment in the sector is not high, therefore expenditure on education is basically expenditure on payroll.

5.3.1 States' Expenditure on Education

When compared to GDP, the states' expenditure on education has registered a significant increase in recent years. During 1985 and 1990, the states spent an average of 0.8% of GDP on education, whereas the federal government spent 0.4% in the same period. The increase made by the states was 84% more than that made by the federal government (IPEA, 1992a: 44)³⁴. IPEA's study concluded that these figures show funding for education is being transferred from the federal to sub-national governments. Despite registering a tendency for state-substitution for the federal role in education, as discussed in the previous section, the reason for this tendency is found in the impact of state elections on the states' expenditure on education.

Expenditure on education by the twenty-six states as a percentage of the states' total

³⁴ These figures are different from those presented previously because they do not take into account investment by federal decentralised agencies.

expenditure is shown in Table 5.10. The increase in the percentage spent on education occurred in the years of state elections, which are held with elections for the national and the state legislatures. One reason why expenditure on education was kept constant could be its relationship to the payments of interest, i.e. expenditure on education decreases when payments of interest increase. However, the figures do not prove this assumption. Expenditure on education dropped in 1985, 1988, 1989 and 1990 but the assumption is correct only for 1985.

Table 5.10 States' Expenditure on Education as a Percentage of Total Expenditure, 1981-1991

Year	Percentage of Total Expenditure
1981	18.9
1982*	20.0
1983	19.8
1984	18.3
1985	17.2
1986*	19.5
1987	18.9
1988	17.2
1989	17.3
1990*	17.5
1991	17.0

Source: Ministério da Economia, Fazenda e Planejamento (1992:18 and 1993: 19).

Note: (*) State elections

Given that regional issues are an important clue to an understanding of Brazilian politics, expenditure on education is analysed by region in Table 5.11. In the 1990 elections, only the Centre-West increased expenditure on education. The other regions had showed a tendency to prioritise infrastructure investment, shown in the previous section, rather than education. The data also show that every region except the Centre-West spent much more on education during the military regime than after redemocratisation. The position of the North-East was dramatic. The region accounts for the worst levels of education and poverty, but their average increase was mediocre when compared to the region's indicators. The figures also show the economic hierarchy of the regions, with two exceptions. First, the South-East, the most developed region, spends less of its total expenditure on education than the South and the Centre-West. Second, the Centre-West, with its emphasis on educational expenditure because the region had the highest rate of population growth in the decade. The increase in the states' revenues promoted by the 1988 Constitution did not have an immediate impact on education expenditure in the North, North-East and South-East regions, given that their expenditure on education as compared to their total expenditure decreased after 1988.

Table 5.11 States' Expenditure on Education by Region as a Percentage of Total Expenditure, 1981-1991

Region	Y e a r										
	81	82*	83	84	85	86*	87	88	89	90*	91
North	21	18	19	17	16	19	17	17	15	15	16
North-East	17	19	20	17	17	19	19	16	16	16	16
Centre-West	18	15	17	16	15	18	17	18	19	22	21
South-East	19	21	20	19	19	20	19	18	17	17	16
South	22	21	20	19	16	19	19	17	19	20	19

Source: Ministério da Economia, Fazenda e Planejamento (1992: 36, 126, 252, 312, 378 and 1993: 37, 139, 265, 325, 391).

Note: * State elections

There is a relationship between clientelism and education, especially in the North-East. A survey by the Ministry of Education found that 12% of the country's state school headteachers started their careers through appointment by politicians. In the North-East, however, this percentage was 32%. Access to the position of headteacher is also influenced by politicians. In the South, 9% of the headteachers owe their positions to politicians; in the South-East and in the Centre-West, 17%; and in the North, 23%. Again the North-East presented the highest percentage: 41%. The survey also showed that in rural areas the influence of politicians was higher than in the urban areas. Headteachers' salaries vary according to the region. In the North and in the South, they earned respectively \$416 and \$440 per month. The Centre-West and the South-East paid their headteachers \$633 and \$608, respectively. Here again the North-East presented the lowest indicator: the average salary of a headteacher in the region was \$248³⁵.

The problems of education in Brazil, especially of secondary schooling, which is basically the states' responsibility, have been assessed in this section. The states spend a high amount of their resources on education, which is usually the second most major item of their expenditure. However, there is evidence to show that education was subjected by regional politicians to clientelism. Given that the highest percentage of the resources allocated to education is for teachers' salaries, teachers' votes were an important target for regional politics in every region until the 1990 elections. The manipulation of education for electoral purposes is the most likely explanation for the maintenance of the country's poor educational indicators. In the North and North-East, the use of education in a patron-client relationship affects the poorer population more deeply, given that the regions hold the country's worst social and economic indicators. The use of patronage by governments is not new in Brazil. The country

³⁵ Data from an unpublished survey by Ministério da Educação (1992b)

has provided rich literature on the subject, as mentioned in Chapter 1. There is enough evidence to show the existence of patronage in Latin America and in other poor regions of the world, and to show that clientelism plays a role in reproducing social inequality. As Waterbury (1977: 340) put it, 'patronage helps to perpetuate the power advantage of the dominant groups by the conscious cultivation of vulnerability and dependency'. The issue is, therefore, not its reality but its implications in a given political environment, namely, a democratic and fragmented regime, and for a given policy, such as education.

5.3.2 Local Governments' Expenditure on Education

Brazilian mayors acknowledged education as their main priority (IBAM, 1990: 27). However, as in the states, the municipalities' expenditure on education as a percentage of their total expenditure was kept constant. In 1980, 1985 and 1990 the municipalities spent 17.6%, 17.8% and 17.9% of their total revenue on education ³⁶. Administration and Planning, Housing and Urbanisation, and Transport have been the leading items of expenditure since 1980. This tendency shows that in Brazil local governments perform a minor role in welfare programmes, as opposed to their counterparts in Europe, which became the main agent of the social-democratic or Keynesian welfare state constructed after the War (Batley and Stoker, 1991; Cochrane, 1989). However, when the expenditure is taken as a percentage of GDP, local governments' expenditure on education increased at a higher pace than that of the states. They moved from 0.8% of GDP in 1988 to 1.2% in 1991, whereas the states increased theirs only a little and the federal government decreased its expenditure (Afonso, 1994: 63), as mentioned above.

On the other hand, the state capitals have shown a steady tendency to increase their expenditure in the last decade as compared to other items of expenditure, except in the South-East, as shown in Table 5.12. In contrast to the states and to the municipalities as a whole, expenditure on education by the state capitals increased after the political opening. The increase in local revenues brought about by the 1988 Constitution did not have any particular effect on state capitals' expenditure on education because their tendency to increase the resources allocated to education started before 1988. This result shows that expenditure on education was more positively affected by the constitutional amendments issued in the early

³⁶ Unpublished data from the CEEG/FGV. These figures do not reach all of the municipalities because those with less than 50,000 inhabitants are not obliged to present their itemised accounts.

1980s by the military as a result of the political opening than by the 1988 Constitution. Local elections did not affect the expenditure pattern, as opposed to what happened in the states. In some regions, expenditure rose during the first year of the new administration, showing that the mayors tried to fulfil the commitments they had made during their electoral campaigns. However, their initial intentions were not maintained.

Table 5.12 State Capitals' Expenditure on Education as a Percentage of Total Expenditure by Region, 1981-1991

Year/Region	North	North-East	Centre-West	South-East	South
1981	10.8	12.8	15.0	20.5	11.6
1982	9.3	16.2	18.1	20.1	13.1
1983	11.2	15.3	18.3	22.7	14.5
1984	10.5	15.2	11.7	22.2	13.4
1985*	11.1	15.5	18.3	23.4	14.3
1986	16.3	23.2	20.2	26.4	15.3
1987	14.8	15.7	16.9	23.1	17.1
1988*	13.3	17.5	14.5	19.3	21.1
1989	18.6	16.8	19.3	18.8	19.9
1990	15.8	15.9	20.0	21.1	21.0
1991	20.9	16.5	19.3	18.2	18.5

Source: Ministério da Economia, Fazenda e Planejamento (1992: 79, 187, 283, 343, 403 and 1993: 85, 200, 296, 356, 416).

Note: (*) Local elections.

Similarly to the states, no relationship was found between the decrease in expenditure and the payment of interest. There is, however, a strong relationship with expenditure on housing and urbanisation. Every time expenditure on education decreases, expenditure on housing and urbanisation increases. This relationship shows that at the level of the state capitals priorities are clearer, although under tension, than at the level of the states. Health and sanitation were also important items of expenditure in the state capitals, registering an average increase in the decade of 8.3% due to the implementation of the decentralised health care programme. The increase in educational expenditure shown in Table 5.12 might have two meanings. First, the state capitals are not following the country's trend towards the transference of responsibilities for first-grade education from states to municipalities³⁷. Second, the capitals are paying better salaries to their first-grade teachers.

Transfer of responsibility for first-grade education from states to municipalities, called the 'municipalisation' of education, is the banner of most practitioners and teachers. Some, however, do not believe this transference is likely to occur. Lordello de Mello stated that

³⁷ The country as a whole saw a significant transference in that direction. Between 1988 and 1989 the states decreased the number of first-grade schools by 3,726, whereas 3,255 new municipal schools and 160 private schools were created (IBGE, 1992). In Brazil the 'municipalisation' of education is only a trend and not a central policy as in Chile (Angell and Pollack, 1990: 10).

'municipalisation' does not occur because the state secretaries for education are always potential candidates for elected positions [13 April 1993]. A survey in three state capitals has shown that there were attempts to municipalise first-grade education but problems were found in discontinuity and delays in transferring state resources [Neves, 15 April 1993]. In 1987 the rate of first-grade 'municipalisation' in the country was 29%. The North-East and the North had the highest rates, 45% and 39% respectively. The South had 30% of first-grade schools under local discretion, the Centre West 22% and the South-East 18%³⁸. If teachers votes are an important target for regional politics in most regions, as shown in previous section and confirmed by Lordello de Mello, the low degree for the 'municipalisation' of first-grade education in the country as a whole and the imbalance figures among regions may give grounds for different assumptions. First, less developed regions might be transferring the patron-client relationship on education from regional to local politics. On the other hand, the two more developed regions, the South and the South-East, do not follow the same pattern. The South, a more homogenous region, which has a less clientelist approach to education as shown in the previous section, might trust their local politicians in dealing with education. In the South-East, where the lowest degree of 'municipalisation' was found, either there is a distrust of their local politicians or a policy of keeping the clientelist use of education within the territory of regional politics.

This section and the preceding ones have shown that if there is a political and financial pattern followed by the state capitals, including by the way the political system at the state capitals' level treats education, the same does not apply to the country as a whole. This lack of a pattern calls for caution in making generalisations in a country cut across by inequalities. It also calls for the need to investigate the performance of particular states and municipalities for a better understanding of the effects of decentralisation³⁹.

5.4 Conclusions

This chapter has highlighted some of the results of redemocratisation and decentralisation at the sub-national level. Both processes have so far improved the power and

³⁸ Figures from an unpublished report by Bahia's Secretary of Education. See SEC (1992).

³⁹ The financial and administrative performances of individual municipalities were earlier analysed by Batley (1991), who studied Recife and Porto Alegre; Castro (1988) investigated two municipalities in the interior of São Paulo; and Davey (1989), studied the case of Curitiba. A list of M.Sc and Ph.D theses relating to urban Brazil can be found in Valladares et al. (1991).

the revenues of sub-national governments, especially the states and their capitals. Although these processes are leading the country towards a 'peripheralised' federalism as mentioned above, this 'peripheralisation' does not mean that sub-national units are equal in their ability to influence and to veto national policies and to benefit from financial decentralisation. Conversely, both processes have as yet not substantially affected the pattern of expenditure on education. Some conclusions can be drawn, despite the cautions suggested above. First, the lack of priorities found in state governments show there is yet no clear definition of their role on social issues, as opposed to that of the state capitals. Second, politicians still treat education according to their electoral interests. Therefore, education is used by the politicians as a tool for cementing clientelism. Third, there is a slow movement in some regions which replaces the clientelist use of education from the regional into the local sphere. Clientelism alone cannot explain fully how the political system operates although its presence delays, but does not cancel, more advanced forms of horizontal networks and collective actions. The implications of clientelism for policy results is that the state apparatus for dealing with education is deeply affected by its existence, which means that the problem might have to be tackled outside the traditional bureaucracy.

Surprisingly, the data showed that the North-East is not the only region that has a patron-client-oriented approach to political and financial resources. This finding challenges a Brazilian bias against the region. The media and society tend to see the North-East as a region managed by irresponsible and corrupt politicians who daily assault public resources. In Brazil's most developed region, political practices more associated with less developed regions also occur. This finding, plus the analysis presented in Chapter 2, raises a question for future scholarly works, i.e. have redemocratisation and decentralisation affected what was thought to be the 'modern' Brazilian region, in the sense that the South-East is more economically developed and therefore should be less influenced by patronage? Is the South-East being 'northeasternised' after redemocratisation and decentralisation, or has the region always had practices closer to those of the political practices of the North-East? Examples of good management of public resources now come from the poor North-East. On the other hand, although every political system is susceptible to forms of patronage, patronage becomes more perverse in a poor, 'backward' region. If examples of good management may now be found in the North-East, their politicians are not yet committed to finding solutions for the improvement of the conditions of the poor through an increase in expenditure on education.

Good management of public resources in the region is probably benefiting other social groups rather than the poor.

Decentralisation invested old political actors, especially state governors, with new and powerful roles, yet these new roles have been subordinated to old political practices. As mentioned in previous chapters, a common aspect among those who have studied Brazilian transition and consolidation is the high level of continuity between both regimes. Sub-national governments are no exception, especially the states. This fact characterises the way decentralisation is being implemented. It also highlights the importance of political forces in the implementation of decentralisation. In a country with vast territorial dimensions and marked by social and regional differences, commitment to the implementation of decentralisation may differ deeply. The country's diversity brings big gaps among states and municipalities. These gaps operate against the goal of decentralisation because they decrease the possibilities of federal help to try to event out the inequalities.

Political and financial decentralisation in Brazil has so far had conflicting effects. First, as the federal government has not relinquished its importance as a political institution, competition for power is stronger than ever. Diffused power is 'good news' for democratic stability. Second, it should not be taken for granted that the financial and political achievements of governors and mayors are guaranteed, especially because of the pressures to change several constitutional provisions, including the tax system. Furthermore, as Batley (1991: 137) pointed out referring to local governments in Brazil, discontinuity is a major feature of municipal political and administrative life not only because of internal factors but also because of the changing context. On the other hand, and as a reaction against those pressures, the governors and mayors might pursue better policy results in areas such as education. Third, it cannot be expected that the serious fiscal crisis of the country can be addressed only at the sub-national level. On the other hand, the sub-national governments are replacing the federal level as investors and consumers, thus playing a role against recession. Fourth, it cannot be said that the conditions for a democratic regime have been achieved. Reforms are needed to improve the conditions of governability, as shown in previous chapters, and to overcome the country's social and regional inequalities. Fifth, as governors and mayors are not financially and politically subordinate to the federal Executive, they probably have to address their basic loyalties to a wider base of alliances at the sub-national level. As a consequence, forms of public accountability can appear.

The Brazilian experience with the implementation of decentralisation shows that there is a pattern in intergovernmental relations whereby governmental spheres pit themselves against each other in order to upgrade their position. This game is a continuum which has always been part of the Brazilian federation and of its intergovernmental relations throughout different political regimes. What might be a feature of Brazil's current experience is the resurgence of a type of political game mentioned above as being a 'paralysed competitive arena'. However, conflicts between levels of government are not isolated from other conflicts in society. This chapter showed that conflicts among regions, and how and to whom education should be provided, are a reflection of the social and regional cleavages in Brazilian society. This chapter has also suggested some explanations as to why decentralisation tends to promise more than it delivers. The reason for this is that policy results are a matter of political processes rather than merely matters of effective administration, as they have tended to be treated by the literature.

By analysing the political and financial performances of both the states and the municipalities this chapter provided grounds for an argument for the need to distinguish in theoretical terms intergovernmental relations when related to different sub-national spheres. It also provided evidence showing that evaluations of the effects of redemocratisation and decentralisation on deeper patterns of policy results need to be made by assessing each particular case. These conclusions bring about the need to investigate in depth whether decentralisation and redemocratisation have meant a better situation for the regional and local communities, the state and local élites, or the national élites who have moved around this new political and financial map punctuated by old actors. The following chapters further this study's downstream approach by analysing the case of one state and two municipalities in Brazil's North-East. They provide an empirically-based analysis of the financial and political performances of three sub-national governments during the political opening and democratic consolidation. They give a deeper answer to the question as to whether decentralisation and redemocratisation have changed public expenditure at sub-national levels. Furthermore, the chapter about the state of Bahia suggests that the 'paralysed competitive arena' is not the only likely feature of Brazil's entire political system.

Chapter 6 The Case of Bahia State

Introduction

Bahia is where the Portuguese first landed in Brazil in 1500. Bahia's capital, Salvador, was the capital of colonial Brazil until 1763 when the Portuguese named Rio de Janeiro as capital. The state as it is now was constituted by the addition of five 'hereditary captaincies', a Portuguese way of delegating territories to their protégés and of protecting the colony from foreign invasion. In colonial times Bahia's economy did not differ much from that of Brazil. They were based on the export of agricultural products, dependent upon the oscillations of the international market. Bahia was one of the main areas for large sugar plantations and an important port for the Atlantic slave traffic. From a position of importance during early colonial times, Bahia started to lose political and economic significance. The moving of the Portuguese administrative centre to Rio, the abolition of slavery and the entry of other countries into the trade and export of sugar contributed to the state's political isolation and economic decline¹. Bahia's reaction to its economic decline was slow. Only in the mid-1950s did politicians, practitioners and some entrepreneurs become aware of the need to pursue a change in Bahia's economic base.

The study of Bahia is important for several reasons. First, in spite of its location in the most backward region of Brazil, with the establishment of modern industries Bahia became the sixth largest economy of the country. The impact of economic development upon the social, political and administrative structures was far-reaching. Second, Brazil is a big country with profound differences among states and regions. However, Bahia's economic development places the state in an intermediate stage between the best and worst-off regions. Furthermore, understanding why economic development was made possible in such a backward environment may have significance, especially if the analysis is linked to its political development. Third, studies focusing on the state have been the territory of historians and anthropologists. They have analysed either the influence of the landowners on the maintenance

¹ See Bethell (1970) and Furtado (1963) for an analysis of the decline of the sugar economy and its relation to political and economic movements in Europe.

of patron-client relations or Bahia's popular religions and culture ². Fourth, studying Bahia challenges the metropolitan bias of many of the political science studies of Brazil, which focus either on national figures or on the North-East old *coronel* ³.

Despite its economic prosperity and having an outstanding figure in national politics, the three-times governor Antônio Carlos Magalhães, no study has focused on the politics of Bahia in recent years nor on the role of its politicians in the democratic transition and consolidation. The political science and the sociology literature focusing on the North-East still treats the entire region as a case of economic failure, political backwardness and of politics manipulated by local patrons. Bursztyn (1985) argued that federal programmes and investments in the North-East contribute to the maintenance of the old political structure based on the strength of local leaders, the *coronéis*, mediated by the state, and to preserving a social structure based on inequality. Pereira (1993) pictured the dilemmas of democratic consolidation in the North-East because of its weak civil society. The problem with such approaches is that they treat the North-East as a homogeneous region, both politically and economically, ignoring areas with more advanced economic activities where political practices have changed over the years. On the other hand, little attention outside the media has been given to Bahia's main leader, Antônio Carlos Magalhães, better known by his initials, ACM ⁴. ACM has achieved such power that the *Financial Times* pictured him twice during the 1994 presidential election as one of its main players (1994) and as Brazil's 'sovereign ruler' (1994). Therefore, Bahia's politics and ACM's trajectory are of importance for a better understanding of the features, problems and trade-offs of democratic consolidation. It can also contribute to furthering the understanding of the features of Brazil's consociational democracy by analysing the upgrading of a regional politician to the national scene.

This chapter provides a 'pre-experimental' treatment of the phenomena analysed in the

² For the history of Bahia, see Lins et al. (1988); Pang (1979); Schwartz (1973; 1992) and Tavares (1987). For studies about Bahia's popular religions and culture, see Bastide (1978); Fernandes (1982); Gross (1971); Henfrey (1981); Hoornaert (1974); Leacock and Leacock (1975); Pang (1973-1974) and Silverstein (1979).

³ An exception to the trend in scholarly works of focusing on national politics in studies about contemporary Brazil is Hagopian's (1992) study about the role of Minas Gerais's politicians in the Brazilian transition to democracy. The scarcity of knowledge regarding the states' politics is also true in the USA (Osborne, 1988).

⁴ Some North-American scholars are already aware of ACM's importance for a better understanding of democratic transition and consolidation. Schneider (1991) briefly assessed ACM's role in both periods and Ames (1995) mentioned ACM's strong leadership and his capacity for polarising politicians.

research. It illustrates the assertions made in previous chapters as well as the theoretical formulations on which this study relies. The assumption of this chapter is that political fragmentation produced by democratic transition and consolidation does not necessarily imply that a 'paralysed competitive arena' is a likely feature of the entire political system, as at the national level. There has been room at the state level to overcome governmental paralysis, as well as for the emergence of forms of organisation able to challenge the strength of the 'old alliances' referred to in previous chapters. On the other hand, political fragmentation at the national level has upgraded the leaders of some states to a position of influence and/or veto over national issues. Those leaders, however, have their roots in the political alliances which prevailed before the 1980s.

The chapter also assumes, as the one which follows, that the state of Bahia, its capital and its most industrialised municipality, are examples of how economic growth, decentralisation and redemocratisation did not bring changes in the allocation of resources to the provision of social service, taking education as example. This study argues, however, that the demands of the poor are being partially addressed by other means, such as the provision of jobs.

The chapter proceeds as follows. Section 1 offers a brief description of the demographic and spatial aspects of the state. Section 2 presents the state's main social and economic characteristics. Section 3 discusses the political resources which made the state's economic and political upgrading in the national scene possible. It concentrates on ACM's trajectory because the state's political development in the decade was a result of his leadership. Section 4 details the state's expenditure between 1981 and 1991. Section 5 analyses expenditure on education. Section 6 offers some conclusions.

6.1 Demographic and Spatial Aspects⁵

Bahia has an area of 561,026 square kilometres, a little bigger than France and twice the size of the United Kingdom. In 1992 the estimated population was 11,738,000 inhabitants, 56.6% of which were in urban areas, distributed among 415 municipalities. The state's demographic density was 16.88 inhabitants per square kilometre in 1980 and 20.92 in 1990. Bahia's urbanisation was slow. It was a result of the need to unify the domestic market through the establishment of complementary activities of consumption and production to

⁵ Unless mentioned, data presented in this section are derived from CEI (1991b) and IBGE (1992).

expand the dynamism of the South-East. National roads have been built since the 1960s to achieve the goal of economic unification. Several regions in Bahia were the beneficiaries of such a policy. The road network in the state jumped from 11,739 km in 1937 to 133,953 km in 1986 (Silva and Silva, 1991: 53). A national urban system was created with the integration of regional sub-systems such as that of Bahia. The cities in Bahia with the highest rate of demographic growth were exactly those around the national roads, such as Feira de Santana, Vitória da Conquista, Itabuna, Eunápolis, Itamaraju and Barreiras. The growth of the state capital and the cities around it would come a decade later, with the establishment in Camaçari, a municipality of Salvador's Metropolitan Region, of petrochemical industries.

Although the state is now more urban than rural, its typical municipality is not, which repeats the pattern of the country as a whole. The highest number of municipalities have under 5,000 inhabitants. In 1990 there were 145 municipalities of that type; ninety-six between 5,000 and 10,000; forty-one between 10,000 and 20,000; thirty-five between 20,000 and 50,000; ten between 50,000 and 100,000. Only eight cities had between 100,000 and 500,000 inhabitants and one, Salvador, had over 2 million. The state is the fourth electoral college of the country, with 6,701,738 voters registered for the 1994 elections: 7.4% of the Brazilian electorate. Most of the electorate, 83.3%, live in the interior.

Bahia became the last state enrolled in the import-substituting industrialisation (ISI) policy. The need to export goods manufactured in the South-East and the policy of integrating productive sectors, especially through intermediate inputs, were the main economic reasons which gave Bahia the grounds to claim a position in the ISI. These two decisions were taken by the federal government. However, if the policy of economic integration through the construction of roads reached Bahia because of its location, the same cannot be said about the establishment of the petrochemical industries, which could have been located in several other states. What conditions existed in Bahia to encourage such a decision? This study argues that its type of political leadership was responsible for the decision.

6.2 Economic and Social Aspects

In the 1950s the state's economy was typically underdeveloped, although its GDP had increased between 1950 and 1955 at an annual rate of 5.5% and between 1955 and 1960 at 6.5% (Simões, 1978). The state had an unbalanced economy, dependent upon agricultural production and cattle raising, weather conditions, especially droughts, and the prices of the international market. Low productivity and scarce technology, combined with an obsolete

agrarian structure, aggravated the picture.

The state started to push for economic changes in the mid-1950s. The aim was to surpass what became known as the Bahian 'enigma', meaning that the state had all the conditions to join the national process of economic development based on the ISI, but this integration was not achieved. Several analysts searched for the reasons behind the 'enigma'. Oliveira's (1987) explanation was that the economy was dominated by non-productive investments and that society was classless, because the dominated did not feel their exploitation. Almeida (1986) blamed the 'enigma' on psychological factors which affected both the élites and the people, for instance, discouragement and passivity. He also stressed the government's clientelist pattern, because it employed people not to work. A leader of the business community listed several reasons: Bahia was a state which lived on its glorious colonial past; its population was weakened by its well-being; the state had a conservative élite, who would not embrace change and whose skill was only rhetoric; savings did not find sources of application; its politicians were not interested in economic issues; the workers were unskilled; the state lacked infrastructure, especially electricity (Mariani, 1977). All these explanations were tautological reasons for the state not finding products to sell outside its boundaries and for its domestic market not being big enough to consume its production.

In 1955, under the government of Antônio Balbino, the task of addressing alternatives to the 'enigma' was given to an economist, Rômulo Almeida. Taking advantages of the euphoria brought about by Kubitschek's *Plano de Metas* and by the launching of several economic plans, such as that for the North-East elaborated by Furtado, Bahia started a movement to put pressure on the federal government for economic development ⁶. The fight was on two fronts: (i) with the federal government for the establishment of fiscal policies to facilitate the allocation of industries and (ii) with the state's apparatus to assume a leading role in building up infrastructure and in financing industrialisation. The movement began with the creation of a planning system ⁷. The first sign that the quest for economic development had become a political issue was a letter sent by Balbino to President Kubitschek in August 1956 in which he stressed two points. First, fiscal policy was being used to take revenues from

⁶ In the early 1950s the state had benefitted from the construction by the federal government of the Paulo Afonso hydro-electric power station built to overcome its lack of electricity.

⁷ For an analysis of the economic aspects of Bahia, especially the role of the planning system in changing the state's economic performance, see Souza (1991b).

Bahia to finance the industries of the South-East. This policy was known as 'exchange rate confiscation'. The state's argument was that the federal government had established artificial exchange rates to be applied on the one hand to imported goods to equip and broaden São Paulo's industrial plants and, on the other, to pay for goods exported abroad. Given that Bahia had a surplus balance of trade and that the exchange rate for goods exported abroad was artificially low, the state would export at a low exchange rate and would import goods from São Paulo at a higher rate. Goods exported were worth \$1 less and goods imported were bought for \$1 more than their real value (Vianna Filho, 1984: 14). In his letter to President Kubitschek Balbino argued that

The fiscal policy withdraws Bahia from its main, if not only, possibility for autonomous economic progress, preventing the state from finding development, despite the fact that in the last decades we have provided for the country's highest net surplus on the foreign trade balance.

The second argument was that Bahia would soon become a burden to the federal government, given its economic stagnation. The letter called for the restoration of the federal system through federal investment, loans and credit lines.

The state launched an ambitious economic programme supported by two financial schemes, a fund called FUNDAGRO and a state bank called BANFEB⁸. From then on, a broad consensus was built for the need to change Bahia's economic pattern. In the 1960s the first industrial estate was set up, taking advantage of federal and state subsidies. Later, the goal was to set up petrochemical industries to provide intermediate inputs for the industries located in São Paulo. This proposal was based on the argument that the petrochemical industries would take advantage of the oil refinery which had already been operating in the state since the 1950s. The federal decision on the location of the petrochemical industries in Bahia was taken only in 1970, under the military regime⁹.

Despite the choice for industrialisation, Bahia's rural élites were not defeated. The political and economic history of Bahia is marked by a close association between industrial and agrarian interests. Urban and agrarian élites cohabit without threatening each other and without major tensions. Economically the state adopted simultaneous policies for industrial

⁸ Those institutions still exist. FUNDAGRO was transformed into DESENBANCO and BANFEB into BANEB, Bahia's SCB.

⁹ For analyses of the location and the ownership of the petrochemical industries in Bahia see Evans (1979) and Vianna Filho (1984).

and agricultural development. Politically the pattern since the 1950s, and until 1994, has been that each governor committed to agrarian interests is replaced in the following election by someone committed to urban interests. This intriguing cohabitation is built on the basis of the state's pragmatic political attitudes. It has also been crucial to the balancing of economic interests. Given Bahia's territorial dimensions and the characteristics of the Brazilian economy, the state has to rely on agrarian as much as on industrial activities to push its economic development.

The economic structure of the state changed greatly with industrialisation, as shown in Table 6.1.

Table 6.1 Bahia: Structure of the Gross Domestic Product, 1960-1990 (Percentages)

Group	1960	1970	1980	1990*
Agriculture & Livestock	39.8	21.0	16.4	15.2
Industry	12.1	13.0	35.2	32.7
Services	48.1	66.0	48.4	52.1

Source: CEI (1992a: 9)

Note: (*) Estimate

In the early 1990s the economy saw three new sectoral changes. First, two cellulose industries were located on the coast. Second, irrigated agriculture was introduced, contributing to the modernisation and expansion of Bahia's agriculture. Third, the state's savannah in Bahia's West started intense production of grain, as an expansion of the production already developed in the country's Centre-West region. These projects were not introduced by government's initiative, as were those during the 1960s and 1970s. However, investments in infrastructure were made later by the state government.

Table 6.2 presents the annual rate of change in real GDP for Brazil and Bahia. The figures show the interdependence of both economies, but a higher increase in that of Bahia after 1980, when the effects of the petrochemical industries became more visible. Although affected by the country's economic instability, Bahia made significant improvements in the 1980s and could consolidate the changes in its productive basis. These changes were responsible for the increase from 4.9% to 5.3% of Bahia's participation in the country's GDP. Bahia's GDP grew 27.9% in the decade, the second best result among the six biggest

economies¹⁰. The decrease of the more developed states' contribution to the country's GDP should be credited to an economic model strongly dependent upon the domestic market, which was the basis of the ISI.

Table 6.2 Annual Rate of Change in Real GDP, Brazil and Bahia, 1980-1991 (Percentages)

Year	Brazil	Bahia
1980	9.2	11.1
1981	-4.5	1.0
1982	0.5	5.5
1983	-3.5	1.4
1984	5.3	1.8
1985	7.9	9.3
1986	7.6	6.3
1987	3.6	-4.5
1988	-0.1	3.1
1989	3.3	3.3
1990	-4.4	-2.2
1991	0.9	-2.4

Sources: IBGE (1992:1026) and CEI (1992a: 51).

The good results of the Bahian economy, especially after the recession which mainly reached the South-East, should be credited to the move made by the petrochemical industries to change their exports from the domestic to the international market. Lately, however, there has been a tendency towards decreasing the export of manufactured and increasing the export of semi-manufactured products, derived from the agro-industry, cellulose and metallurgy (Gottschall, 1991: 82). The reason is that the petrochemical industries were, in the past, heavily subsidised by the federal government. The restructuring of the petrochemical industries made 30% of their workforce redundant, 5% more than the national average for the chemical industries (Teixeira, 1993: 107), affecting state and local economies as well as their finances.

If the Bahia economy has had a good performance in the last two decades, the same could not be said of its population, as most of the social indicators show. The type of industry set up, capital-intensive, is partially responsible for this, because it does not create enough jobs. Similarly to the rest of the country Bahia has registered an increase in the concentration of income in the last decade. Income per capita decreased by 0.7% in 1992 (CEI, 1992b: 15). Inflation, recession and the political impossibility of tackling the country's unequal income

¹⁰ Despite this increase, the gap among states is large, as mentioned above. The value of Bahia's industrial production in 1980 was equivalent to the third industrial municipality in São Paulo (Paz, 1984).

distribution are a Brazilian characteristic, which especially affects the poor. In Bahia the 20% richest control 69.5% of the income, while the 20% poorest attain only 2.8%. While GDP grew by about 28% in the decade, in 1990 the real per capita income of the 20% richest was \$12,170 and that of the 20% poorest was \$490, increasing income concentration by 24.8% (CEI, 1992b: 16). Despite registering a surplus in the state's GDP in nine out of twelve years, as shown in Table 6.2, GDP per capita was negative in ten out of the thirteen years between 1980 and 1993 (SUDENE, 1994).

An HDI - Human Development Index for 1970-88 showed that Bahia's HDI was estimated at 0.658, whereas the country's was 0.794. Bahia's population had a per capita GDP of purchasing power of \$2,358, while Brazil's was \$4,307. Bahia's per capita GDP was \$1,226 and the country's was \$2,241 (Albuquerque, 1993: 41). Bahia is the state with the highest number of needy people. A survey by IPEA showed that out of 32 million Brazilians whose income was only enough for a daily diet according to the guideline established by the FAO - Food and Agricultural Organisation, 12.4% of them live in Bahia, followed by Minas Gerais with 11%, and Ceará with 9.6% (Filgueiras, 1994: 12). Bahia also has Brazil's highest rate of illiteracy, despite some improvement during the last decade. In 1981 42.6% of Bahia's population of 15 years and over were illiterate. In 1989 the rate had decreased to 32.3% (CEI, 1991b: 43).

There was a significant reduction in mortality in Brazil after the 1940s. Average life expectancy is now around sixty-eight years, but there are differences as great as twenty years between the life expectancy of high-income groups in the South and low-income groups in the North-East. In Bahia life expectancy was around fifty-eight years in 1980 and sixty-three years in 1990 (CEI, 1991b: 50). A decline in infant mortality is behind this significant rise in life expectancy. Although this decline has been taking place over all regions, it has been relatively slower in the North-East and in Bahia. Infant mortality was still as high as 95.97 per 1,000 in 1980 in Bahia (CEI, 1991b: 50). Diseases related to the lack of sewerage such as hepatitis, typhoid and leptospirosis have been occurring at high levels during the last decade (CEI, 1992b). In 1989 only 38.7% of the state's households had sewerage, as opposed to Brazil's average of 47.3% and the South-East's 91% (IBGE, 1992: 455) ¹¹.

¹¹ Sewerage was provided under a financial scheme of the federal government. Only the South-East was contemplated, with the other regions lagging behind. In 1989 the South had 39.1% of its households with sewerage and the percentage in the North was striking: 8.4% (IBGE, 1992: 455).

To sum up, in Bahia good economic indicators did not necessarily correspond to an improvement in the population's quality of life. The way the economy is structured, the pattern of distribution of wealth and income, the type of technology and industry, among other factors, make a straightforward correlation between economic growth and the distribution of its gains to segments of the population who were the worst-off groups before economic growth impossible. Apart from these reasons there are limitations at the state level on adopting policies of income distribution and of reducing unemployment and poverty, if there are no national policies in that direction. This feature is not peculiarly Brazilian. There is evidence showing that economic growth under capitalism experienced in poor countries had disappointingly little effect on the standards of living of the poor (IDB, 1993: 14). The Bahian case not only proves this assumption but adds a striking aspect. Bahia's economic growth was achieved in a period of redemocratisation and financial decentralisation. It should not be forgotten that redemocratisation and financial decentralisation had been commended by politicians to the people as the only way to promote a better distribution of economic gains, as seen in Chapters 3 and 4. On the other hand, good economic performance and financial decentralisation influence the state's public finances. Therefore, there are several policies that can be regionally addressed to improve the living conditions of the poor. Education and health, and in Bahia, sanitation, are examples of the above mentioned policies. The political system, however, found a different way to address social inequality and to accommodate the demands of the poor.

6.2.1 The Government's Response to Social Pressures

How is the political system facing the pressures coming from its poor constituents? The strategy is shown in Table 6.3. The figures on governmental activities are a clear sign that the government has adopted a policy of increasing the number of public employees as a way to distribute the gains of economic growth. As the state government holds the biggest bureaucracy in the state, the strategy of accommodating the demands of the poor through the provision of jobs is basically pushed by the governors. From the view point of employment opportunities, the creation of new jobs in the government has buffered the job losses which have occurred in other sectors of the economy. Given that few public positions were subjected to competitive examinations before the 1988 Constitution and that governments may create interim positions that can later be transformed into regular jobs, there is no doubt that patronage is the basis of the increase in the number of jobs in the government.

Table 6.3 Bahia: Distribution of Formal Jobs, 1980-1989 (Percentages)

Activity	80	81	82*	83	84	85	86*	87	88	89
Mineral										
Extraction	1.7	1.7	1.6	1.6	1.7	1.8	1.6	1.7	1.6	1.6
Manufacture										
Industry	15.2	13.7	13.5	13.1	12.5	12.2	12.8	12.4	12.2	12.5
Construction	11.6	11.6	10.9	7.0	7.1	6.6	6.1	5.5	5.9	5.9
Commerce	18.0	16.8	16.0	16.0	15.1	15.1	15.2	14.9	14.1	14.3
Services	31.9	31.5	32.0	31.6	31.4	31.1	31.0	31.4	31.2	31.3
Government	18.4	20.9	21.4	23.8	24.1	25.8	26.2	26.7	28.0	27.4
Others	3.2	3.8	4.6	6.9	8.1	7.4	7.1	7.4	6.9	7.0

Source: CEI (1992b: 37).

Note: (*) State elections.

Salary in the public service is very low, averaging \$300 a month in 1994¹², which means that public employment is mostly directed to low-income groups. Contrary to the trend in less developed states, Bahia's public servants are not a burden on the state's finances, as seen below. However, it does influence the Bahian political system. The creation of almost 80,000 jobs in the government between 1980 and 1986 (CEI, 1992b: 38) has two causes. First, it was the government's response to alleviating the living conditions of the poor. Second, the creation of new jobs under conditions of low payment and without competitive exams increased patron-client relationship and State clientelism in Bahia. This strategy was used by governors from different political groups, meaning that in Bahia State clientelism was not just a behaviour followed by certain groups but had a systematic dimension which shapes the state's politics.

6.3 Political Resources

The economic prosperity of the last decade has upgraded Bahia to a position of political importance in the national scene. However, the achievement of economic prosperity by a state located in Brazil's poorest region was the result of action by its political leaders. Given that Brazil is a federal State and that the military had relative control over the states' politics after 1964, national politics are important variables in understanding Bahia's political development (Souza, 1991a). Despite this interdependence, Bahia's politics have their own features. Administrative frameworks, political styles and alliances varied according to different political groups¹³. The decade saw four governors: ACM, from 1979 to 1982¹⁴; João Durval

¹² Figure provided by a government official, Ronaldo Sampaio.

¹³ For an analysis of administrative changes in the 1980s see Souza and Dutra (1991).

Cameiro, from 1983 to 1986; Waldir Pires, from 1987 to April 1989; and Nilo Coelho, from 1989 to 1990.

For the last two decades politics in Bahia has moved around ACM. Loved by many, hated by others, rewarded and betrayed by the electorate, ACM is at the centre of the state's political events. Even when his influence moved to the national scene, thanks to redemocratisation, and his alliances became more national and less provincial, he still polarises Bahian politics.

6.3.1 The Building of One Man's Dominance

Coming from an urban middle-class family without a political tradition or oligarchic ties, although his father had a short experience as a delegate to the 1937 Constituent Assembly, ACM started his political career in the UDN under the protection of the main leaders of that time. ACM's beginning was not usual for Bahian patterns, given that in the state even today family ties influence the access of political careers¹⁵. Juracy Magalhães supported ACM's rise to the state Legislature in the 1950s¹⁶. Later, ACM joined the group of Luiz Vianna Filho, then in ARENA, to whom he owed his first appointments to executive positions. First, as Salvador's mayor during Vianna's term as governor and later as Bahia's governor succeeding Vianna himself.

As mayor he took advantage of two things: his close ties with governor Vianna, from whom he gained not only political but also financial support, and by being the first mayor to introduce modern administrative and planning techniques into the obsolete structure of the town hall. For these reasons ACM is praised as the best mayor Salvador ever had. His mayoral administration changed the physical features of the old city, mainly by the opening of avenues in the valleys and the demolishing of shanty towns and of traditional but decayed sites. This approach to the city's heritage was condemned by some and praised by many, who saw it as 'modernisation' of the old town following Bahia's economic 'modernisation'.

In his first term as governor, from 1971 to 1974, ACM took advantage of the decision

¹⁴ ACM was three times governor. In the first two terms he was nominated by the military and indirectly elected by the state Legislature.

¹⁵ Ames (1994) found that in 1990 40% of the federal deputies from Bahia had a relative holding political office, as opposed to 5% in São Paulo. Oliveira (1988) found that among Bahia's delegation at the CNA 17% were political heirs. Most of those heirs had been in Congress for more than three legislatures.

¹⁶ Although ACM and Juracy Magalhães have the same surname, they are not related.

taken by the federal government to set up petrochemical industries in Camaçari. Most of the infrastructure was put in place by the state government under ACM's administration, which promoted a positive association between the petrochemical industries and ACM, given that these industries are the pride of Bahians. ACM carried on his task of 'modernising' Salvador by moving the government's vast state bureaucracy from the inner city to an area of urban expansion, the *Centro Administrativo da Bahia*. This project expanded the limits of the old city and created opportunities for developers and for the building industry, as well as strengthening the ties between ACM and this powerful sector of Bahia's business community.

ACM's successful trajectory during the military regime may be credited to the following factors. First, the ability to build up a pact with the oligarchies and with conservative political and economic groups. Second, while preserving these alliances ACM was slowly broadening his personal leadership and creating his own political group. Third, by controlling different groups, ACM became the main interlocutor of the military in the state.

The creation of his own group was a master-stroke. The strategy was to capture young and talented professionals, giving them major positions in the city and state administrations, thus creating a group of technocrats-turned-politicians. Those positions had always been occupied by members of Bahia's old traditional families. In doing so ACM not only brought enthusiasm and new ideas to the government but was also preparing his political group with talented professionals who knew that the opportunities for them to improve their positions in their careers were given to them by ACM. Loyalty was then the natural result of such a strategy. This movement was so broad that even young professionals who were affiliated to clandestine communist parties or had a left-wing ideology entered the public service to become what became known as the *esquerda carlista*, meaning the left arm of ACM. ACM himself is proud of this strategy, as recounted by his son, the federal deputy Luiz Eduardo Magalhães [12 May 1993]¹⁷. With a large group of technocrats-turned-politicians, ACM slowly took ground from his old allies, namely the group around Juracy Magalhães, another group around Luiz Vianna Filho, and other individual leaders such as Nilo Coelho, Prisco Viana and Ruy Bacelar. With such a strategy ACM became typical of the case where

¹⁷ Out of the eighteen federal deputies from Bahia who were in Congress in 1993 and belonged to ACM's group, five could be listed as technocrats-turned-politicians. Several others were in key positions either in the state or in the federal government by ACM's appointment. These appointments were made under the military regime but mainly during the Sarney and Collor administrations.

a creature becomes bigger than his creators. This characteristic of Bahian politics was different from that of the North-East in general, where alliances were (and still are) made with the old oligarchies, except in Ceará.

Part of the state bureaucracy was ready to welcome and support the technocrats introduced by ACM. The reason is that during the early 1960s Bahia's state apparatus experienced a wave of modernisation, developing a wide programme of training and professionalisation of the civil service, especially for planning, budget and the formation of officials to implement Bahia's industrial programme. The professionalisation of the civil service was conducted outside the state apparatus, by the Federal University of Bahia. Later the Bahian model was copied by many of the north-eastern states. The goals were similar to attempts made earlier by the federal government to professionalise its civil service, but the methods were not ¹⁸. Unlike the federal experience, the Bahia experience was not intended to cover the entire state apparatus. It insulated from patronage a segment of the bureaucracy in planning activities, but left those in charge of social services as a reservoir for patronage and personal favours. The professionalisation programme was not designed to be implemented by the traditional bureaucracy. Instead, several public enterprises were granted relative autonomy to perform the same tasks performed by traditional offices. These enterprises became known as 'islands of efficiency'. Their staff were hired on a merit basis and were much better paid than their counterparts in the traditional bureaucracy. Also unlike the experience of the federal government, there was no major struggle among agencies for political influence, given that each model was free to enjoy the advantages of patronage or meritocracy in managing their missions.

The third reason for ACM's successful trajectory was his ability to manage the support of the hegemonic groups of the military regime, who guaranteed his two appointments as governor as well as abundant federal revenues which he used to carry on the projects of 'modernising' and to industrialise Bahia. According to senator Jutahy Magalhães, now one of his foes ¹⁹, ACM would do anything to please the military and the powerful, which was not difficult given that power was concentrated in the hands of two or three persons [7 May

¹⁸ The federal experience has been widely analysed. See Daland (1963) and Geddes (1990).

¹⁹ Jutahy Magalhães is Juracy's son. During the military regime, Jutahy Magalhães fought against ACM's hegemony, although both belonged to the same party, the ARENA. He is now affiliated to the PSDB and his son Jutahy Magalhães Junior stood for Bahia's governorship in the 1994 election as the PSDB candidate.

1993].

ACM's support from and for the military never prevented him from taking risks. ACM himself recounted the times when he confronted the military over attending Kubitscheck's funeral, allowing an annual meeting of the banned students' leftist organisation, UNE - *União Nacional dos Estudantes*, and signing a contract with a company owned by a well-known leftist, Rubens Paiva, who was later killed in prison (quoted from *Carta Capital*, 1994).

Ideologically, ACM defines himself as previously belonging to the centre of the political spectrum. 'Now', he said, 'these labels do not make any sense. I am a politician synchronised to people's will and interests' (quoted from *Carta Capital*, 1994). Whatever his ideology, ACM is a pragmatic politician and one not afraid to take risks, either before or after the military regime came to an end. He became an important articulator of the transition. He was one of the few politicians to support Sarney throughout his term as President. He became Collor's lonely supporter after Collor's corruption scandals became public. Nevertheless, ACM was well rewarded during these events.

However, ACM's manipulation of the old political leaders was about to suffer a first reaction. He was defeated in the appointment of his successor for Bahia's governorship for the term starting in 1975. Part of his party, the ARENA, manoeuvred for the nomination of Roberto Santos as a response to ACM's power. Santos was an academic and former dean of the Federal University of Bahia. ACM never forgave Santos. The result was that since his term as governor Santos has continued to pursue a political career but had never succeeded in winning another election until 1994, when he finally made his way into Congress.

During Santos's term ACM's group was expelled from power. The President of the Republic was Ernesto Geisel. The military group in power left ACM without any formal position for eight months. Finally they appointed him president of ELETROBRAS, the state-owned hydro-electricity company. However, the ELETROBRAS headquarters was not in Brasília but in Rio; therefore, ACM was left away from the core of power. In talking about that period, Senator Jutahy Magalhães recalled that when he was putting pressure on the military against ACM, who was campaigning to become a minister, he heard from General Golbery do Couto e Silva that the military did not want ACM in Brasília. Golbery said the military would give ACM only 'the candy of the state' [7 May 1993], meaning that ACM's power was to be kept within the state's boundaries. Keeping ACM limited to regional politics was the way used by the military to constrain a politician they felt they could not trust. This

lack of trust was not on ideological grounds but on ACM's ability to dismantle political groups to expand his own power. This ability could have been a threat to the restricted nucleus of military command and to the regime's balance of power.

ACM returned to the state government in 1979. His second term was marked by the provision of electricity to the West, then a region without any important economic activity. The biggest test of ACM's leadership was in the following state elections, the first to be based on the popular vote. For the first time ACM's leadership was judged by the electorate and not just by a restricted group of military. He appointed as his successor one of the technocrats-turned-politicians, the then president of Bahia's state commercial bank, Cleriston Andrade. Andrade was unknown to the electorate and had never run for an election. Andrade, however, died in a helicopter accident forty-five days before the election was due. Like any autocrat²⁰, ACM did not have (and still does not have) a natural successor or anyone known by the electorate who could be identified as such. He then appointed João Durval Carneiro, former mayor of Feira de Santana, federal deputy and ACM's Secretary for Sanitation and Hydro Resources. Carneiro was known only in his municipality and had no popular or charismatic appeal. Carneiro won with 38.7% of the votes. His competitor Roberto Santos attained 24.6% of the electorate. Carneiro's victory had to be credited to ACM. When questioned by a journalist how he managed to have an unknown candidate elected in such a short period of time ACM replied with one of his oft-quoted phrases: 'I win elections with a bag of money in one hand and a whip in another'.

The Carneiro administration was a fiasco, both politically and for the state's finances. He spent his term trying to remove ACM's influence and to build up his own group; he failed. ACM had appointed most of the heads of key positions and Carneiro was left with less important posts in the administration. The struggle between these two groups was developed in the shadows, but it kept the government paralysed for its entire term. In trying to build up his own group Carneiro used the state apparatus for clientelistic purposes in ways not used in recent years. Political appointments were made to the 'islands of efficiency' on the basis of clientelism. Carneiro's clients competed with the technocrats for the control of programmes,

²⁰ By autocrat a leader who holds all power for himself and imposes his will on his followers is meant. Such a leader centralises decisions which are not channelled through institutions such as political parties. Despite presenting similar features to those found in the Weberian concept of patrimonialism, ACM's dominance was not legitimised by tradition.

contributing further to paralysing the administration. Carneiro ended his term surrounded by accusations of corruption, which have never been investigated. Carneiro's disastrous administration was the first example to generations of Bahians of a popular elected government. ACM recognised that he had made a mistake in choosing Carneiro. He told a magazine that he elected a lamppost, referring both to Carneiro's paralysis as well as to his height (quoted from *Playboy*, 1993²¹). Later Carneiro became ACM's opponent.

From his followers ACM requires complete loyalty but knows how to reward them, while being implacable against opponents. Despite saying that he does not hate those who have 'betrayed' him (quoted from *Playboy*, 1993) they are either left in a secondary political position, as, for instance, Roberto Santos and Carneiro, or are forced to leave politics, e.g. Mário Kértész, one of ACM's favourite technocrats-turned-politician appointed by ACM as Salvador's mayor. President Sarney admitted he never wanted ACM as a foe (quoted from *Playboy*, 1993). The federal deputy João Almeida said that ACM uses 'his power without any ethics or morals and that he knows the weaknesses and the values of those who count' [10 May 1993]. Another opponent, the federal deputy Vieira Lima, accused ACM of 'anti-democratic methods, such as lies, slanders, plots and betrayal even of those who are loyal to him' [7 May 1993]. Senator Magalhães stated:

ACM does politics only with those who say 'amen'. The others are treated as personal enemies not adversaries. ACM's style is violent: he attacks his foes in their private lives. To confront him you have to have nothing to hide or to fear, because even if you don't have anything against you, he creates it [7 May 1993].

The need for complete loyalty is recognised even by ACM's followers. The federal deputy Aleluia stated that Bahian politics are poor and patronising because you cannot debate issues about the state with politicians who are not ACM's allies [20 May 1993]. ACM himself assumes that the only loyalty he recognises is towards himself. In his report to the state Legislature in March 1994 about his four-year term, he thanked the state deputies for their support but mentioned he would forgive those who, 'with a bitter heart and driven by the gall of life, lied and detracted only for the sake of being faithful to themselves' (Governo da Bahia, 1994: 26).

6.3.2 Bahia in the Transition from Military Rule

Bahia's role in the transition was twofold. One was through the participation of the

²¹ The Brazilian version of *Playboy* magazine has a tradition of interviewing public figures.

state's delegation at the CNA. The other was in the struggle for power within the Democratic Alliance. Bahia's delegation at the CNA was described as progressive (Coelho and Oliveira, 1989). Some of its members gave outstanding participation, either because of their unexpected vote in favour of leftist demands, such as Senator Magalhães, or because they became party leaders. The latter was the case of José Lourenço, the PFL's polemical leader because of his attacks on the State and his role in defending Sarney's demands. In an opposite direction was Haroldo Lima, national leader of the PC do B, the most radical and coherent party at the CNA. The delegation was cut across by ideological polarisation between a left and a right-wing orientation, both standing out as coherent blocs, as Ames's (1995) statistical model suggested.

The struggle within the Democratic Alliance was fought on two fronts. One front was led by ACM, then in the PDS, and another by the PMDB and other opposition parties, except the PT. The main figure of the group led by the PMDB was Waldir Pires. Pires was Bahia's main leader in exile and he had been the Attorney General of the Republic during Goulart's government. In 1962 he was defeated for Bahia's governorship. He was Bahia's most famous refugee. The others were academics, terrorists and some politicians, all without popular visibility. Pires's return from Paris on the wave of the amnesty transformed him into a political hero, the only one able to challenge ACM's domination in the state.

ACM, however, now free from the military's control, began to eye the national political scene. He actively participated in the transition, first in the shadows and later with greater visibility. With the electoral reform of 1979, which reintroduced the multiparty system and abolished the two 'official' political parties, ACM maintained his affiliation to the party still faithful to the military, the PDS. ACM endorsed Andreazza's candidacy against that of Paulo Maluf. ACM, however, had foreseen Neves's victory in the Electoral College, as he himself recognises (*Carta Capital*, 1994). He then started to look at an alliance with Neves. Here again he planned a master-stroke by putting on a show broadcast by TV *Globo* accusing Maluf of corruption. *Globo's* support meant that ACM's behaviour had the blessing of the powerful Roberto Marinho, *Globo's* owner and one of Brazil's most important political actors. The episode was motivated by accusations raised by the then Minister of the Air Force, Délio Jardim de Mattos, against ACM on the grounds that, in supporting Neves, ACM had betrayed the principles of the '1964 Revolution'. ACM replied that traitors were those who were supporting the candidacy of the corrupt Maluf. According to Senator Jutahy Magalhães [7

May 1993] ACM was ensuring his participation in the new regime even before Andreazza's defeat. ACM was Neves's main interlocutor to ensure the presidential election would be indirect and not popular, as ACM himself recounted (*Carta Capital*, 1994) ²². ACM's attitude had a significance beyond his personal intentions. It symbolised that those who were part of the military pact were ready to leave politics based on the military headquarters and to play the game of a more open and competitive politics, but not by playing a minor role.

In Bahia opposition to the military regime was weak and lacked a clear ideological alignment. Some groups supported the military, for instance the entrepreneurs, who, given Bahia's late economic development, were dependent upon federal subsidies and policies. The politicians in the opposition were mainly those the military did not want in their alliances. Although minor leaders, they were important because they stayed in opposition to fulfil the military's strategy of preserving reliable opponents. In the mid-1970s, however, a reaction started against the lack of leftist ideology and against the compromising politics played by Bahia's MDB, a party to which those minor leaders were affiliated ²³. This reaction came from a group of youngsters affiliated to different branches of the then illegal Communist Party who had been active in secondary-school and in college politics. They started to join the MDB ²⁴ because it was the only party available, and slowly isolated the old leaders and paved the way for the arrival of Pires. These youngsters were elected as councillors and later as state deputies. They only reached Congress during the CNA, which explains the conjunctural ideological polarisation in the CNA's Bahian delegation. The work of these young politicians was focused on Pires, because of his past, his popularity and his moral authority. High expectations were placed on Pires anticipating that he would make the left a real alternative power and would challenge ACM's hegemony in the state.

At first Pires's arrival did not bring the results expected by the opposition. He ran for the Senate in 1982 but was defeated by ACM's group. Later, with the *Diretas-Já* and with his involvement in the Democratic Alliance, Pires expanded his leadership. An alliance between the PMDB and the PDS dissidents unhappy with ACM's control over the political scene was

²² As has now become public, Neves acted behind the scenes for an indirect presidential election, although publicly supporting the *Diretas-Já* movement.

²³ With the 1979 electoral reform, the MDB changed its name to PMDB.

²⁴ See Kinzo (1988) for the MDB's trajectory at the national level.

then made possible. Jutahy Magalhães, Luiz Vianna Filho, Roberto Santos, Ruy Bacelar, Prisco Viana and Nilo Coelho, all PDS dissidents, gathered around Pires to build a front to challenge ACM within the state. Pires's leadership promoted two things. First, a polarisation of politicians to him or to ACM. It was the first time since ACM's ascension that he had been challenged by another politician of the same stature. Second, Pires did not want to share power with his young supporters. Like ACM, he acts as an autocrat and a centraliser, though his discourse is apparently against this.

Although Pires's appeal for centralised power is recognised only by Mousinho [29 June 1993] among the interviewees, the similarity between the methods of these two figures shows another aspect of Bahia's politics: a strong conflict of generations. Most politicians interviewed who are around 40 years old mentioned the conflict. Aleluia, ACM's follower, stated that good political prospects rely on a new generation of politicians, who represent either liberal or labour interests, without being either 'physiological' or corporatist [20 May 1993]. Wagner, a federal deputy from the PT, has said he likes to joke by saying that Bahian politics is going to change only when people between 40 and 50 years old start to take over the government. Only then may the polarisation to either Pires or ACM be broken [13 May 1993]. Vieira Lima, from the PMDB, reckoned that there is a new generation of politicians, some of whom are the sons of old politicians, like himself, but this new generation understands that there is 'no more room for oligarchies and their practices, for the old discourse, the old *coronelista* way of sustaining electoral bailiwicks and the old vision that buying votes is the way to win elections' [7 May 1993]. Claudia Mousinho talked about a 'war of generations which killed the political mobility of those youngsters who remained in the country fighting against the dictatorship during their college years. They were suffocated by Pires' [29 June 1993].

Bahia's participation in the transition was therefore marked by polarisation of those for ACM and those who were against him. ACM, however, was mainly responsible for the 73% of votes Bahia gave to Neves in the Electoral College, given that he controlled most of the state's votes. Neves rewarded that support by giving Bahia third place in the appointment of ministries, one more than Pernambuco, where Neves's victory had been bigger in proportional terms. Because Neves appointed ACM as his Minister of Communications and Pires as his Minister of Social Security, an intermediate branch of the PMDB led by Roberto Santos managed to name Carlos Sant'Anna as the Minister of Health. Why did the Bahian

PMDB let ACM have such a powerful ministry? Almeida's [10 May 1993] view is that the PMDB never dreamed that ACM would hold a large share of power because Neves would have the ability to control him. Pires [18 May 1993] relied on Neves's 'democratic tradition and experience in dealing with conflicts'. With Neves's death, Sarney was the manager of this delicate regional arrangement. He favoured ACM in that balance of power, and ACM was a faithful partner, supporting Sarney throughout his mandate, despite later endorsing Collor's candidacy behind the scenes²⁵.

6.3.3 The Role of Societal Groups in Bahia's Politics

Politics in Bahia is played basically between its politicians and less by other societal groups. Social movements are still weak, with a few localised exceptions²⁶. Urban trade unions are few, especially when compared to other states with similar populations, such as Rio de Janeiro and Rio Grande do Sul, in part because of Bahia's capital-intensive industry. In 1987 Bahia had 189 urban trade unions, comprised of employers, employees and autonomous professionals, whereas Rio Grande do Sul had 572 (IBGE, 1987: 29). 'Politically, labour leaders still think that one should be grateful to have a job', according to Wagner [13 May 1993]. However, Bahia has the third highest number of rural trade unions, both for employers and employees (IBGE, 1987: 29). On the other hand, employer federations are so subservient to ACM that the heads of the four main federations sent a letter to *Folha de São Paulo* defending ACM from an editorial published by the newspaper (*Folha de São Paulo*, 1992). The newspaper replied that to cringe before elected officials should not be the occupation of institutions of the civil society (*Folha de São Paulo*, 1992).

Two reasons might explain the weakness of civil society in Bahia and consequently the dominance of a leader such as ACM. One is the existence of clientelism²⁷. Patronage

²⁵ Sarney was Collor's favourite target during the presidential campaign.

²⁶ Movements based more closely on collective action are still scant in Bahia but some can be listed, especially in the interior. These social movements have even found unusual allies. This is the case recounted by Lehmann (1990: 209) about a World Bank loan in 1985 to finance the dam at Itaparica, in Bahia's interior. Protests from the farmers whose land was to be flooded and from international humanitarian organisations reached the bank and a \$300 million resettlement scheme was approved.

²⁷ Maybe the most important event which started to break the influence of clientelism in the country was the introduction in 1945 of the secret ballot and of the stimulus for the creation of opposition parties by the Electoral Code of 1932. These points are constantly ignored by those who study clientelism in Brazil, with the exception of Pang (1979: 233); by those who analyse the Brazilian political system, with the exception of Lamounier (1993: 126); and by politicians, with the exception of Josaphat Marinho [23 April 1993]. Another important blow against patronage was the 1988 Constitution mandate which granted life tenure to civil servants of the three levels of

tends to weaken civil society and to decrease power competition. In Bahia different political groups took advantage of this weakness. Despite the existence of clientelism, the interviewees did not consider clientelism to be the main weakness of the political system in Bahia, as opposed to ACM's control over the media, a point to be discussed in the following section ²⁸. Almeida [10 May 1993], from the PMDB, stressed that

since the 1986 elections no one has control of votes as in the past, when a cabo eleitoral [a mobiliser of votes], could ensure five, ten or twelve thousand votes for a candidate in a constituency. ACM used to give the name of a candidate to the mayor or to the cabo eleitoral one month before the election was due and sometimes they did not even know the candidate. This does not happen any more, which shows that the electorate is more independent.

Aleluia [20 May 1993], from the PFL, said the demands of the middle class of the interior are no longer for jobs but for collective action such as infrastructure. Vieira Lima [7 May 1993], from the PMDB, declared:

in the last campaigns we have seen that people realised that they are exploited in their ignorance, misery and hungry and they want a political practice which is not based on clientelism.

The most striking comment came from ACM's son, Luiz Eduardo Magalhães:

The ACM group is convinced that society want good administrators and the fulfilment of macro-demands. People want to feel that what the government is doing for them is good for many people. They want an end to politics based on personal demands and clientelism [12 May 1993].

Luiz Eduardo's words show that in the view of ACM's group clientelism is being replaced by 'efficiency'. The 'efficiency' image is based on ACM's reputation as a good administrator. The expression 'efficient administrator' was used to label ACM's government by (i) most of the interviewees who are ACM's faithful followers or opponents and (ii) by other politicians who belong to ACM's party or alliance but follow a more independent line, such as Josaphat Marinho [23 April 1993] and José Lourenço [10 May 1993] ²⁹. Patronage,

government after five working-years and the requirement for public competition to enter the civil service. Although these constitutional mandates are being accused of being responsible for the governments' administrative problems, they did represent a further blow against clientelism.

²⁸ Most empirical studies on clientelism see the phenomenon from below, either from the client's point of view or from the local patron's. This study tried to see it from the viewpoint of a group of politicians who are in Congress. Those politicians (i) benefit from clientelism; (ii) are penalised by it or (iii) have part of their constituencies under the influence of patronage.

²⁹ The only interviewee who said that the control of the *cabos eleitorais* in the interior is still the same as in the past was Wagner, from the PT. Given the PT's grass roots, its politicians are more likely to suffer from the still existing forms of clientelism than those from more 'flexible' parties such as the PMDB and the PFL. Despite this,

however, still plays a role in Bahia's politics, especially in local elections and in the state Legislature, but the state's delegation in Congress seems to be less affected by it.

The other reason for the weakness of Bahia's civil society is the peculiar type of entrepreneurship which exists in Bahia. Bahia's entrepreneurs can be grouped into four types. First, there are those who came from traditional and wealthy families and who, since the last century, have developed a niche in private commercial banking, as with two families, Calmon de Sá and Mariani³⁰. The second group is made up of newcomers whose main business is the construction industry such as Odebrecht and OAS, the latter owned by ACM's son-in-law. They have also diversified their interests beyond the construction business. They, especially Odebrecht, have been involved in almost every corruption scandal in the last two years. Like the previous group, these conglomerates became national and international; therefore, their decisions and ties do not depend upon regional politicians. The third type of entrepreneur is from the petrochemical industries. The federal government, and foreign and domestic capital, the latter mainly from São Paulo, have equal shares in the ownership of those companies. The companies' decisions are also taken outside the state. The fourth type is from the interior: raisers of cattle or owners of cocoa, cotton and coffee plantations. These people tend to be involved in local rather than in regional politics, their field of influence and interest being restricted to their municipality. Few run for state executive positions, like Nilo Coelho, the state's major cattle rancher. These entrepreneurs do not operate in the entire state; their pleas are localised and more dependent upon federal credit.

However, these four types of entrepreneurs have not relinquished ACM's protection.

An explanation is given by Vieira Lima:

Intelligent people as Calmon de Sá are dominated by ACM and fear him. So are all the business leaders. Why? Because of ACM's control over everything, especially the media and the Judiciary. Therefore, the entrepreneurs, who are sensitive to any change which might affect their profits, do not want to fight such a man [7 May 1993].

These four types of entrepreneurs support the assumption that unlike São Paulo Bahia

Wagner recognised that improvements have been made, with the PT's ascension to mayoral positions in Bahia's interior.

³⁰ The Mariani family sold their bank in the 1970s to a financial group in São Paulo and moved their activities to the petrochemical industry.

has a faceless business community³¹. Their federations are generally headed by what are left of the middle-sized entrepreneurs whose companies do not have ties outside the state. Therefore, state politics is left to the politicians alone without the entrepreneurs' mediation. This feature leaves plenty of room for the development of a leader like ACM.

The other way ACM uses to control the state's political and economic life is through the Judiciary. As mentioned above, the states in Brazil have their own Judiciary and the members of each state's highest court, the State Justice Tribunal, are appointed by the governor and are granted life tenure. Because ACM had governed the state three times, he has had many opportunities to appoint judges loyal to him.

Another feature of Bahia's societal development is the weakness of the state's branch of the Workers' Party, the PT. The PT has been seen as a party which successfully challenges the state-centric and élite-driven politics of Brazil (Keck, 1992). However, the PT has found it hard to take-off in the North-East and in Bahia. According to one of its federal deputies, Wagner, the party in Bahia is different from that in São Paulo because 70% of the party's delegates come from the interior [13 May 1993]. This means that in Bahia what drives the party is not a strong urban working-class, as in São Paulo, but a movement based on landless peasants. Wagner has assessed that the PT finds it difficult to grow in Bahia because of the state's roots in *coronelismo*, messianism and in politics oriented around ACM [13 May 1993]. Despite Wagner's pessimistic view Bahia is the north-eastern state where the PT is strongest. In 1993 it had four state and two federal deputies and governed two municipalities. The growth of the PT in a state like Bahia is a signal that the hegemony of the élite-driven and autocrat politics has fissures. The growing presence of the PT does not mean a breakdown in the entrenched patterns of dominance of the state's political system is about to occur, but that room for more competitive politics exists in Bahia.

While the state's politics and society have gone in the direction analysed above, its main leader was moving to the national scene and expanding his alliances beyond the state's borders.

³¹ The political role of Brazilian industrialists in the transition has been discussed by Cardoso (1986). A case study of the involvement of São Paulo's industrialists in politics was made by Payne (1994). However, studies about the financial and agricultural sectors are still lacking, as is knowledge of the role of entrepreneurs outside São Paulo.

6.3.4 The 'Deprovincialisation' of a Politician

After Sarney's mid-term ACM became his main political articulator. Once in the federal government, ACM launched another master-stroke which qualitatively changed his domination. Despite preserving the technocrats-turned-politicians strategy, ACM expanded his dominion to the mass communication. He set himself up to control the media in his home state and expanded his power beyond Bahia's borders through the concession of television and radio licences according to his and Sarney's interests³². The alliance which made ACM's 'deprovincialisation' and his access to mass communication possible was made with Roberto Marinho, with whom ACM had previous ties. However, as Minister of Communications ACM had the chance to do Marinho several favours. One was known as the NEC scandal, after ACM's decision to cancel contracts between TELEBRAS, the state-owned telecommunications company, and NEC. NEC partner, Mário Garnero, was forced to sell his shares to Marinho. Congress launched an inquiry which cleared ACM. During ACM's hearing he performed one of his usual shows, full of language offensive towards those who questioned him (*Folha de São Paulo*, 1992)³³. Marinho returned ACM's favour by supporting ACM's quest to broadcast *Globo's* programmes, which had been early granted to TV *Aratu*, a competitor of ACM's TV *Bahia*³⁴. As 80% of the Brazilian audience belongs to *Globo*, ACM was eager to be its regional representative. With Marinho's support, TV *Bahia* won in court the right to broadcast *Globo's* programmes in a trial considered suspicious by his opponents. In 1994, ACM's family and friends had control of six television channels in the state, all *Globo's* broadcasters.

In building up his own telecommunications empire³⁵, ACM was able to change his type of domination. Instead of exerting control in a clientelist way, ACM now has a direct relationship with the electorate through the media and not just through the local leaders of the interior. Patron-client relations in Brazil have been seen as mediated by the state (Bursztyn,

³² It was said Sarney distributed through ACM more than 1,000 licences (*Veja*, 1994:24). These licences were worth close to \$100 million (Fleisher, 1990: 251).

³³ ACM is known for his hot-temper. His emotional explosions are followed by offensive language and by making his opponents' private lives public.

³⁴ Legally, the TV *Bahia* belongs to ACM's children.

³⁵ According to his foes, ACM controls a network of ninety radio and TV channels. These channels belong either to his family or to his protégés (*Folha de São Paulo*, 1994) ACM argued that in 70% of the cases only one company applied for the license (quoted from *Folha de São Paulo*, 1994)

1985), by popular religions (Henfrey, 1981) or by ethnological processes (Huntchinson, 1966). The Bahian case shows that mass communication has become another source of mediation between politicians and the voters. ACM's control over the media is considered by many as a means to limit the growth of the opposition, as stressed by Wagner [13 May 1993], Almeida [10 May 1993], and Vieira Lima [7 May 1993]. In the words of Senator Magalhães,

the Bahian media criticise everything and everyone who is against ACM but when they talk about the ACM administration the state becomes an island of fantasy, where everything is perfect, even inflation does not affect Bahia because of the Cesta do Povo³⁶. Therefore, the population gets the news mediated by political and economic interests [7 May 1993].

Political control of the press is also strong in Bahia. In only one daily, *A Tarde*, are there disputes between different political groups. The other three are owned by ACM's children, by the ex-federal deputy Joaci Goes, and by Salvador's ex-mayor Kertész, both ACM's opponents. The same happens with the television channels. Apart from TV *Bahia*, there is TV *Aratu*, controlled by ex-governor Coelho, and TV *Itapoã*, owned by the federal deputy Pedro Irujo, sometimes ACM's foe and sometimes his ally. This situation confuses outside observers, given that the local news either presents different interpretations of the same facts or simply ignores a fact.

How can one understand ACM beyond his ability to polarise politicians? Apart from this characteristic is it possible to shed more light on a politician who has survived under different political regimes? As a journalist has said, ACM is, among the living, the clearest picture of the Brazilian power scene, resistant to all crises and to any regime (*Carta Capital*, 1994). The labels given to ACM by the interviewees might bring more confusion than clarification. Mousinho views ACM as the moderniser of the right [29 June 1993]; Wagner as a new *coronel* [13 May 1993]; Almeida, as the last *coronel* [10 May 1993]; Pinto, as a political oligarch [19 May 1993]; Vieira Lima, as a new oligarch [7 May 1993], but ACM's son, Luiz Eduardo, thinks he is the destroyer of the oligarchies [12 May 1993]. Are these labels sufficient to explain ACM? Did industrialisation, bureaucratisation and mass communication make no difference?

Whatever the label given to ACM, he is a politician of insight. He transformed to an advantage the fact that he did not belong to Bahia's traditional families. He uses with freedom

³⁶ The *Cesta do Povo* is a supermarket chain launched by ACM in poor residential areas to sell popular products at subsidised prices.

(or without limits or morals, according to his opponents) whatever and whoever is around him. From the oligarchies he learned to deal with 'parochial' politics. From economic modernisation he learned the power of communication in a mass society. Individually, he has great power. None of the surviving old oligarchies had ever enjoyed such power. He managed to build solid foundations and therefore attracted whatever was scattered. ACM knows the old ways as well as the new ones; he uses either depending on what he wants to accomplish. This is why most of the interviewees mentioned they did not think that the common words used in Bahia to label ACM's partisans, the *carlistas*, or opponents, the *anti-carlistas*, were correct because one could not extract any ideology from ACM's behaviour. This view is untrue. Like any politician ACM values power. He managed not only to survive but to increase his power with the change of regime. He benefitted from Brazil's slow transition, from the fragmentation of power caused by redemocratisation and by Brazil's version of Lijphart's (1984) consociational democracy. His ideas may sound contradictory and it may be difficult to extract a systematic doctrine from his attitudes, but he has built a programme of political action. The basis of this programme is efficiency. As Aleluia put it, the difference between ACM and the others is that ACM plays well while the others play badly [20 May 1993]. Playing in a society cut across by inequalities, ACM found the right vague words to address to the people through his communication network. The message is based on efficiency. Playing in the political environment, he does the job that others are afraid to do. He takes risks and is prepared to reward, to betray and to change, whenever the plot requires.

6.3.5 Bahia's Brief Experience of an 'Opposite' Government

While ACM was enjoying the freedom given by redemocratisation and the power given by Sarney, at home his candidate for the governorship, Josaphat Marinho, suffered the worst defeat in the country. Marinho, a former socialist, was supported both by ACM and Carneiro who were already on bad terms. Marinho ran against Pires, who articulated the support of every Bahian leader who rejected ACM's control. Pires won 55.5% of the votes, 1,5 million votes ahead of Marinho. The PMDB won both Senate seats and most of the congressional and the state legislature delegates, thus interrupting, but not cancelling, ACM's domination. In Congress the Pires ticket elected twenty-five parliamentarians to the CNA, against fourteen belonging to ACM's group. In the state legislature ACM had control of 40% of its members, while Pires's coalition counted for 58%.

What were the reasons behind such a dramatic change in the preferences of the

electorate? A combination of both domestic and national motivations can be found. First, the electorate saw Pires as a romantic figure who had suffered in exile and returned to his motherland under the banners of helping the poor and restoring morality to public affairs, so affected during Carneiro's term and so stressed during the transition. Second, Pires was the choice of those politicians who felt manipulated or betrayed by their creature. Pires was supported by such a range of politicians who included landowners such as Coelho and the maoist PC do B. This alliance brought the votes of a solid core of faithful supporters based on bailiwicks, such as the votes controlled by the Magalhães and the Vianna families. The Pires ticket was also endorsed by wealthy politicians, such as Coelho, Pedro Irujo and Joaci Goes. Third, Pires profited from 'hiring the best advertising agency in Bahia and his campaign touched people's emotions' [Vieira Lima, 7 May 1993]. For national motivation, Pires enjoyed the popularity of the *Cruzado* Plan and the population's honeymoon with democracy.

The broad alliance around Pires was justified on the grounds that the state was reproducing Neves's strategy to take over the government from the military. The alliance was commended as legitimate because it would eliminate the last representative of the dictatorship in Bahia, namely ACM. No one, except the PT, questioned this point. In choosing his partisans Pires proved to be more of a pragmatic than an ideological politician. Pires's running mate, the Senate candidates, plus his main allies were all faithful supporters of the military regime. They had moved from the PDS to the PFL but were forced to join the PMDB because ACM managed to hold control of the PFL. Coelho, Pires's running mate, is a landowner who owned at that time 70,000 head of cattle, 130,000 hectares of land and 100,000 votes in fifty municipalities in the *Sertão* area [*IstoÉ*, 1986]. For the Senate, the Pires alliance was with Jutahy Magalhães, whose family had had control over Bahian politics since the 1930s.

In an *ex-post* evaluation, Pires said:

I regretted the choice of such a broad alliance after I saw the dimension of my victory. However, nobody could foresee such a victory. We had only thirty-four municipalities against 343 controlled by the conservatives. It was disproportional and almost impossible to win an election [18 May 1993]³⁷.

Like Carneiro's, the Pires administration remains in the minds of Bahians as a failure. He also frustrated the high expectations around his government not only administratively, but

³⁷ Despite his alliances and the later development of his political career, which does not show any leftist commitment, Pires still talks about himself as a leftist politician as opposed to ACM's conservatism.

because he resigned after two years to become Guimarães's running mate in the 1989 presidential election³⁸. The Pires administration carried on the slow destruction of the 'islands of efficiency'. His reasons seemed different from Carneiro's. The idea was to cut down the relative autonomy and the privileges enjoyed by them, with the aim of making the public sector uniform. The result was equalisation from below, where one could not distinguish the clients from the technocrats nor could one distinguish priority programmes. This destruction was bemoaned by ACM's group, as mentioned by his son [12 May 1993]. Clientelism and corporatism occurred during the Pires administration, as he recognised, 'even among the left-wing, which did not have a clear notion of the accumulation of popular forces needed to build a democratic government and then fell under corporatist and clientelist pressures, such as those in education' [18 May 1993]. Pires, however, although rejecting clientelism, could not impede it. He explained his strategy of facing what he called the 'anti-democratic' methods of governing. The strategy was, in Pires own words,

not to allow the politically appointed positions in the state and in the municipalities to remain as the governor's personal nomination. It was necessary to avoid the idea of the governor as a chief. When you choose a person on these grounds, you strengthen a clientelistic relationship traditionally supported by the governor. I understood that my task was to change this relationship [18 May 1993].

Two methods were used by Pires to play the clientelist game, although he did not mention them during his interview. For the most important positions, Pires shared the administration with his main allies during the campaign. For the posts in the interior, mainly headteachers and police officials, all the political leaders of the municipality who had joined the Pires coalition got together under the coordination of a lecturer appointed by Pires to decide who was going to be nominated. Given Pires's large majority, which meant that ACM's supporters in the interior had switched to Pires, this was not an easy task and took more than a year to complete. A vacuum of power in the interior was the natural result of such a method. Dissatisfaction also occurred with the appointments, given the plurality of leaders who had always been on opposite sides. This is among the most important facts to explain (i) ACM's quick re-assumption of local constituencies and (ii) Pires's quick loss of support from the state Legislature, whose influence and ties come mainly from the interior.

Pires's unsuccessful government is explained by the interviewees. Wagner, who, as a

³⁸ Pires was not Lula da Silva's running mate, as mentioned by R. Schneider (1991: 356).

PT member did not join Pires's alliance, assessed that Pires lacked the political will to govern the state. The same reason was pointed out by ACM in explaining Pires's failure: 'they did not know how to use power, either to command or to administer. The result was that I returned to the governorship as a saviour' (quoted from *Carta Capital*, 1994). Among Pires's partisans, the reasons given for his failure varied. Almeida [10 May 1993] blamed the opposition's incapacity to manage such a great victory; Boaventura [13 May 1993] pointed to the impossibility of changing the state apparatus; Correia [18 May 1993] blamed the disintegration of the alliance, whose members struggled among themselves; Vieira Lima [7 May 1993] put the blame on Pires, who 'did not have the courage to manage the alliance; he was indecisive and dubious'; Mousinho [29 June 1993] said the Pires administration showed the left was not prepared to govern; one interviewee who asked not to be named said Pires was incompetent and lazy.

No one mentioned, however, the most likely explanation, which is the difficulties of governing and implementing policies when political forces in power are so fragmented and when high expectations come to the fore. These difficulties are the main distinction between a government run by one group, democratic or not, and a coalition of groups with different logic and goals, such as the Carneiro and Pires administrations. Therefore, Bahia's experience of two types of government, one under single command and two others with power-sharing between antagonistic logics shows that the fragmentation of power in the transition and during democratic consolidation affected the efficiency of both government and governability. This assumption can be applied to the national sphere and to other states.

A government able to build a coalition around specific goals does not necessarily have to be anti-democratic. There are examples in contemporary Brazil of state governments considered democratic, which have shown good policy results, at least in the eyes of their electorates, as in the last two terms in Ceará and in the last term in Paraná. In mid-1994 opinion polls showed that Ciro Gomes, Ceará's PSDB governor, ACM, Bahia's governor from the PFL, and Roberto Requião, Paraná's PMDB governor, were very positively evaluated by the electorate. The worst were Brizola, from the PDT, who is known for his control over his party, and Joaquim Francisco, Pernambuco's governor from the PFL (*Folha de São Paulo*, 1994). These evaluations show that to be efficient is not the privilege of right-wing, conservative, centralist or anti-democratic governors. In these three states their governors managed to build a coherent coalition, using either democratic or anti-democratic methods,

to end their terms with policy results approved by the electorate.

Pires's resignation to become Guimarães's running mate left the way open for Nilo Coelho. Coelho was surrounded by corruption scandals, especially of privileging his properties with public investments. Here a point about Bahia's politics should be stressed. Two governors left office after attacks on the way they used public resources for their own and their friends' benefit: Coelho and Carneiro. Both come from Bahia's *Sertão*, the state's most backward region, not only economically but also politically, where bailiwicks and 'pork barrel' still dominate the political system³⁹. Whenever the *Sertão* gets into power it is not by its own strength, given that Carneiro was elected with ACM's votes and Coelho became governor because of Pires's resignation. However, when political circumstances upgrade the *Sertão*'s leaders they break into the state apparatus and public finances with a voraciousness which symbolises the thirst of the *sertanejos*, the dwellers of the *Sertão*, a region historically affected by constant droughts. Also whenever the *sertanejos* govern, the group which opposes them is elected easily in the following election.

6.3.6 Bahia in the Democratic Consolidation

ACM returned to Bahia's government in 1991. His contender was Roberto Santos. The *anti-carlistas* were divided and ACM was victorious in the first-round of the election, with 30% of the votes⁴⁰. The polarisation between ACM and Pires was transposed to the Legislature. Pires was the highest voted federal deputy, with 147,689 votes, but ACM's son, Luiz Eduardo, was in second place, with 86,680 votes.

The fact that ACM attained 30% of the votes, the same total reached by Josaphat Marinho in 1986 and similar to that reached by Carneiro in 1982, shows that ACM's control over the electorate is limited to that figure. Two reasons make ACM's importance greater than the votes he can attract. First, ACM has a faithful core of supporters, especially in small towns, whereas in larger towns the political system tends to be more competitive. This assumption is sustained by ACM's historical setbacks in Salvador, combined with his

³⁹ The existence in the *Sertão* of these forms of political domination is sustained by the Coelho and Carneiro stories cited in the press.

⁴⁰ The 1990 election was the first election after the 1988 Constitution which introduced the rule that executive positions at the three levels of government should have two-round elections if no candidate met the absolute majority of the votes, including the blank and the null votes. In the case of the municipalities, the rule applies only to those with more than 200,000 voters. ACM's victory with 30% of the votes meant that the number of blank and null votes were high.

candidates' defeats in Bahia's most important cities in the 1992 local elections ⁴¹. These defeats can be partially explained by ACM's stand against Collor's impeachment, which happened during the local election campaign, but they also mean that there is room for other political forces. However, ACM's faithful supporters in the interior can switch to other candidates if they foresee an ACM defeat, as they did with Pires. This oscillation shows that pragmatism is the basis of the behaviour of political leaders in the interior. Political pragmatism in the interior means not only the local leaders' need for jobs and bailiwicks but also a disposition for change. The second reason that makes ACM's importance greater than his support by 30% of Bahian voters is because his leadership is not challenged by internal disputes among his group or the parties he controls ⁴².

In his third term as Bahia's governor ACM opened the way for upgrading Bahia's tourism beyond the borders of the country. He invested heavily in Salvador, mainly in restoring what he had left of the city's historical sites and in expanding its cultural equipment. In doing so ACM was motivated by two reasons. First, to create a new economic front for the state. Second, to gain the support of Salvador's electorate, which has traditionally voted against him. He ended his term with 75% of Bahians considering his administration was 'good and very good' (*IstoÉ*, 1994).

While governing Bahia, ACM did not despise the national scene. He kept a low profile during the 1989 presidential election, but in the shadows he supported Collor's candidature and ignored his party's candidate, Aureliano Chaves. Collor won in Bahia with the backing of ACM and Coelho. After one year of the Collor administration ACM was again on the national scene as a major star. He appointed several protégés to Collor's team, including three Ministers and the heads of several federal agencies. ACM's influence over Collor was nationally recognised and rewarded not only politically but also financially. It was reported that in February 1992 Bahia received grants from the federal government amounting to \$10 million, \$248 million were to be transferred in May and \$300 million were to be invested by

⁴¹ Mayors' candidates supported by ACM were defeated in Salvador, Camaçari, Lauro de Freitas and São Francisco do Conde, in the Salvador Metropolitan Area, and in many of the most important municipalities of the interior, such as Feira de Santana, Guanambi, Bom Jesus da Lapa, Itabuna and Barreiras.

⁴² In Bahia ACM controls every party considered as conservative, namely the PFL, PTB, PDC, PL, PDS and PST.

the federal government in the state's infrastructure (*Gazeta Mercantil*, 1992)⁴³. ACM's role was so crucial that Collor once mentioned that ACM had a Ph.D in politics.

ACM left Bahia's government in 1994 to run for the Senate, when two seats were available. He appointed for the second seat Waldeck Ornelas, a former technocrat-turned-politician. The candidate from the opposition was Pires, who had tried for the nomination of his party, now the PSDB, for governorship. The PSDB decided for Magalhães Junior since Pires's rejection by the electorate was three times bigger than Magalhães Junior's [*IstoÉ*, 1994). ACM easily won one seat, with 32.7% of the votes, therefore keeping his traditional ratio. He managed, however, to have Ornelas elected to the second seat. Pires was defeated in a competition surrounded by allegations of fraud, although ACM's group had been cleared by the Judiciary. ACM was also the first placed in Salvador but this victory did not mean that the *anti-carlista* city was down on its knees because only 23% of Salvador's electorate voted for him. ACM's victory in Salvador must be credited as being a reward for his heavy investments, for the weakness of the competitors and because of Pires's rejection. For governor ACM again appointed a technocrat-turned-politician, Paulo Souto. Like the others, Souto was unknown to the electorate. He won the position in the second-round. His competitor in the second-round was Carneiro and not, as expected, the PSDB's candidate Magalhães Junior. Again ACM showed his strength by transferring his share of 30% of the Bahians votes to an unknown technocrat-turned-politician.

At the national level ACM was the articulator of the PFL's support for Fernando Henrique Cardoso's presidential candidacy in the 1994 election. In doing so ACM killed two birds with one stone. With Cardoso's victory, ACM and the PFL were brought to power, although not to the Presidency. This position is familiar to ACM. At home ACM's support to Cardoso forced the PSDB's branch in the state to join the PT's candidature. As mentioned above, the PT is not strong in the state, which meant that by supporting the PT's presidential candidate Lula da Silva, Pires and Magalhães Junior did not gain much in electoral terms. On the other hand, with Cardoso's victory, the PSDB in Bahia might be kept at bay, given that they denied support to the party's candidate.

⁴³ When fieldwork research in Bahia was carried out there was no centralised record on negotiated grants, which made it impossible to check whether these figures were really transferred. However, ACM's support for Collor until the very end probably means that federal grants combined with appointments to political positions produced their alliance.

ACM's major victory, however, was in the election of the Congress members who belong to his group. In 1995 ACM took to Congress the North-East's second biggest delegation. Twenty-two out of thirty-eight federal deputies elected from Bahia, plus two senators, are members of ACM's group (*O Globo*, 1994). This delegation, who 'belongs' more to ACM than to the state, is bigger than those from nineteen states and than the delegation of ten political parties represented in Congress. This figure means that ACM's power over Congress and the federal Executive is individually vaster than any other politician or governor and bigger than that of many parties. In addition, Luiz Eduardo, ACM's son, was elected President of the Chamber of Deputies for the 1995-1997 term and Sarney became the Senate's President.

The events reported in this section show the upgrading of a regional politician to the national sphere after the political opening. They show that in Bahia political pragmatism is an important variable. Instead of a left-right axis the ideology in Bahia stands more for an inefficiency-efficiency axis, the former associated with fragmented and democratic politics and the latter with centralised and anti-democratic methods. The events in this section also show that ACM's electoral strength is smaller than their opponents believe.

6.4 Financial Resources

During the military regime the continuing backwardness of the North-East was credited to the emphasis put by the federal government on efficiency criteria in the design of public expenditure, which promoted a concentration of resources on economic activities at the expense of social services. Another reason was the rigid ear-marking provisions applied to federal tax transfer programmes (Goodman, 1976: 7). These reasons no longer exist after financial decentralisation but no significant change was found in the provision of education to the people, especially the poor.

As seen in previous chapters, in Brazil the three levels of government have always had a key role in the formation and expansion of economic activities and had spent a considerable amount of revenue on social programmes and pensions⁴⁴. Therefore, the performance of

⁴⁴ Public-servant workers from the three levels of government remain on the salary rolls at full pay after they retire if they were hired under the 'statutory' system, which is based on the French model. The three levels of government should then provide full pay after they retire and each level is responsible for the pension payment. Another scheme for public-servant retirement is provided by the federal government alone. This scheme is financed by part of the Social Contributions and it provides pensions to those employed by the private sector, the self-employed, those with no income and to public-servants of the three levels under the rules of the CLT -

economic and social indicators is extremely dependent upon the performance of public finances.

The value in US dollars of Bahia's total revenue is presented in Table 6.4.

Table 6.4 Bahia: Total Revenue in \$ Million, 1980-1989

Year	Total Revenue
1980	929,0
1981	1,271,0
1982	1,284,7
1983	899,6
1984	1,051,0
1985	1,249,2
1986	1,443,7
1987	1,452,0
1988	1,661,0
1989	2,299,2

Source: Paz (1990: 299).

Bahia has the highest FPE share among the states, 9.4%, followed by Ceará, with 7.3%, and Maranhão, with 7.2%. The Federal District, with 0.7%, and São Paulo, with 1%, attain the lowest shares (*Gazeta Mercantil*, 1992). As the FPE is designed to promote horizontal balance among the states, Bahia's share shows the size of its population, given that the state is the most populous in the North-East, but it is also an indicator of the size of its poor population. In 1991 Bahia had a per capita net revenue of \$191, smaller than states with similar or bigger populations, such as Rio de Janeiro, with \$322, Rio Grande do Sul, with \$311 and Minas Gerais, with \$274 (Afonso, 1994: 55).

Bahia was engaged under ACM's last governorship in increasing the collection of its own revenue. In 1993 its own revenues represented 47.8% of total revenue, federal transfers accounted for 25% and other revenues for 27.2%⁴⁵. The ACM administration was also praised for, together with Paraná, having financed 80% of its expenditure with its own revenue, the best performances among the states (Afonso, 1994: 41). However, net revenue per capita remains low: \$160 in 1993.

During the 1980s the state's accounts presented deficits in five years and surpluses in the other five, as shown in Table 6.5. The figures show that during the military years Bahia

Consolidação das Leis do Trabalho, the law on labour legislation. In general, public-servants who work for the government's 'direct administration', that is the secretaries and departments, belong to the former scheme. Those who work for the 'indirect administration', the parastatal organisations, which is where Bahia's 'islands of efficiency' are placed, belong to the latter scheme. See Batley (1991: 22-25) for details of how both systems work.

⁴⁵ Figures provided by Mr. José Pinheiro, senior official of Bahia's Secretariat of Finance.

had less room to operate with a budgetary deficit. In every electoral year since the political opening pressure has been put on the state's finances; and it is not a coincidence that this has led to deficits.

Table 6.5 Bahia: Deficit and Surplus in \$ Million, 1980-1989

Year	Deficit	Surplus
1980	19,3	-
1981	-	64,6
1982*	-	45,7
1983	56,8	-
1984	-	7,3
1985**	132,2	-
1986*	234,7	-
1987	-	31,4
1988**	149,7	-
1989	-	87,5

Source: Paz (1990:305)

Notes : (*) State elections.

(**) Local elections.

Two types of spending should be analysed separately: payroll, because of the high number of public servants, and expenditure by function. Expenditure on payroll is shown in Table 6.6. Contrary to many states, Bahia obeys the constitutional mandate which determines that no more than 65% of current revenues should be spent on payroll. Although expenditure on payroll is not such a burden on public finances, the rate spent has increased during the decade, following a trend in the states as a whole. Given that the country has had a decade of high inflation and high interest rates, the governors adopt a policy of wage compression in their mid-term in office, investing the state's resources to finance their construction projects during electoral periods. At each election, the state's expenditure on payroll increases, either because public-servants are granted a rise in their pay or because new ones are hired. This increase is at the expense of society as a whole who, at least theoretically, get fewer resources for the provision of social services and for investments.

Table 6.6 Bahia: Expenditure on Payroll as a Percentage of Current Revenue and Fiscal Revenue, 1981-1991

Revenue	1981	1982*	1983	1984	1985	1986*	1987	1988	1989	1990*	1991
Current	30.9	33.1	34.6	28.8	33.1	37.1	41.0	40.1	36.9	47.8	41.8
Fiscal	45.4	53.3	47.0	37.7	43.6	47.8	57.1	69.2	64.9	88.4	76.5

Source: Calculation based on Balance Sheets

Note : (*) State elections.

Functional expenditure is shown in Table 6.7, which introduces some puzzling figures.

The state's priorities were placed on five functions. Expenditure on the Legislature, Judiciary and Welfare & Pensions registered higher increases as compared to the states as a whole. The payment of the state pensioners is a heavy burden on the state's finances: 92,000 public servants contribute to the system while there are 250,000 pensioners (CPE, 1991:18). The state's contribution to economic activities was concentrated on two functions: Regional Development and Transport. Low increases were registered in Administration & Planning, Agriculture and Education & Culture. The state's contribution to the improvement of health, sanitation, housing and urbanisation was negative.

Table 6.7 Bahia: Average Increase of Expenditure by Function, 1981-1991

Function	Average Increase
Regional Development	15.6
Judiciary	15.4
Legislature	12.7
Welfare & Pensions	12.1
Transport	8.2
Administration & Planning	1.8
Education & Culture	1.5
Agriculture	0.8
Police	-0.5
Electricity & Mineral Resources	-0.7
Health & Sanitation	-0.7
Communications	-2.5
Industry, Commerce & Services	-4.8
Housing & Urbanisation	-13.0
Employment	-19.1

Source: Ministério da Economia, Fazenda e Planejamento (1992: 180 and 1993: 187).

A puzzle occurs when the figures presented in Table 6.7 are compared to the performance of the states discussed in Chapter 5. Bahia presented negative figures in seven functions, while the states as a whole decreased their expenditure on only two functions. Health & Sanitation, which registered an average increase in the states of 9%, decreased in Bahia, probably because the health care programme, which is financed by federal resources, was set up in Bahia later than in most of the other states.

Another type of analysis should be made relating to the participation of each function in the total expenditure. Table 6.8 presents the governors' priorities reflected in the participation of each item of expenditure in the state's total spending. It shows several things. First, the increase in the Legislature and in the Judiciary are related to redemocratisation. Also the increase in Welfare & Pensions is a trend in every state, not only in Bahia, which raises

questions about the financing of the state's pensioners under the full-pay scheme. Second, expenditure on Administration & Planning shows that, except in 1990, the payment of interest had more impact on the state's finances during the military years than after redemocratisation. This reduction means that Bahia enjoyed more room to negotiate its debt payments after redemocratisation. The unusual figure registered in 1990, when the state allocated 30.8% of its total revenue to Administration & Planning, may be explained for political and technical reasons. The then governor Coelho was ACM's foe. As ACM enjoyed great power in the federal government and as he was running for Bahia's governorship, he probably put pressure on the federal government not to negotiate with Coelho on the payment of interest. On the other hand, ACM would benefit from taking office with the state's finances less affected by previous debts. The technical reason was the end of a financial artifice adopted by the state in the early 1980s. The trick was that the state borrowed heavily between 1983 and 1986 to finance the construction of the *Pedra do Cavalo* water main. As DESENBANCO, the investment bank controlled by the state, was the warrantor of the loan, the state transferred that debt to DESENBANCO. The payment of *Pedra do Cavalo's* debt, estimated at \$200 million, did not appear in the state's accounts until 1992⁴⁶. Another reason behind Bahia's low expenditure on Administration & Planning was the adoption of a less expansionist fiscal policy, in part because of the lack of federal credit. Less expansionist fiscal policy meant that the state pulled out of several social services because the expenditure on economic activities was high. Third, expenditure on Education & Culture, Health & Sanitation, Police, Transport and Regional Development was erratic, as opposed to a trend to spend less on Electricity & Mineral Resources, Housing & Urbanisation, Industry, Commerce & Service and Employment. This picture is not the same in the states as a whole.

Another line of analysis derived from Table 6.8 is the relationship between expenditure and elections. Three functions were particularly sensitive to state elections: Police and Education, in 1982 and 1986; and Transport, in 1990, whereas for local elections, the involvement of the state government does not occur through an increase in functional expenditure, but through transfers to the municipalities. The governors' priorities during the decade were as follows. Carneiro promoted an increase in the expenditure on Housing &

⁴⁶ Only in 1992 was *Pedra do Cavalo's* remaining debt to DESENBANCO transferred to the state government, according to DESENBANCO's President, Raimundo Moreira in a personal communication to the author.

Urbanisation, Health & Sanitation and Regional Development. Carneiro was a representative of rural interests; therefore, the significant increase in programmes of Regional Development is not surprising, but this trend is kept onwards, except in 1991. The Carneiro administration registered the highest deficits, promoting an increase of more than 1,000% on the resources spent on Regional Development, most directed to his region, and contaminated the state's finance with the construction of *Pedra do Cavalo*, a questionable public work located in his home region.

Pires prioritised expenditure on Police and a significant increase in Health & Sanitation in 1988. The reason for the latter was political. Pires was the Minister of Social Security. He resigned in 1986 to run for Bahia's governorship. His relationship with Sarney had never been easy because of ACM's influence over Sarney and because Pires was one of the leaders who opposed Sarney's five-year term which was being decided by the CNA. It was said that not a single grant nor any financial help from the federal government reached Bahia at that time⁴⁷. However, this affirmation is not totally true, given that Pires's successor at the Ministry of Social Security, Renato Archer, was Pires's ally, which explains why in 1988 the state spent an unusual 19.5% of its total revenue on Health, probably most of it having been derived from federal grants. Pires was replaced by Coelho, who governed from 1989 to 1990. Coelho had only one priority, Transport, meaning the construction of roads⁴⁸.

Figures derived from Bahia's balance sheets show that the state is replacing the federal government in its role as investor in electoral periods, which, in Brazil, means an average of seven regional and local elections in every decade. The importance of Bahia as an investor is more likely to be credited both to competitive politics, mainly elections, and to federal fiscal predicaments. Increases in capital expenditure meant an automatic decrease in current expenditure. Therefore, instead of registering a conflict between functions, as in the state capitals, the conflict over public finances in Bahia is between investment and consumption. In other words, the tension registered in the state's finances is between economic types of

⁴⁷ This argument was widely used by Pires (quoted from *Playboy*, 1993) and by his allies, such as Senator Jutahy Magalhães, who stated that 'Bahia did not receive a single penny from the federal government during the Pires administration' [7 May 1993].

⁴⁸ Coelho is being sued by ACM for misuse of public resources. One of the accusations is that Coelho's road programme was directed to benefit his various farms in the interior. ACM alleged that Coelho invented 'the one kilometre of 700 metres; the remaining 300 metres were for bribes' (quoted from *Playboy*, 1993).

expenditure both during and outside electoral years.

Figures presented so far show that Bahia reduced its participation in social services during the 1980s. The state's steady expenditure on Regional Development, Judiciary, Legislature, Welfare & Pensions and Transport shows three major trends. First, the Legislature and the Judiciary were clear beneficiaries of redemocratisation, different from what happened to social services, especially education. Second, if the policy of accommodating the demands of the poor through the provision of jobs in the public service did not affect payroll expenditures very much, the same cannot be said of the pressures this policy brings on the payment of pensions. Therefore, society as a whole is prevented from receiving social services because the state is financing the retirement of those who entered the public service through clientelism. Third, high expenditure on Regional Development and Transport shows two trends. One, different from the 1960s and 1970s, is that the state's role in inducing economic activities is more restricted to the provision of infrastructure for activities taking place outside the metropolitan area. The other is that given that more than 80% of the electorate live in the interior, the return of more competitive politics induces governors to pay more attention to the needs of the population who live in the interior.

The state's low priority for the provision of social services shows that decentralisation and redemocratisation have not meant a higher commitment to tackling the living conditions of the majority of the state's population. This finding calls for future scholarly attention in order to investigate each state individually and the role of regional and local politicians in defining the expenditure agenda.

Table 6.8 Bahia: Expenditure by Function as a Percentage of Total Expenditure, 1981-1991

Function	1981	1982*	1983	1984	1985**	1986*	1987	1988**	1989	1990*	1991
Legislative	1.0	1.0	1.0	1.0	1.5	1.2	1.7	2.3	2.7	2.2	1.7
Judiciary	1.9	2.2	1.9	2.1	2.5	3.2	4.6	4.2	5.2	6.1	6.1
Ad. & Planning	34.1	30.6	30.6	19.5	21.7	20.8	23.1	21.7	23.4	30.8	19.5
Agriculture	2.0	2.6	2.8	1.9	2.1	2.9	4.7	2.6	2.5	1.6	2.7
Communications	0.2	0.3	0.1	0.2	0.2	0.3	0.1	0.1	0.0	0.0	0.0
Police	7.0	8.7	7.4	6.2	5.7	7.1	9.8	7.9	7.3	5.1	5.6
Regional Development	0.7	0.5	1.2	14.0	11.1	11.5	11.4	10.4	12.0	2.1	16.3
Education & Culture	15.4	19.2	18.7	15.5	14.2	16.4	18.9	14.0	17.8	13.6	13.9
Elect. & Mineral Res.	5.9	6.5	6.5	3.6	2.6	3.1	2.8	3.6	2.5	4.2	4.5
Housing & Urbanisation	2.6	3.6	4.0	4.5	3.0	3.0	1.0	1.1	1.2	0.5	1.0
Ind., Comm. & Services	2.5	2.4	1.7	2.3	2.6	4.1	1.9	1.5	2.1	1.1	1.4
Health & Sanitation	12.7	8.6	12.7	15.2	21.2	14.2	8.0	19.5	9.7	9.0	11.8
Employment	1.9	2.1	1.6	1.2	0.4	0.5	0.5	0.3	0.2	0.2	0.4
Welfare & Pension	4.2	5.2	4.2	3.6	4.1	5.0	5.9	6.5	8.1	10.0	10.6
Transport	7.9	6.5	5.6	9.2	7.1	6.7	5.6	4.6	5.3	13.5	4.5

Source: Calculation based on Balance Sheets.

Notes : (*) State elections.

(**) Local elections.

6.5 Expenditure on Education

Most of Bahia's educational indicators place the state in an uncomfortable position compared with other states, including those of the North-East. Data from 1987 show that in Bahia 30% of the children aged between 7 and 14 years old were not in the classrooms. In the same year over 1,000,000 children between 15 and 19 years old did not go to school (CPE, 1991: 22). The gap between those who enter the first-grade and finish it, and those who make it to the second-grade is a Brazilian characteristic, but Bahia's figures are below the national average. In 1989 there were 2,023,601 students registered for the first year of the first-grade; 886,961 did not finish it and out of those who finished, only 191,976 were registered for the first year of the second-grade (IBGE, 1992: 385-6).

The number of teachers in elementary and in secondary education in Bahia has declined, despite an increase in population. In 1989 elementary schools had 10,618 fewer teachers than in 1988, a decrease of 12%. The decrease from 91,010 teachers to 80,392 happened in schools provided by the federal, state and local governments as well as in those provided by the private sector. The same phenomenon was found in secondary schools. In 1988 there were 12,553 teachers, in 1989 the number was reduced to 11,953, a decrease of 600 posts. Only the municipal schools increased the number of second grade teachers by thirty-two, a small number when compared to the amount of positions which became vacant⁴⁹. The qualifications of teachers are another constraint: 40% of them are lay, the highest rate in the country. Teachers' salaries varied from 1.3 to 2.1 of the minimum wage (CPE, 1991: 23).

The quality of education can be assessed by a survey of a sample of over 2,000 students on their skills. The highest average achieved in Portuguese was 57 points out of 100 and the lowest was 43. In Mathematics the global average was 25 out of 100 and in Sciences 37 (SEC, 1992: 85-93). According to the same survey most of the headteachers considered that these low results should be credited mainly to the poverty of the students (SEC, 1992: 52). The reasons for the low quality of education were explained by specialists. Irede Normando called attention to the fact that being a teacher is no longer a choice for middle-class women on their way to social mobility [30 Nov. 1992]. Sylvia Assmar stated that the

⁴⁹ Calculation based on IBGE (1992: 383,389).

great majority of the teachers are poor and therefore their culture and access to information is limited [2 June 1993]. Gleise Neves said that the low salaries paid to teachers attracts only segments of the poor population [15 April 1993].

The state government adopts a policy of omission and has been delegating the problem to local government. As seen in Chapter 5, the North-East in general, and Bahia in particular, has the country's highest rate of 'municipalisation' of elementary education. The country's average of elementary schools under the jurisdiction of the municipalities was 29.5%, whereas in Bahia it was 47.1% (CPE, 1990). The delegation of basic education to its over 400 municipalities, each with different financial capacities and most of them still influenced by patron-client relations, is probably part of the problem faced by the poor in getting access to basic education. The 'municipalisation' of elementary education is also a way out found by the state to continue its policy of concentrating its resources on economic development rather than on social services.

Clientelism deeply shapes the provision of education in Bahia. The presence of clientelism can be seen in two aspects. First, in the way teachers start their careers, shown in Table 6.9. A comparison with the same type of survey carried out for the whole country, shown in the previous chapter, displays the high influence of politicians in Bahia over the appointment of teachers, especially in the interior, in rural areas and in municipal schools.

Table 6.9 Bahia: Forms of Access to the Career of Teacher

Form of Access	Capital	Interior	Urban	Rural	State School	Municipal School
Competitive Exams	57.0	24.0	38.1	5.6	39.0	15.5
Appointment by Politicians	19.3	45.5	34.8	58.5	40.1	41.1
Appointment by Educational Staff	23.7	30.1	27.5	34.5	20.9	42.5
Internal Exams	...	0.4	...	1.4	...	0.9

Source: SEC (1992: 16).

Political appointment to the position of headteacher is even higher, especially to schools ran by the state government, as shown in Table 6.10.

Table 6.10 Bahia: Forms of Access to the Position of Headteacher

Form of Access	Capital	Interior	Urban	Rural	State School	Municipal School
Competitive Exams	5.7	0.0	1.4	0.0	1.6	0.0
Appointment by Politicians	22.9	77.2	64.6	72.2	73.0	38.9
Appointment by Educational Staff	48.6	21.3	27.1	27.8	20.6	50.0
Election	22.9	1.6	6.9	0.0	4.8	11.1

Source: SEC (1992: 59)

A second way to prove the influence of clientelism and of the electorally-oriented treatment of education can be seen in the revenues spent by the state government on education, in Table 6.11. Although the state has kept almost constant the ranking of education *vis-à-vis* other items of expenditure, expenditure on education rose during electoral years and in the first year of the governors' administrations, except in 1990 and 1991. No correlations were found between decreases in expenditure on education and payment of interest, except in four years, which does not prove the correlation. The lowest rate spent on education was registered during the two coalition governments, in 1988 and 1990. A conflict between expenditure on education and other functions has not been established. State governors' popular election and the increase of the state's finances promoted by the 1988 Constitution had no influence over expenditure on education, meaning that in Bahia redemocratisation and decentralisation did not increase the resources devoted to education.

Table 6.11 Bahia: Revenues Spent on Education as a Percentage of Total Expenditure and Current Revenue, 1981-1991

Year	Total Expenditure	Current Revenue	Ranking of Education
1981	15.4	21.4	2
1982*	19.2	23.3	2
1983	18.7	26.1	2
1984	15.5	21.7	2
1985	14.3	23.6	3
1986*	16.4	25.7	2
1987	18.9	25.5	2
1988	14.0	19.8	3
1989	17.8	22.2	2
1990*	13.6	16.6	2
1991	13.8	12.4	3

Source: Calculation based on Balance Sheets.

Note : (*) State elections

However, expenditure on education represents a high volume of resources, being, for the majority of the time, Bahia's second major item of expenditure, as seen in Table 6.11. The manipulation of these resources for political goals is the only explanation for the maintenance in Bahia of the country's worse indicators for education. Education has been used, at least over the last decade, to accommodate regional and local élites' conflicts. This accommodation is achieved in many ways. One of them is by moving teachers from classrooms to less demanding tasks. In 1987 the Secretariat of Education had 68,923 public-servants, 53% of them were in the classrooms; the remaining 47% were in administrative positions (CPE, 1990: 271). Other forms used by the political system to foster the clientelist approach to education

are: hiring teachers without competitive exams and eventually raising their salaries; headteachers' appointments on the basis of political affiliation; the promotion of teachers on a political rather than a merit basis; appointment of teachers to interim and political positions which are better paid; and the extensive use of grants in private schools to political protégés.

Other methods for the use of education for political and electoral reasons can be listed. According to a former senior official of the Secretariat of Education, schools were built not where there was a great demand for them but because of pressure on the governor from mayors affiliated to the governor's political group. State deputies also put on pressure on the governor, but as a complementary support to the mayor's pressure [Costa, 21 June 1993]. Costa, who worked for the Secretariat of Education in two periods of the ACM administration, reckoned that both secretaries started their terms implementing technical programmes, but after their second year, when it was already decided that they should run for the Legislature, clientelism was the basis for decisions, especially concerning the appointment of teachers, headteachers and politically appointed positions [21 June 1993].

Every state secretary of education in the military years left the position to run for the Legislature. This trend stopped in the early 1980s, but this did not mean that the portfolio of the Secretariat of Education was no longer used for clientelist purposes, especially in supporting the governor's candidates for the Executive and the Legislature. According to Teixeira, a former official during the Pires administration, clientelism was widely exercised at that time [18 June 1993]. Ex-governor Pires assessed:

I found strong resistance to change the methods previously used to provide children with access to education. Children could register in a state school only if they had a letter from a local politician, a state deputy or an influential politician. Attempts to change these practices found strong resistance from the traditional political groups [18 May 1993].

Education has been used to keep the loyalty of political leaders, namely state deputies and mayors, to assure elections for the governors' protégés and to guarantee the future of technocrats-turned-politicians, sometimes upgrading them to the state or to the national spheres, as with the secretaries of education during the military years. According to the interviewees, federal deputies have little involvement in education issues. Education is then the territory of local politics mediated by the state. However, as the qualitative and quantitative data showed, the other side of the picture is that if education is not being provided for the bulk of population, some segments of the poor who had access to patron-

client relationships benefitted from public expenditure by job provision, salary improvements in electoral years and by easier access to school places.

6.6 Conclusions

This chapter began with two puzzles. First, the political system in Bahia could develop mechanisms to counterbalance the country's fragmented polity. In principle one would expect that in a fragmented, decentralised constitutional structure with weak political parties, such as those found in Brazil and Bahia, the political system would operate more through persuasion rather than through control. This is the case at the national level. In Bahia, however, both situations can happen. When control prevails over persuasion it is cemented by two elements, namely efficiency, which depoliticises governance because it is addressed as if the entire constituency benefits from the government's actions, and anti-democratic methods⁹⁹. Clientelism was identified as a common element in both control and persuasion features. The combination of efficiency and anti-democratic methods does not necessarily mean that there is a straightforward correlation between these elements found in the way that the state's political system has been operating in the last decades. A vast amount of empirical research needs to be conducted on other state governments to ascertain the incidence of this correlation. The case of Bahia reveals that at the state level the political system can manage to cope with fragmentation, as opposed to the national level, where, as shown in previous chapters, fragmentation of power has constituted a 'paralysed competitive arena'. The Bahia case shows also that when a fragmented political system is developed in a country marked by social and regional inequalities, the correlation between political fragmentation and the incapacity of delivering policies is not automatic or inherent. Coalitions can be built to address the drawbacks of political fragmentation for policy implementation. Bahia, however, is probably Brazil's most striking example of how redemocratisation and decentralisation did not cause the disintegration of the old political coalitions although they have changed their practices. There are survivals of the military regime, depicted by ACM, and of the pre-1964 populist regime represented by Pires. The study of the state proves the vigour of politicians who belonged to the military's pact to govern.

⁹⁹ By efficiency the combination of conditions of governability and positive policy results is meant. The latter is measured by the approval of the population of the administration. The former refers to the ability to build a coalition to govern by insulating the drawbacks of institutions which are particularly affected by fragmentation, such as political parties, the Legislature and the business community.

The second puzzle was related to the mediocre effects that financial decentralisation and redemocratisation have had on education expenditure. The answer to this puzzle lies in two political choices. First, there has been a choice by politicians, officials and practitioners since the 1950s for changing the state's economic profile, which causes a tension between expenditure on social services and expenditure on economic activities, which was resolved to favour the latter. Second, social services, especially education, were left to the territory of clientelism.

However, as discussed in Chapter 5, can patronage alone explain Bahian politics and how its political system operates? Data and findings in this chapter show that two processes are occurring in Bahia. One is highly centralised and forms of élite dominance have been maintained, although presenting different features from the traditional personal patron-client relation. Mass communication has been introduced as another source of mediation to assert control over the politically and economically weak. The bag-of-money-whip formula is being replaced in the post-transition by television and radio sets. Empirical studies have yet to be made in Brazil to ascertain the influence of the media over election results and in shaping political values¹⁰⁰. The second process which occurs in Bahia goes in an opposite direction: the emergence of new forms of political and social organisations challenging the *status quo*. Surprisingly these new forms of horizontal relations find more favourable grass roots in the interior.

Data also showed that if Bahian economic modernisation can survive without incorporating its poor population, the same principle does not apply to the political system. Therefore, clientelism and economic modernisation can coexist. This assumption applies not only to Bahia but to other Brazilian states. As discussed in Chapter 5, every political system is susceptible to forms of patronage, but in situations of high inequality patronage helps to encourage vulnerability and dependency. Both vulnerability and dependency are being reinforced by the state politicians' control over the media and by the local politicians' control over education and job provision.

Bahia is a state in political transition. Elements of both élite-driven politics mediated by the media and new forms of social and political organisation have been identified. Despite

¹⁰⁰ The debate was opened by the 1989 presidential election. Some analysts argued that television was responsible for Collor's victory (Singer, 1990). Others showed the candidates did better in municipalities where the mayor represented their parties (Ames, 1994). The issue is, therefore, a fertile topic for scholarship.

its economic achievements in the last decade, Bahia is a less developed state, given the size of its economy as compared to São Paulo's. But even this less developed state has managed to have great influence on the national political scene, thanks to redemocratisation and fragmentation, and this shows the 'peripherisation' of the federation. Bahia's upgrading to an important position on the political scene suggests that there are elements of Lijphart's (1984) consociational democracy in operation in Brazil. It also suggests that the view of intergovernmental relations as a centre-periphery relation is insufficient in explaining the phenomenon in countries in which sub-national spheres have achieved political salience. The Bahia case also shows the high degree of extra-constitutional and extra-parliamentary resources used by state-level politicians not only in intergovernmental relations but as a source to force the political system to incorporate the demands of less developed states and regions in the decision-making process. By allowing the upgrading of a less developed state to a position of influence and of veto in the national scene, Brazil has become more 'federal'.

As is true for intergovernmental and political relations between the federal and the state governments, the relationship between the states and the municipalities is also shaped by what happens in other spheres, although each sphere has its own features. The understanding of these features is the aim of the following chapter, which furthers the thesis's downstream approach by investigating two Bahian municipalities. The following chapter suggests that despite political and financial decentralisation, local governments can be prevented from playing a more active role in the local political scene. The reason for this lies in the existence of problems which need to be addressed outside the local sphere but which compel local governments to find short-term and local solutions for national predicaments.

Chapter 7 The Case of Two Bahian Municipalities: Salvador and Camaçari

Introduction

Salvador and Camaçari are two contrasting municipalities in the Salvador Metropolitan Region, SMR. The SMR comprises ten municipalities: Salvador, Camaçari, Candeias, Dias D'Ávila, Lauro de Freitas, Itaparica, Madre de Deus, São Francisco do Conde, Simões Filho, and Vera Cruz. The SMR covers an area of 2,181 square kilometres. Camaçari is the largest municipality, with 33% of the region's area and Salvador comes second, with 14%. The region's population in 1991 was 3,109,034, the fourth largest in Brazil. Compared with other metropolitan regions the SMR has experienced stable population growth since the 1940s (Lee, 1985: 4). In 1991 Salvador, Bahia's biggest city, had concentrated in it 66% of the SMR's inhabitants, 6,620 inhabitants per square kilometre, while Camaçari held a small share of 3.4%, with 158 inhabitants per square kilometre. The region's population growth rate between 1980 and 1991 was 2.6%, close to the country's average of 2.5%. Salvador's population growth was also close to the national and the regional averages, 2.9%, while Camaçari's rate was 4.2%¹. Camaçari's relatively high figure follows a trend found in the 1991 Census, which showed that north-eastern migrants have tended to move to the region's metropolitan areas rather than to the South-East, as in the past.

The city of Salvador fulfils administrative and political functions, with an economic system based on tertiary activities. The SMR has a concentration of 43% of the industrial collection of the ICMS, 10% being in the CIA - *Centro Industrial de Aratu* (Aratu Industrial Estate), located in the municipalities of Simões Filho and Candeias, and 33% in Camaçari, which holds the COPEC - *Pólo Petroquímico de Camaçari* (Camaçari Petrochemical Park) (CEI, 1991b: 38). An oil refinery is located in the SMR, in the municipality of Candeias.

As mentioned in the previous chapter, the pattern of Bahia's industrialisation was characterised by the relatively low number of jobs created as compared with the capital required to generate them, given that the necessary capital to produce one job in COPEC was estimated at \$100,000 (Pinho, 1986: 254). However, the number of jobs created in absolute

¹ Figures from IBGE (1992:65).

terms was high ². The jobs generated by the new industries required skilled labour; therefore, the majority of the population of the SMR did not have access to these jobs. Different criteria have given different estimated figures for the SMR's workforce in the informal labour market, which varies from 46.8% to 26.5%. The main concern, however, is not the exact number of those excluded from formal and well-paid jobs, but the assessment of the existence of a large tertiary sector, of a labour-intensive nature, in which domestic service and petty-commodity production still assume great importance ³.

Most of the industries located in the CIA had few links with the existing economic basis. They produce capital and intermediate goods destined for markets outside the region. COPEC followed a different pattern as far as backward linkage, given that its basic input, oil, is available in the region, but forward linkages were not created because its production is exported to São Paulo and overseas. Industrialisation produced growth in the service sector, especially in the building industry and in the urban infrastructure for industries. Public service increased to cope with the new demands brought by industrialisation. Industrialisation and tertiarisation fostered a third change in the regional economy: the emergence of a market for final goods destined for a new middle class which emerged with the economic development.

The officially declared overall unemployment rate in the SMR in 1990 was 5.4%, the highest among Brazilian metropolitan regions after Recife. However, this general figure hides worrying details. In 1990 the unemployment rate among heads of households was 29%, the highest after Porto Alegre; in 1985 the rate had been 23%. Real medium income for registered employees is smaller in the SMR than in the metropolitan regions of São Paulo, Rio and Porto Alegre and higher than in Recife and Belo Horizonte. Real medium income for registered workers decreased between 1985 and 1990, a pattern also registered in Recife and Belo Horizonte. Non-registered employees and the self-employed earn less than their counterparts in other metropolitan areas, except in Recife (Cacciamali, 1991).

In contrast to the majority of Brazilian metropolitan regions, the SMR holds only a small part of the Bahian electorate, 16%, which means that the region's political importance

² The oil refinery owned by PETROBRAS created 13,000 direct jobs. The 250 plants in the CIA and COPEC directly created 77,700 jobs. Before the establishment of both industrial estates the industrial sector of the SMR employed 15,000 workers (Pinho, 1986: 251-4).

³ Faria (1980) studied the SMR's domestic service and Henfrey (1981) analysed petty-commodity production in Liberdade, a block in Salvador.

cannot be measured by the size of its electorate but by how the rest of the state is influenced by what happens in its most economically developed area. During the military regime almost the entire region was prevented from electing its mayors by popular vote because its municipalities were considered as 'national security areas' or 'mineral sites'. Only the small municipality of Vera Cruz was able to elect its mayor by popular poll. This characteristic was important in strengthening ACM's control over the region.

The political features of the SMR were assessed for the first time in a survey with regional leaders, using Hunter's (1953) 'reputational' method⁴. The survey showed that the SMR was marked by contradictions between a 'new' rationality brought about by industrialisation and urbanisation as against features of the 'old' agrarian rationality. Elements of the former were found in the existence of claims made on the leaders by the population for collective action such as the provision of better urban services. Elements of the latter were found in claims for personal assistance, such as those for financial help and job provision. The coexistence of these contradictory 'rationalities' indicates that a new balance of power is under way as a result of economic modernisation, redefining social and political relations. Industrialisation and urbanisation have changed vertical solidarities, from the local boss to the union leader, for instance, as well as horizontal solidarities, from the family to social movements and unions (Medeiros and Souza, 1993: 43).

This chapter furthers the thesis's downstream approach by investigating the results of decentralisation and redemocratisation at the local level. It deepens the answer to the question as to whether decentralisation and redemocratisation have changed the allocation of public resources at the local level. It relies on Page's (1992) formulations regarding political localism as discussed in Chapter 1 to investigate how free municipalities surrounded by social and economic problems to influence and to veto national policies are. This chapter argues that there are a number of unresolved problems which have to be tackled outside the local level which prevent local governments from playing a more active role in improving the living conditions of their populations. It also suggests that because the decision to decentralise was taken without a social consensus on what was to be achieved, the availability of more local financial and political strength has not had a great impact on the previous patterns of local expenditure.

⁴ See Medeiros and Souza (1993) for the results and analyses of the survey.

The chapter proceeds as follows. Section 1 analyses the municipality of Salvador, showing its political importance in contrast to its financial weakness and the city's struggle against ACM's hegemony. Section 2 deals with the municipality of Camaçari, which, as opposed to Salvador, has extraordinary financial 'wealth' because of its modern industries but struggles with the demands for survival of its poor population. As in previous chapters, the governments' performance in education is added to the analyses of their political and financial resources. Section 3 offers some conclusions.

7.1 The Case of Salvador

The city of Salvador was created by the Portuguese in 1549, half a century after their arrival. Its creation recognised that an urban centre was necessary to coordinate the occupation of Brazil. Salvador remained the capital of colonial Brazil until the middle of the 18th century. Like many Brazilian cities Salvador's physical appearance can confuse the visitor. It has large avenues occupied by commercial and middle-class residential areas with elegant, modern architecture and luxury buildings. The centre of the city shows the remains of the opulence of old colonial times, with its baroque mansions and churches. The city has always managed to hide its shanty towns because they are located outside the coastal and tourist areas. Even when poor and rich are spatially and socially together, the latter affords an intimacy with the former, identified by Henfrey (1981) as both material and ideological. Henfrey acknowledged also that the Portuguese and Brazilian masters tended to manipulate ethnic distinctions among African slaves, as opposed to the colonial British. This apparent intimacy hides social inequalities and masks the economic gap between the descendants of masters and slaves.

The city is famous for its *candomblés* (a religious cult introduced by the slaves), for its popular religious festivals during the summer, and for its carnival. The latter is praised for its classless character because everyone is allowed to parade, not only those who belong to a club or who pay to parade, as in Rio's carnival. Popular religions, such as *candomblé* and the recent arrival of the evangelical churches, a long period of popular festivals in the streets which combine elements of Catholic and *candomblé* cults, the intimacy between poor and rich, whites, blacks and mulattos, and a large array of petty-production and domestic jobs are responsible for preventing the poor from rising up, given that they are a majority.

Salvador is the third most populous city in Brazil, after São Paulo and Rio de Janeiro, with 2,1 million inhabitants. The city has accumulated a number of unresolved problems. In

1991 only 23% of the population had sewerage services; half had access to a refuse collection service; 39% were illiterate; 300,000 were unemployed; 19.2% were in the informal market; and 80,000 were street peddlers. Despite these figures, Salvador is becoming an important tourist area: each summer around 400,000 tourists visit the city ⁵.

7.1.1 Political Resources

Like the other state capitals in the country, Salvador elected its mayor by popular poll in 1985. The decade saw five mayors: from 1979 to 1982 the city was governed first by Mário Kertész and later by Renan Baleeiro; from 1983 to 1985 by Manoel Castro. These three mayors were appointed by ACM and indirectly elected by the state Legislature. In 1986 Kertész returned to the mayoral position by popular poll after having broken his ties with ACM. In 1989 Fernando José, a former television and radio football broadcaster, was elected.

Kertész was ACM's favourite technocrat-turned-politician. Before being appointed mayor Kertész was ACM's Secretary for Planning during ACM's first term as governor. Kertész was responsible for the construction of the state government's large headquarters, the *Centro Administrativo da Bahia*, which gave him the opportunity to get close to the federal bureaucracy and to establish strong ties with the building industry. ACM strongly supported the Kertész mayoral administration, especially by using his prestige in the federal government to assure credit for Kertész's construction projects (Barbosa, 1992). Given the precariousness of the city's finances, which will be detailed in the following sub-section, the support of the state government is crucial to Salvador's mayors. As mayor, Kertész set up a parastatal agency, RENURB, as the main agent in charge of the municipality's public works. It was through RENURB that the building industry started to control decisions on the city's public works (Barbosa, 1992). During the Kertész administration Salvador started to have two patrons: the governors, who have traditionally supported the city financially, and a new one, the building industry. The municipal legislative chamber was not an obstacle to Kertész's businesses because most of its members belonged to the PDS, as did he and ACM.

It seemed that Kertész would become ACM's political heir and be appointed for the 1982 governorship. As ACM appointed Andrade, Kertész broke relations with him and resigned from his mayoral position close to the end of his term, being replaced by Baleeiro. With Andrade's sudden death, Kertész would have been ACM's easiest choice, but faithful to

⁵ Data from the 1991 Census and from the Municipality of Salvador quoted from *Folha de São Paulo* (1992).

his creed of being implacable with those who do not say 'amen', ACM did not forgive Kertész and appointed Carneiro.

When Kertész broke his relationship with ACM, elections for the municipal legislative chamber were close but he could not run because he was still affiliated to ACM's party. He then supported the candidacy of his wife for Salvador's legislative chamber. Mrs Kertész, who had never ran for election before, was elected with the highest number of votes the legislative chamber had ever seen: 90,000. Kertész campaigned for his wife with a speech against ACM. His reaction started a trend in the behaviour of Salvador's electorate, namely to vote systematically against ACM and his candidates for executive positions.

The following mayor was Manoel Castro. He was also one of ACM's technocrat-turned-politician and governed the city while Carneiro governed the state. Castro was then a member of the PDS, which had suffered a great defeat in the election for the legislative chamber, stimulated by Kertész's defection. Castro's relationship with Carneiro was tense because of Carneiro's estrangement from ACM, mentioned in the previous chapter. Castro was the mayor of the transition, when federal measures granting more resources to sub-national governments started to be put forward. He was also the mayor when urban popular movements such as the *Diretas-Já* started to show that the military regime was near to reaching its end. Castro was affected by ACM's initiative of breaking his ties with the military government by endorsing Neves's candidacy. He was also the first mayor to govern the city with a legislative chamber occupied by opposition parties and by councillors with ties to the leftist and communist parties. Castro defined his term as marked by three types of constraints:

First, I wanted to introduce measures to strengthen popular participation in the decision-making process, but I found a strong reaction from the politicians and the civil servants, so I had them against me. Second, the majority of the legislative chamber belonged to the opposition parties, with several members belonging to branches of the Communist Party although affiliated to the PMDB. The PMDB had twenty-six councillors and the PDS seven. Those councillors recognised me as a serious and incorrupt politician, but as a representative of the right-wing; therefore, they opposed any proposal coming from me. Third, Salvador was characterised as the city which opposed ACM, but I could not overcome my ties with ACM; people saw me more as a manager than as a politician [27 Nov. 1992].

Because resources from the federal and the state governments became scarce, Castro strengthened the city's ties with the building industry as a way of putting pressure on the federal government for resources. The scheme with the building industry worked as follows: mayors would approve urban plans and projects developed by officials and the building

industry would lobby in Brasília for the financing of those projects as an additional source of pressure to that of the governors, mayors and Congress members voted in by the constituency. This scheme was common practice among municipalities and was surrounded by suspicions of corruption. Later, the relationship between Salvador's building industry and the city hall was furthered. The building industry started to determine which projects the municipality should ask for federal financing and later, during Kertész's second term, they would not only decide but design the project. During the Castro administration this scheme was widely publicised by the legislative chamber, which strongly opposed it and successfully blocked many projects. This reaction by the legislative chamber was not pursued by councillors who followed. From the Kertész administration until 1993 the city lost control for planning and decision-making to the building industry. As mentioned above, in Brazil the building industry is an important actor in influencing public policies, budgets and priorities. What is peculiar about Salvador is that because its debt with the building industry was so high, because no mayor in the decade had challenged its power and because of the Judiciary's decision to block part of the city's revenue, a point to be discussed later, the strength of the building industry over the city became clearer to society. Reviewing the relationship between the governments and the building industry became then part of the political agenda not only in Brazil but especially in Salvador, where the close ties between them were first revealed (Souza, 1991c).

Between 1986 and 1989 Kertész returned to the mayoral post. He was elected with 45.7% of the votes. The closest contender was Edvaldo Brito, previously mayor in the 1970s, who had the endorsement of ACM and 13.4% of the votes. The councillors had their terms extended by federal law; therefore Kertész, now in the PMDB, had control of the councillors. During his term Kertész strengthened his relationship with the building industry and the city's decisions were taken by a restricted number of persons: the mayor and the owners of the main building companies, without the participation of the legislative chamber and civil servants. Part of Kertész's term was during the Pires administration. Although at that time they both belonged to the same party, the PMDB, they were not close allies. Pires did not help the Kertész administration financially, but he did not interfere in Kertész's direct access to the federal government or in Kertész's business with the building industry.

The term between 1989 and 1992 had the broadcaster Fernando José as mayor. He was a creation of Pedro Irujo, a wealthy businessman, owner of radio and television channels, who became interested in politics. Castro ran again with ACM's support; Pires supported

Virgildásio Senna, who was not his party's candidate; and Kertész endorsed the PMDB's candidate, Fernando José, who had no previous political or administrative experience.

José's administration was a fiasco. When he left office, he had the worse evaluation of any of the mayors of the state capitals: 74% of the electorate evaluated his term as 'bad/very bad' (*Folha de São Paulo*, 1992). José credited such an evaluation to two factors. First, the high amount of debt he inherited from Kertész, especially his agreement with the building industry entitling them to hold part of the city's resources. This agreement was ratified by the Judiciary when the city hall questioned it in court. Second, the city's finances were so bad that it was impossible to provide regular refuse collection, which is the city's most costly service [22 June 1993]. Because he had no political experience José found difficulty in negotiating with other politicians and with the unions. He managed, however, to become vice-president of the *Forum Nacional dos Prefeitos*, the national organisation which lobbies for the state capitals' demands. In spite of his performance within this national organisation, his term at home was marked by strikes in refuse collection, public transport and the civil service, which paralysed the city several times.

To overcome some of the city's problems, José had to accept ACM's financial help, although they had no previous ties and belonged to different parties. Several times the state government anticipated the city's quota from the ICMS to allow the municipality to pay its payroll, according to Alival Silva, a senior official at the municipal Secretariat of Finance [7 June 1993]. José also transferred to the state government responsibility for providing the city's refuse collection. He said he was grateful to ACM for this [22 June 1993]. José also carried out the policy of leaving the levying of resources for the city's construction works in the hands of the building industry. He stated that his priority was to solve one of the city's main problems: the constant landslides of houses built by poor people on the city's many hillsides because

These people were temporarily transferred to municipal schools, preventing the children from attending classes and every year during the rainy season the problem returned. Infrastructuring the hillsides was my priority but it is invisible work because these places are on the outskirts of the city [José, 22 June 1993].

In the 1992 election Castro and Kertész ran again for mayor, the former with ACM's support. The electorate chose Lídice da Mata, a former member of the maoist PC do B and now in the PSDB. ACM was the state governor, but the electorate continued with the

tendency of voting against ACM's candidates.

During José's term the financial crisis of the municipality became more visible. For the last fifteen years Salvador had had a deficit budget. The scarcity of federal resources put such a burden on local finance that it became impossible to administer the city without the help of the state government and the building industry. This burden sealed the destiny of Salvador's politicians: losing control of the city's decisions and becoming prisoners of their sponsors' will. This evaluation is confirmed by the problems Mata is facing. She is the first mayor to confront the state government and the building industry. She cannot count on the federal government because of its financial predicaments. Mata has no room to manoeuvre or to govern. The media, controlled by ACM, have also been implacably against her. She has the second worst evaluation of any of the mayors of the state capitals: in January 1995 29% considered her administration as 'regular' and 52% as 'bad/very bad' (*Folha de São Paulo*, 1995). Mata was elected by a broad coalition of politicians opposed to ACM. As was the experience of governors supported by broad coalitions mentioned in the previous chapter, Mata is paralysed by internal disputes. The city's financial constraints and a systematic opposition from the media aggravate Mata's space with which to govern and to communicate with the electorate in a society where mass communication is very important.

If the electorate has shown a tendency to vote for mayors who are against ACM and have a 'progressive' discourse, the same does not happen with the legislature, with only one exceptional period during the Castro administration. Salvador's legislature consists of thirty-five councillors⁶. In the 1992 election 1,212 candidates ran for the position⁷ (*A Tarde*, 1992). The electoral system and the role of the legislature are the same as in the federal and state legislatures. According to ex-councillor Paulo Fábio, in Salvador the oscillation of the electorate's vote is high, preventing the identification of political or party preferences [27 June 1993]. Fábio summarised the electorate's view about the role of mayors and councillors:

The mayors are seen as managers and the councillors as proxies of the population's specific interests in the executive. Politics is a territory of the state, particularly of the governor [27 June 1993].

Despite its political importance as the state's capital, Salvador's political leaders are

⁶ Municipal legislative chambers can have between nine and fifty-five councillors according to the municipality's population.

⁷ Disputes for Salvador's legislative chamber are much more competitive than those for the state Legislature.

constrained by its financial weakness. The lack of financial resources prevents the mayors from governing, which makes the electorate disappointed and volatile: every mayor who has governed Salvador for the last twenty years is out of the political scene, despite several attempts to return to it. The only exception is ACM. Ex-mayors Virgildásio Senna, Jorge Hage, Edvaldo Brito, Mário Kertész and Fernando José are so far out of politics⁸. Despite the city's dependence upon the state and the building industry, its electorate still likes to think of itself as independent and the only one to confront ACM's whip-and-money formula.

7.1.2 Financial Resources

Financially Salvador is Brazil's worst-off state capital because of the lack of industry and the size of its poor population. Most of those who have jobs are employed in commerce, 44%, 36% in services and 20% in industry. Salvador is the only state capital among the metropolitan regions where the main source of revenue, i.e. 64%, comes from commerce and not from industry. The city's contribution to the state's wealth and revenue is low, 36% and 20% respectively (ABRASF, 1992), which means that its importance in the state's territory is political rather than economic or financial.

Revenue structure reflects the city's dependency upon revenue transfers. Its balance sheets from 1981 to 1991 show that only 38% of the city's revenue comes from its own taxation. Salvador's main revenue comes from the state's transfers of the ICMS, its second from the ISS, the municipal tax over services, and its third from federal transfers of the FPM.

As shown in Chapter 5 the state capitals have increased their revenue since the 1988 Constitution, not only in the amounts transferred from the federal and state governments, but through an effort to increase their own revenues and to adjust their finances. Most of the state capitals have overcome the financial constraints of the early 1980s and few still present deficits, but not Salvador. The city's chances of overcoming its financial problems were blocked by three pressures. The first was the size of its payroll. In 1991, with the establishment of a career plan for the civil service, Salvador spent between 80% and 90% of the city's total revenue on payroll. In previous years the average was about 50% (*Gazeta Mercantil*, 1993). Between 1988 and 1991 expenditure on payroll increased by 31% but between 1990 and 1991 payroll expenditure increased by 139% (ABRASF, 1992). Despite

⁸ Apart from ACM, Manoel Castro is also an exception because he has been elected as federal deputy several times. However, his re-elections for Congress must be credited more to ACM's help than to the support of Salvador's electorate.

this pressure expenditure per capita on the civil service was the lowest among the main state capitals: \$24, less than other north-eastern cities such as Recife, \$56, and Aracaju, \$70 (ABRASF, 1992). The low share of payroll in per capita expenditure shows that, as in the state, the salaries paid to the municipality's civil servants are low.

In 1994 the city had 21,660 civil servants. The average monthly salary was \$440, when those who work both in the direct administration and in parastatal agencies are considered. This amount is higher than that the state government pays to its public-workers probably for two reasons. First, the current mayor has a leftist origin, which means that wages are more of a commitment to her than to ACM's group. Second, different from the state government, wage differences between those who work in the direct administration and in parastatal agencies are not high, around \$80 in favour of parastatal workers. Average values, however, hide inequalities among public-workers: tax collectors had an average salary of \$1,360 while teachers' average salary was around \$360. Contrary to the state, pensioners are not a burden in terms of number. In 1994 there were 4,724 under the full-pay pension scheme administered by the municipality from over 21,000 workers. The problem of municipal pensioners in Salvador rests on the fact that the average pension is higher than the average salary: \$720 per month⁹.

The second problem faced by the municipality in improving its finances was the judicial blockade imposed on the city's monthly revenue to pay its debt with the building industry. The city's debt with the building industry is due in 2014 and is estimated at \$200 million. In 1991 seven building companies managed to win the approval in court of an agreement signed during the Kertézs administration which allowed them the blockade of 20% of the monthly quota of the city's FPM. Renegotiations of that debt started only in 1993 with the reduction of the blockade to 5% of the city's FPM revenue (*Gazeta Mercantil*, 1993).

The third problem was the city's total debt. Salvador's debt accounted for 4% of the debt of the state capitals¹⁰. The city's debt problem is not the size of the debt, but the relationship between the debt and net revenue. Salvador's debt meant 453% of the city's net

⁹ Figures presented in this paragraph were provided by Salvador's Secretariat of Administration.

¹⁰ São Paulo holds 53% of the debt, Rio 19%, Salvador and Belo Horizonte come third, with 4% each (Meneghetti Neto, 1991:191).

revenue in 1989, 220% in 1988, 200% in 1987 and 37% in 1986¹¹. These figures show a huge increase in the city's debt after 1986, i.e. under the Kertész administration. The annual rate of increase in Salvador's debt between 1980 and 1988 was 45%, which places the city in the uncomfortable position of being the fourth city among the state capitals with the highest rate of debt increase (Meneghetti Neto, 1991:190).

The city's attempts to increase its own revenue collection has also been blocked for political reasons. The mayors had always found it hard to raise the rates of the IPTU, the tax on urban property, because of resistance from the city's legislative chamber and from *A Tarde*, the state's biggest daily. Salvador was the city where the IPTU's increase was the lowest in the state capitals of metropolitan areas. Between 1988 and 1991 the IPTU increased by 34% per year, while the average of the state capitals was 51% (ABRASF, 1992). The weakness of the mayors is such that every year, when the mayor sends the proposal to update the IPTU's rates to the legislative chamber, *A Tarde* invariably prints the same heading, denouncing the city hall's squeezing out of the middle class. During the term of Salvador's weakest mayor, José, *A Tarde* reported that because of their pressure, José went to their headquarters to discuss the rates with them (*A Tarde*, 1990). The daily, therefore, became a policy-maker regarding the city's levying of the urban property tax. José's submission revealed the city leaders' weakness and how the city's financial fragility constrains its mayors from governing and from deciding on policies.

Judicial and political constraints, together with the lack of industry and with the poverty of its population, mean that Salvador's revenue collection accounts for 2.5% of total revenue collected in state capitals, less than cities with a smaller population, such as Belo Horizonte and Recife (ABRASF, 1992). As revenue collection does not improve, the city has for the last eight years been using two perverse ways to pay its regular bills, such as payroll. One is to borrow from private commercial banks at market interest rates, which are high in Brazil. The second is to ask for the 'good will' of the state governor in anticipating the city's quota from the ICMS. The former is partially responsible for the increase on the debt. The latter means that mayors have to rely on the governor of the day for cash, which implies that they become dependent upon the governors not only for large projects but to accomplish the city's ordinary duties.

¹¹ Figures from unpublished report by Salvador's Secretariat of Finance.

This financial picture is responsible for the fact that in 1991 per capita expenditure was 7% less than in 1988 and net revenue was 10% less (ABRASF, 1992). In 1991 Salvador collected \$70,650,000 of own revenue, which meant a per capita own revenue collection of \$34.55 (ABRASF, 1992). Salvador's performance in own revenue collection was the worst after Fortaleza, and well below cities with a similar population, such as Belo Horizonte, which had a per capita revenue of \$68.55 and very far from Rio (\$139.29), Florianópolis (\$121.95), São Paulo (\$114.38), Vitória (\$114.05) and Curitiba (\$76.72), cities with a considerable number of middle-class residents and which shelter industry (ABRASF, 1992). In 1991 total revenue was \$256.2 million, which meant a per capita total revenue of \$125, below the state capitals' average of \$237 (ABRASF, 1992). In 1993 total revenue was \$229.8 million and per capita revenue was even lower: \$106¹².

7.1.2.1 Public Expenditure

Salvador's functional expenditure is shown in Table 7.1. The most striking aspect of the municipality's expenditure is that every function has an erratic performance, except items where expenditure is low, such as Health & Sanitation, Agriculture, Communications and Regional Development. This result contradicts the trend found in other state capitals. In Salvador there is a clear priority for housing and urbanisation programmes, which are areas of interest for the building industry. Expenditure on these programmes increased significantly in electoral years. Conversely, all other items of expenditure showed an unstable performance. This instability was also found during the military regime. Financial decentralisation and the re-introduction of popular election did not affect the pattern of expenditure¹³.

Despite this instability some functions have registered a great increase in the period, as with expenditure on the Legislature, following a trend at every level of government and in every municipality. A similar increase was registered in Welfare & Pensions after the mid-1980s as a result of the pensioners' scheme mentioned above which became a financial burden

¹² 1993 figures were provided by José Pinheiro, senior official at Bahia's Secretariat of Finance.

¹³ In Batley's study of Recife and Porto Alegre he argued that the mayor is unlikely to be influenced by party policy, which makes the administration highly personalised. He also argued that this fact produces a high likelihood of discontinuity in policy between administrations even where political differences are unclear (Batley, 1991:17). The case of Salvador, however, shows a discontinuity in the allocation of resources not only among different administrations but within the term of the same mayor. However, another of Batley's finding is confirmed in Salvador, namely, mayors favour projects with short-term political pay-offs, which explains the increases in urbanisation projects in electoral years.

at every level of government. Expenditure on education followed an unstable pattern. Similarly to Bahia and to other state capitals, no relationship was found between expenditure on education and interest payments. Contrary to other state capitals, where there is a tension between expenditure on education and expenditure on housing and urbanisation, this tension was not present in Salvador because the amount spent on education was low.

Table 7.1 Salvador: Expenditure by Function as a Percentage of Total Expenditure, 1981-1991

Function	1981	1982	1983	1984	1985*	1986	1987	1988*	1989	1990	1991
Legislature	2.3	1.7	2.2	2.5	2.4	2.9	2.4	2.7	5.2	6.7	4.8
Judiciary	0.5	0.8	0.6	0.6	0.6	1.4	0.5	0.5	0.3	0.7	0.6
Administration & Planning	22.8	20.7	25.4	28.5	24.6	16.7	53.5	18.3	15.9	23.6	22.3
Police	2.7	2.5	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Education & Culture	9.5	10.7	9.6	11.2	9.6	12.3	7.7	8.0	9.6	9.1	9.1
Housing & Urbanisation	53.2	43.5	30.7	33.8	39.6	39.4	14.6	48.7	29.8	28.2	46.2
Industry, Commerce & Service	0.1	9.5	9.8	12.5	10.2	12.1	10.7	0.3	0.6	1.2	1.0
Health & Sanitation	2.2	2.8	2.5	2.6	2.4	2.6	2.0	2.0	2.9	2.7	1.8
Welfare & Pension	2.4	2.4	1.6	1.7	1.8	4.1	3.7	4.6	8.7	12.5	8.3
Transport	4.3	5.4	15.4	6.6	8.8	8.3	3.8	14.2	25.6	13.0	3.3
Agriculture	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.6	0.6	0.0
Communication	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.6	0.8	1.7	1.3
Regional Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Balance Sheets.

Note: (*) Local elections.

A comparison between the expenditure structure in Salvador and in the other twenty-five state capitals displays the financial discrepancies of the former, as shown in Table 7.2. There are differences which make Salvador an exception to all the state capitals. First, expenditure on Administration & Planning was kept constant in the state capitals as opposed to the inconsistencies found in Salvador, with variations from 53.5% of total expenditure in 1987 to 15.9% two years later, as shown in Table 7.1. Second, the high differences registered in the amount spent on social services such as Health & Sanitation and Education & Culture place Salvador as the capital which spends least on social services¹⁴.

Table 7.2 Salvador and Brazil's State Capitals: Average Amount of Expenditure as a Percentage of Fiscal Revenue in Selected Items, 1981-1991

Item	Salvador	State Capitals
Legislature	3.2	3.2
Administration & Planning	25.7	25.2
Education & Culture	10.1	20.0
Housing & Urbanisation	37.6	21.0
Health & Sanitation	2.6	12.6
Welfare & Pension	4.5	11.1
Transport	11.1	14.8

Source: Ministério da Economia, Fazenda e Planejamento (1992: 25,241 and 1993: 28, 253).

The high amount spent by Salvador on Housing & Urbanisation shows three things. First, there are strong ties between the mayors who had governed the city in the period and the building industry. As mentioned in Chapter 5, Bahia has a powerful building industry which influences expenditure priorities in the city and state. Second, as discretion about housing programmes has traditionally rested on the state with federal financing, most of the resources spent on this item were for urbanisation programmes. As the shanty towns are not at all well infrastructured, the city's main resources were invested in building infrastructure in areas occupied by the middle class and by businesses. Third, as the municipality concentrated its resources on Housing & Urbanisation, the state government had to finance the city's functioning, either by anticipating revenue or by providing services and infrastructure.

7.1.3 Expenditure on Education

Compared with the rest of the state Salvador has the best indicators on education. In

¹⁴ Between 1981 and 1991 the state capitals in the North spent an average of 13.8% of their fiscal revenue on education and 7.7% on health; in the North-East 16.4% and 7.3%; in the Centre-West, 17.3% and 5.2%; in the South-East, 21.8% and 14.8%; and in the South 15.8% and 10.2% (Ministério da Economia, Fazenda e Planejamento, 1992).

1987 only 2% of its teachers were lay; the schooling rate of the population between 7 and 14 years old was 74%, as opposed to 68% in the state; 9% of the students had dropped out of school in the first year of elementary education, as opposed to 14.5% in the state. However, grade repetition in the first year of elementary school was higher than in the state, 25.5% in Salvador and 24% in the state, and the rate of students 14 years and over in the elementary school was 26% as opposed to 23% in the state (CPE, 1990: 291-2). Salvador has the lowest rate of 'municipalisation' of elementary education in Bahia: only 13% of the state schools in the city are under the discretion of the municipality (CPE, 1990: 292). Therefore, the municipality plays a small role in the provision of education to its population, the state being the most important agent.

Table 7.3 pictures the disaggregation of expenditure on education. As everywhere else in Brazil, payroll is the major item of expenditure on education. The 1985 election did not affect teachers' salaries, as opposed to the 1988 election. The little variation in electoral years on the percentage of teachers' payroll as compared to allocations in consumption and investment shows that Salvador's mayors do not rely on teachers' votes as much as do the Brazilian governors.

Table 7.3 Salvador: Items of Expenditure as a Percentage of Total Expenditure on Education, 1981-1991

Year	Consumption	Payroll	Investment	Total
1981	6.6	91.1	2.3	100.0
1982	5.4	93.9	0.7	100.0
1983	5.8	93.4	0.8	100.0
1984	5.9	93.3	0.8	100.0
1985*	6.7	91.8	1.5	100.0
1986	9.9	89.0	1.1	100.0
1987	5.5	92.8	1.7	100.0
1988*	2.5	97.3	0.2	100.0
1989	3.6	96.4	0.0	100.0
1990	2.1	95.5	2.4	100.0
1991	0.9	94.3	4.8	100.0

Source: Balance Sheets.

Note : (*) Local elections.

The scant presence of the municipality in the provision of education can be seen by the fact that expenditure on education is generally the second major item of expenditure in most states and in most capitals. In Salvador, however, expenditure on education came in third place in 1981, 1982 and 1991; in fourth from 1984 to 1989; and in fifth in 1983 and 1990. Despite these figures, priority for education is the main promise of every mayoral

candidate.

One-third of Salvador's civil servants are teachers ¹⁵. As in the state, clientelism is part of the Secretariat of Education's routine. According to Angela Barbosa, a senior official at the Secretariat of Education, between 1986 and 1988 local councillors were the main actors for appointing teachers and for moving them from one school to another. Barbosa said that the then secretary Eliana Kertész tried to change this practice. According to Barbosa the technical team introduced elections for the position of headteacher, as a way to decrease the councillors' influence. The result was disappointing: Most of the headteachers were re-elected because of internal clientelism [23 June 1993]. In the period analysed, the term of Mrs Kertész as head of the Secretariat of Education was considered the only one where attempts were made to introduce technical criteria in place of clientelism.

Barbosa stated that the Secretariat enjoyed plenty of resources at that time. Two reasons explain the temporary prestige of the Secretariat of Education. First, the secretary was the mayor's wife and a respected civil servant. Mrs Kertész herself was a councillor and therefore she had links with the legislative chamber, which eased her negotiations with local councillors. Second, the mayor had a good personal relationship with Brasília's bureaucracy, built when he belonged to ACM's group. This relationship is an important resource for education because of transfers from *salário-educação*. Barbosa recounted an example of the close relationship between mayor Kertész and the federal bureaucracy. Barbosa was sent to Brasília to correct mistakes in a project to be financed by the *salário-educação*. The civil servant who could help with the project was going to resign the following day. He managed to redo the project in only one day and to approve it before his resignation [23 June 1993].

As with the state government, in Salvador education was dealt with by clientelism. Given the small role of the municipality in the provision of education, disputes among regional and local politicians for shares in the Secretariat's decision-making process were not as strong as at the state level and were limited to the councillors.

To sum up, Salvador is a city undergoing severe political and financial problems. Financial constraints are responsible for the loss of control by local politicians of the city's destiny. They are also limiting the city's possibilities of having its own political face, despite the electorate's wish to break with dependency upon ACM. Contrary to other capitals,

¹⁵ Information provided by Claudia Mousinho.

Salvador did not benefit from political and financial decentralisation. The lack of federal resources has meant a stronger dependency upon the state government and the private sector. This finding is an exception to the rule that financial decentralisation had positive political and financial effects in most state capitals. Salvador can be numbered among those municipalities which cannot survive without resources beyond their own and in which financial decentralisation has proved to have little effect in improving the mayor's efficiency and capacity to govern, given Brazil's high inter and intra-regional disparities. Whereas for clientelism in general and for its role in education, the financial resources of the city are so scarce and the presence of the state government so high that clientelism does not play a major role in the municipality's political life, although councillors have their share in the small role the municipality does play in the provision of education.

The concept of political localism as formulated by Page (1992), which has been identified in other Brazilian state capitals, took on a particular feature in Salvador. Both forms of political localism could be identified in the city polity, namely a direct relation with national politicians and officials and Salvador's participation as a member of the two national organisations in charge of defending the demands of the state capitals. However, the city's financial weakness constrains its politicians' choices to the will of social and political actors who do not have an elected mandate to govern the city, e.g. Bahia's governors, the building industry and even a newspaper. In Salvador political and financial decentralisation were not enough to decrease the influence of those actors. The case of Salvador displays that there are political and economic factors influencing the outcomes of decentralisation, thus exposing the limits of decentralisation on policy results.

7.2 The Case of Camaçari

Until the 1970s Camaçari was an isolated and poor municipality with few economic and physical links with Salvador and the other cities of the SMR. Four events greatly changed the city's political, social, financial and economic features. First, the decision to set up in the municipality the country's second petrochemical park, COPEC. Located in Camaçari's hinterland, COPEC radically changed the city's and the state's economic basis. Second, the construction of a road, the *Estrada do Coco*, connecting Salvador to Camaçari's vast coastal area, which transformed it into the main resort for tourism and for second-residence houses for the middle classes of Salvador and Bahia. Third, in 1972 the municipality was considered by the military as an area of 'national security'. This fact brought to the mayoral position an

outside figure, Humberto Ellery, who governed the city for eleven years. Fourth, the planning of the industrial and urban areas and the building of COPEC's infrastructure were delegated to the state government, who became responsible for taking decisions in the name of the municipality.

In 1991 Camaçari had 108,865 inhabitants. Physically, the city shows the contradictions and the lack of links between its different urban occupations. Part of it is occupied by industry, the coast by big and comfortable houses, and a third part by a poor population of unskilled workers who arrived in the 1970s to build the factories. These three different 'cities' are not visible to each other, making Camaçari a territory of estranged and contradictory worlds. In COPEC there are highly technological and sophisticated industries, which provide the state and the municipality with their main revenue. These factories employ skilled and well-paid workers, who live in Salvador because of its urban and cultural attractions and because it is near: 41 km away. Since 1986 Camaçari, meaning the COPEC area, has been listed among Brazil's 500 most developed and better infrastructured municipalities for business (*Dirigente Municipal*, 1985 to 1990). On the coast there are large estate developments, comfortable houses and good infrastructure used only during the summer. In the city's residential and administrative area 52% of the economically active population are employed in petty-production. For those who have a regular job, either they have a low-paid job in the municipality or they work for companies hired by COPEC for non-specialised services. In 1988 the city had forty shanty towns, 90% of the population had as a maximum income three minimum wages per month, and 90% were either illiterate or had not completed secondary school (Prefeitura Municipal de Camaçari, 1992).

7.2.1 Political Resources

Three mayors governed Camaçari during the decade. Humberto Ellery until 1985; Luiz Caetano, from 1986 to 1988; and José Tude from 1989 to 1992. Ellery is a former member of the military who managed to be appointed as Camaçari's mayor for two and a half terms. He was the mayor when Camaçari underwent changes in its economic basis. His past experience was evaluated by him as

promoting a distorted vision of society and its problems. I used to think only about planning and technocratic measures, without caring about the opinion of the community. We built a coach station where there were no passengers only because it was in the plan. It was like a pilot commanding the passengers [3 Dec. 1992].

The relationship between the mayor and the legislative chamber was easy because during the military regime the councillors only had one task: to approve the budget [Ellery, 3 Dec. 1992]. Ellery stated that COPEC's managers, whose role was described in Chapter 6, used to ignore the problems of the city and its inhabitants because they did not even cross the city:

COPEC's elite would only remember the city existed when the community created some problem, though conflicts were few because people were passive and anaesthetised, but Caetano changed their mentality. Today they confront COPEC managers and the bureaucracy [3 Dec. 1992].

Caetano's election for the 1986-88 period with 39.6% of the votes was a surprise to politicians and COPEC managers alike. His political career started in COPEC's labour union. He became the first communist mayor in the country, although he was affiliated to the PMDB because communist parties were still illegal. However, Caetano never hid his affiliation to the maoist PC do B. His campaign was based on accusations regarding Ellery's irregularities and on the need to free Camaçari from the military's influence. The Caetano administration transformed the city into chaos. This has been partially recognised even by himself. According to him, he adopted a mistaken strategy for confronting COPEC managers, whom he called entrepreneurs. Caetano reasoned that because

Camaçari was the first leftist mayoral experience. We did not know how to administer a city and we could not count on enough professionals. Another obstacle was the vague view that the bourgeois state had to be destroyed, in which I believed; I found out that this required a concrete formulation [13 Dec. 1992].

Caetano was also penalised by the media. He cited that the daily *A Tarde* stated that his accounts had been rejected by the Tribunal of Accounts, which was not true. He never persuaded the daily to rectify the information [Caetano, 13 Dec. 1993]. His relationship with the legislative chamber was tense. A former senior official, stated that only three councillors supported Caetano and that

the councillors adopted a strategy of confrontation, blocking everything, including authorisations for loans. Negotiations with the chamber had to be on an individual basis and the councillors asked for two things: jobs and material to build or to make little improvements in peoples' huts [Issa, 15 Dec. 1993].

As expected, Caetano was not successful in having his candidate elected. The following mayor was Tude, from ACM's group, who counted on COPEC's financial backing. According to Caetano, one of the reasons behind Tude's victory was the image sold by him

that it was important for the city to be governed by someone close to the state governor. In Caetano's words,

the 1988 Constitution was about to be promulgated transferring resources to the municipalities, Camaçari had always enjoyed plenty of resources but people still voted according to the old model that the levels of government above the municipality are the ones which provided resources to the city [13 Dec. 1992].

Tude's campaign was based on the reconstruction of the city after Caetano's chaos. According to him, his main words were 'progress and development' [2 June 1993]. He is said to have changed the clientelistic way in which politics were carried out, based on promising jobs to Camaçari's unskilled population. In his words,

*we set aside the politics of clientelism to introduce programmes giving people an opportunity to have an activity, especially to set up their own businesses*¹⁶ [2 June 1993].

However, as mentioned by Issa, Camaçari's clientelism had two fronts: jobs and personal financial help. Tude confronted the latter, but he did not despise the importance of job provision. It was reported that he hired more than 2,000 civil servants during his term. These employees were fired by the following administration on the grounds that the city hall was bankrupt (*A Tarde*, 1993). As the figures of the city's finances show, Tude prioritised investment. His main achievement was the construction of the new city hall headquarters, which contrasts to the poverty of the neighbourhood.

Despite opinion polls showing that Tude was going to have his candidate elected, the winner was Ellery, now in the PMDB, supported by an alliance of nineteen parties. Among his main supporters was Caetano, who left the PC do B for the socialist PSB. Ellery credited his victory both to Caetano and to ACM, lighting one candle to God and another to the devil:

Caetano's work in forming and strengthening grassroots organisations made people more conscious; they do not sell their votes any more. Popular participation must be credited to redemocratisation, which we owe to ACM; without him the transition would still be on [3 Dec. 1992].

The alliance between two old enemies, Ellery and Caetano, was based on the need to defeat Tude and ACM's candidate. As in state-level politics, the only way to overcome the power of ACM's group was to build a broad local alliance which put together politicians with different ideologies and political backgrounds. Here again pragmatism played its role when

¹⁶ When asked how successful was this policy in a city inhabited by a poor and illiterate population, Tude did not answer.

it came to the winning of power.

7.2.2 Financial Resources

In Brazil most of the municipalities have as their main resource the transfer of the federal fund FPM, except the state capitals and municipalities which shelter industries like Camaçari. Camaçari is a financially wealthy municipality encompassed by a poor population as its regular residents. The main source of revenue is transfers of ICMS because of COPEC's industries. The FPM represented in 1991 only 10% of the transfers, while the ICMS represented 90%¹⁷. In contrast to Salvador, Camaçari has been able since the promulgation of the 1988 Constitution to increase its own revenue, which moved from 21% of total revenue in 1985 to 36% in 1991, while transfers from federal and state governments accounted in 1985 for 74% of the city's revenue, although decreasing to 59% in 1991. This increase was made possible by a steady policy of levying the ISS, the municipal tax on services, on COPEC's industries. The increase in fiscal revenue followed a trend in big municipalities of increasing their own revenue and becoming less dependent upon federal and state transfers. However, given Camaçari's other dependence, namely upon COPEC's activities, the restructuring of these industries mentioned in Chapter 6 affected Camaçari's revenue structure. In 1993 own revenue went down to 22.5% of total revenue and transfers from the ICMS and FPM went up to 71%¹⁸.

Camaçari is a wealthy municipality by Brazilian standards. In 1993 per capita total revenue was \$406, vastly different from Bahia's \$160 and to Salvador's \$106. Despite being a financially privileged municipality, Camaçari's budget presented a deficit in six years of the decade analysed. The fiscal imbalance was pushed by an aggressive policy of investment, which accounted for 54% of total expenditure between 1989 and 1991, shown in the municipality's balance sheets. Fiscal imbalance was also pushed by payroll expenditure. In 1993 the municipality had an estimate of 5,000 civil servants, i.e. 4.6% of the city's population, as opposed to Salvador's 1%. The average salary was \$300, similar to that of Salvador and Bahia¹⁹.

¹⁷ Although the FPM has little impact on Camaçari's revenue, the city enjoys the second highest FPM's quota among Bahian municipalities because of the size of its poor population (*Diário Oficial da República*, 1993).

¹⁸ 1993 figures provided by official José Pinheiro.

¹⁹ Figures provided by Camaçari's official Paulo Silva.

7.2.2.1 Public Expenditure

Table 7.4 shows the political priorities of Camaçari's mayors in the decade. The municipality was not an exception in increasing resources to the Legislature. Expenditure on Administration & Planning has decreased in the last two years. Given that municipalities which are not state capitals have less room for postponing the payment of interest, the decrease in the percentage spent on that item means the municipality has been borrowing less. After five years of relatively low expenditure on education, the Caetano administration increased by almost 50% the amount spent on it, a trend which was afterwards kept constant. Expenditure on Housing & Urbanisation shows the same trend as in Salvador: they rise exponentially before elections. Health & Sanitation also increased significantly during Caetano's term but decreased in 1991. The figures for Welfare & Pensions show a radical decrease, especially after 1988. This decrease could be misinterpreted as a radical change in the municipality's pension scheme or even as the disappearance of most of its pensioners. The figure was then checked with an official of the municipal Secretariat of Finance, Mr Paulo Silva. According to Silva the decrease was due to a technical mistake made by the accountants, who were improperly classifying expenditure on pensions under the item for Administration & Planning. The other reason was that, as mentioned above, the electorate ask their politicians for two things: jobs and financial help to build or to improve their huts. The way the city hall used to provide help for the huts was through a donation of public resources to individuals. This donation was classified under the item for Welfare & Pensions [Silva, 30 Nov. 1992]. Tude did change that practice by hiring small building firms instead of making individual payments.

In contrast to Salvador, Camaçari's expenditure has been relatively constant, with a few exceptions. This stability shows that there is a pattern of expenditure not affected by the nature of the political regime or by changes in the political groups which governed the city in the decade. Financial decentralisation and the re-introduction of popular elections have substantially increased expenditure on education and health, therefore accomplishing the commitments of the 1988 Constitution and of redemocratisation.

Table 7.4 Camaçari: Expenditure by Function as a Percentage of Total Expenditure, 1981-1991

Function	1981	1982	1983	1984	1985*	1986	1987	1988*	1989	1990	1991
Legislature	1.5	1.2	1.5	1.8	1.6	2.7	1.2	n.d**	n.d**	3.2	3.8
Administration & Planning	54.6	49.8	46.6	39.1	39.2	41.8	35.5	37.1	44.0	31.1	34.0
Agriculture	0.5	0.8	1.5	2.2	1.4	2.6	1.2	1.2	0.1	0.7	2.0
Education & Culture	16.2	15.5	13.8	14.1	13.3	24.0	22.5	23.7	19.9	18.0	22.0
Housing & Urbanisation	4.2	6.3	4.8	14.7	18.1	8.8	17.5	14.7	10.5	4.3	3.5
Industry, Commerce & Service	0.0	0.1	0.0	0.4	0.0	0.0	0.5	1.1	0.6	0.3	1.9
Health & Sanitation	6.3	4.4	2.9	5.4	4.5	5.8	8.1	10.2	13.2	11.6	6.8
Employment	0.1	0.1	0.7	0.3	0.0	0.0	0.8	0.4	0.1	0.0	0.0
Welfare & Pension	5.8	7.5	12.8	14.4	17.1	11.2	9.9	7.8	2.9	1.7	1.1
Transport	10.8	14.3	15.4	7.6	4.8	3.1	2.8	3.8	8.7	29.1	24.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Balance Sheets.

Notes: (*) Local elections.

(**) According to official Paulo Silva, the legislature did not send their accounts to the city hall because of divergencies between the mayor and the president of the legislative chamber [30 Nov. 1992].

7.2.3 Expenditure on Education

Reliable figures on educational performance are scarce in Camaçari²⁰. According to the records, the total number of students in schools provided by the municipality was 34,949 in 1989; 33,039 in 1990; and 30,734 in 1992. In 1993, Santana and Vieira (1994: 44) found that Camaçari had 25,300 registered students. If these figures are correct, they are intriguing considering that the population of the municipality has increased. The number of teachers was said to be 1,407 in 1991 and 1,090 in 1992. Table 7.5 pictures the disaggregation of expenditure on education. The table shows that, in contrast to Salvador, payroll expenditure has decreased in the decade. During the last administration there was a clear tendency to prioritise consumption and investment at the expense of teachers' salaries.

Table 7.5 Camaçari: Items of Expenditure as a Percentage of Total Expenditure on Education, 1981-1991

Year	Consumption	Payroll	Investment	Total
1981	2.4	91.9	5.7	100.0
1982	2.3	85.6	12.1	100.0
1983	2.6	96.5	0.9	100.0
1984	9.7	83.2	7.1	100.0
1985*	21.4	77.1	1.5	100.0
1986	15.4	75.1	9.5	100.0
1987	11.3	87.0	1.7	100.0
1988*	6.0	86.9	7.1	100.0
1989	19.2	60.7	20.1	100.0
1990	12.1	55.3	32.6	100.0
1991	23.8	42.1	34.1	100.0

Source: Balance Sheets.

Note : (*) Local Elections.

According to Normando, the issue of education in Camaçari

is a personal struggle. Education is not a priority for the poor because their struggle for survival comes first. When the administration of 1989 took office the conditions of the schools were very precarious. We invested a lot in construction and repairs, but often the community destroys the buildings and steals school materials. The places where we keep school materials look more like jails and we need to ask the police for help to protect the materials and the buildings. Parents do not attend meetings and show no interest. It is very difficult for a mayor to keep a commitment to education. Clientelism and paternalism also play a role in blocking educational policies. Managers are complacent with demands coming from low-paid teachers, who generally belong to low-income groups, differently to the past [30 Nov.

²⁰ During the fieldwork several visits were made to the Secretariat of Education but the data available were not organised in terms of reliable forms of collection and processing. The reason seemed to be simply a lack of organisation. Data on the number of students outside school, the number of illiterates, the relationship between those who start the first year of elementary school and the first year of secondary school were not available. The data were provided by official Sônia Diniz.

1992].

Normando's vision is shared by ex-mayor Caetano:

The demands of the community are the following by order of priority: food, jobs, freedom, participation, housing and health. Education is not a demand they make [13 Dec. 1992].

In contrast to Salvador, Camaçari has a major role in the provision of elementary education. Also in contrast to Salvador, the municipality helps the state government to maintain its schools, generally providing them with teachers and school materials, because Camaçari has a good financial position [Normando, 30 Nov. 1992].

Despite the indifference of the poor towards education mentioned by the interviewees, after Caetano's term expenditure on education until 1990 became the second major item of expenditure. A survey from a sample of municipalities found out that Camaçari is the municipality in which annual expenditure per student is the state's highest by far: \$759, whereas the state's average was \$200. Camaçari's average surpasses the minimum value of \$300 recommended by international organisations (Santana and Vieira, 1994: 44). Given that the city's inhabitants do not see education as a priority, why does the municipality spend a relatively high amount of resources on education? The answer rests with the need to accommodate the demands of the poor through the provision of jobs for low-income groups through hiring low-paid teachers.

To sum up, the size of Camaçari's poor population makes it difficult for their politicians to give up their role as job providers and to make education a priority. As Caetano put it,

people get close to politicians to get jobs. Hunger and misery lead to two alternatives: getting close to politicians for a job or going into a criminal life. Solutions are individual because political and social institutions are weak [13 Dec. 1992].

Caetano's view is shared by his opponent Tude, who himself said to be deeply disappointed with local politics. In Tude's words,

Locally we can do nothing about unemployment and hunger but people expect us to do something; this is why they distrust local politicians [2 June 1993].

The lack of solutions for the tackling of poverty in Brazil promotes a vicious cycle which keeps the poor dependent upon governments to provide them with their basic needs for survival. As government resources are limited and not everyone can have access to public jobs, clientelism makes the selection.

7.3 Conclusions

Two puzzles were introduced by the cases studied. In Salvador the city's political strength was not enough to free its politicians from dependency on other levels of government, and later, on the building industry. In Camaçari the city's financial strength was not enough to free the municipality from its major role as a job provider for its poor population. Although Brazil is a country of contrasts, the experiences of the two different municipalities have some common patterns. Common patterns were found in economic aspects, in policy priorities, in intergovernmental relations, in clientelist practices, in the effects of decentralisation on expenditure patterns and in the way the political system operates.

Economically, both cities have benefitted from economic deconcentration from the South-East in general and from São Paulo in particular. They have received a high amount of public and private investment in the last two decades: Camaçari benefitted from the establishment of COPEC, and Salvador from its role as an urban centre for business and skilled workers. Therefore, economic modernisation did occur, a significant number of jobs were created as compared with the past, a middle class emerged in Salvador, and public finances improved. Nevertheless, these changes were not enough to cope with the size of the population which has historically been cut off from the benefits of economic development. The gap between economic results and the conditions of the majority penalises the poor but also limits local governments' action. They have to give up their role in improving the living conditions of the population in the long-term in order to provide the poor with conditions for short-term survival.

In policy priorities, the common aspect was that as mayors have to mark their administration with some achievement, they opt for projects with short-term political pay-offs, generally a large and visible public work, such as Camaçari's new headquarters and Salvador's large avenues and viaducts. Education was not a priority, despite Camaçari's decision to increase the amount spent on it. Both cases show that when localities are inhabited by a very poor population, education is not their top demand. Therefore, the assumption that education plays a central role in the development process, in building citizenship and in promoting social mobility cannot be tested in localities which shelter the very poor. Their demands are for survival, leaving local politicians in a puzzling position: they can do nothing to promote jobs in the economy or to directly tackle poverty; therefore they have to invest resources to provide the poor with jobs and to improve their housing conditions, even if their personal

commitment is to education.

In intergovernmental relations, the state government has always had a strong financial and political presence in both cities, being, for most of the time, the major decision-maker. However, as a branch of the literature on local government suggests, local politicians are closer to the communities' needs. As the municipalities analysed are constituted basically of poor, illiterate and unskilled constituents, mayors become responsible for providing their means of survival and not their access to public services, whereas the state government provides the infrastructure for economic development. Therefore, access to local public services is in a governmental limbo. Although having an influence on the national decision-making arena in aspects affecting the municipalities, the role of Salvador and Camaçari's local politicians in the intergovernmental game is limited by political and economic interests not directly related to these municipalities. Salvador's dependency upon the building industry, Camaçari's need to provide the means for survival to its poor and both cities' dependence upon the higher territorial spheres of government are a feature of both cities' polity.

As for clientelism, the phenomenon does not play a major role in mediating access to education, given that the major battle field rests on the provision of basic needs for survival. This does not mean that clientelism in education has perished, but that, as in the state, the patron-client relationship in education is left to less important politicians.

With regard to the effects of decentralisation on expenditure patterns, although Camaçari has increased expenditure on education, overall allocations have not changed much. Local public expenditure is more likely to be affected by competitive elections and by short-term political pay-offs than by commitments to improve the provision of the social services to the population, especially the provision to education.

In the operation of the political system three characteristics were found. First, local politicians have little control over the city's destiny either because they are prisoners of other institutions or because the local population is so poor that the only policy they can adopt is that of providing people with the means to survive. Second, politics is seen by the population as belonging to the territory of the state, yet the population expect local politicians to sort out their problems of unemployment and poverty. Third, the most important political actor in the local scene is ACM, meaning that state and national games are reflected locally, leaving the mayors little room to launch their own political agenda. As in the state, ACM's presence requires the building of broad coalitions to win local elections or a submission to his will.

These three characteristics explain why mayors and the population saw the mayors more as managers than as politicians: they have little chance to act as political leaders and to tackle their cities' social conflicts. Despite ACM's strength, the electorate of both municipalities have tried to overcome it, but financial and social weaknesses jeopardise the effort. These features sustain the argument developed elsewhere (Medeiros and Souza, 1993) that the SMR is marked by contradictions between a 'new' and an 'old' rationality. A new balance of power has been emerging but financial weakness and economic poverty act against it.

Both cases show the difficulties of extracting patterns of political behaviour discussed in previous chapters. Is the local political system fragmented? Does it operate more through persuasion than control? Is there a 'paralysed competitive arena' game in course? Did both municipalities disintegrate 'old' political coalitions? Does the media play any role in shaping political changes or in strengthening the *status quo*? As opposed to the national and the state scenes, clear answers are difficult to extract in these two local systems. What is clear is that local politics are deeply influenced by political, economic and financial events which happen outside the local level, leaving little room for local politicians to introduce their own political agenda, either because they depend upon external actors or because they are limited by the demands of the poor.

Data and findings in this chapter show that although decentralisation fosters democracy by broadening the number of participants in the local political arena, there are political and economic factors influencing its outcomes. This assumption applies to levels of government which have either a large poor population or are without an important economic activity. This chapter has also shown that conflicts between expenditure allocations are a reflection of other conflicts in society, especially in cases where there was no social consensus on what was to be achieved by decentralisation. This finding confirms the theoretical formulations developed in Chapter 1 about how the paths of a decision-making process of a given reform, i.e. the decision to decentralise, influence the type of conflict surrounding its implementation. Thus because decentralisation was an uninformed decision, it did not change previous patterns of expenditure followed by each municipality to a large degree.

Financial decentralisation and redemocratisation were commended by the politicians to the people as ways to improve their access to social services. However, evidence in this chapter shows that the demands of the very poor are for other things. This finding challenges the assumption that the need for education is a general wish which cuts across the social

classes. To what extent the need for education is more of a middle-class demand is a point for future scholarly research. What is true is that local governments and their politicians have little room to improve the social services when their constituencies, despite their political or financial importance, shelter the very poor. This finding stresses the limits of decentralisation in countries cut across by intra- and inter-regional and social inequalities, showing that there are unresolved problems which need to be tackled outside the local level before mayors can play an active role in improving their constituents' living conditions.

Chapter 8 Conclusion: Intergovernmental Relations, Decentralisation, and Federalism in a Fragmented Polity

A federal system is neither a tidy set of separate governments performing separate functions in isolation from each other, nor a hierarchical arrangement in which the federal government dominates the states, and the states dominate the municipalities. Rather, the system is composed of multiple centres of power, overlapping responsibilities, several routes for influencing or vetoing policies, all in constant change according to the federation's political and economic momentum. This apparently confusing feature provides the basis for the exercise of different forms of intergovernmental relations, for different weights of the decentralisation-centralisation continuum and for adaptations and changes within the federation. This framework was the basis of this study and has guided the development of its main argument. This study has argued that since the political opening there has been an enduring tension between national and sub-national interests, with the prevalence of the latter without the relinquishment of the former. This tension has created a 'peripheralised federalism' in which sub-national interests prevail over national ones, and a 'paralysed competitive arena', in which decisions and players cancel each other out. Nevertheless, national issues polarise the political agenda, and policy results at the sub-national level are generally ignored by scholarly works and by the political actors.

In the foregoing chapters the study discussed the tension between national and sub-national interests within the analytical frameworks of intergovernmental relations, decentralisation and federalism and applied them from the perspective of a country which has been redemocratised and decentralised. The study focused on the tensions ranging across political and financial decentralisation and identified patterns of political behaviour seeking to influence and to veto policies and to shape policy results. This chapter re-examines the study's findings in the light of the analytical frameworks previously discussed, by summarising and integrating the analysis and the partial conclusions developed throughout the previous chapters. It aims to shine some light on frameworks of analysis of the relationships between political arrangements in a fragmented polity and its consequences for policy results.

In searching for an answer to the puzzle of how and why a country facing issues that needed to be tackled nationwide chose to decentralise political power and financial resources when it moved from military rule to redemocratisation, and to whether decentralisation has

changed the allocation of public expenditure at sub-national level, especially to education, the study analysed through empirical evidence the decision to decentralise in Brazil and the outcomes of decentralisation at the sub-national level.

This study has indicated that three different concepts are useful in understanding the nature and functioning of the Brazilian political system under a fragmented and decentralised multijurisdictional system of governance. These three concepts are intergovernmental relations, decentralisation, and federalism. Thus the study for its theoretical support enquired into:

- (i) in its intergovernmental dimension, - the patterns of interaction between the three levels of government which have, since 1988, guided the resolution of conflicts and tensions between different levels of government;
- (ii) in its decentralisation dimension, - how the continuum centralisation-decentralisation evolves to change policies, and how to link the conflicts involving policy decisions to its implementation;
- (iii) in its federalism dimension, - how federalism influences a country's experiment on consociational democracy, and which are the political values sustaining current federal arrangements.

8.1 Intergovernmental Relations

Relations between levels of government in a federation reflect alliances, conflicts and tensions between national and sub-national political interests. The Brazilian case shows that these relations are conflict-ridden and are more likely to fit into a framework that considers sub-national governments as polity vehicles rather than as administrative units or as subjected to the rules of a centre-periphery relation. Since 1988 the relationship between levels of government in Brazil has changed from a pattern of interdependence to another in which there is an enduring tension between them to upgrade and/or to keep their position. Because political power and financial resources have been decentralised, the federal government has to play the intergovernmental relations' game differently from the past. Its need to address national issues is counterbalanced by the needs of sub-national spheres to keep the *status quo* as designed by the 1988 Constitution. That is not to say that the federal government is isolated or that it plays a minor role in intergovernmental relations. On the contrary, it has been able to react and to get most of its proposals passed, but a wide range of compromises and quasi-institutional, extra-constitutional and extra-parliamentarian mechanisms have to be triggered at each level of government to address their conflicting needs.

If in the past many lamented sub-national governments' financial and political weakness, the 1990s inverted the signs, and concerns about the weakness of the federal government within the federation and in the intergovernmental relations game were heard. This study has shown, however, that since the 1930s no level of governance in Brazil has had a weak role in its political relationship with the other levels. Despite attempts by the authoritarian regimes to decrease the states' power, and despite increases in the local finances promoted by both authoritarian and democratic regimes to decrease the municipalities' dependence upon the states, the three levels of governance have always enjoyed room for manoeuvre. Although the existence of room to voice their demands has not always been channelled in democratic and legitimate ways, the three levels of government remained as powerful institutions in the Brazilian federation.

What is different since 1988 is that the three levels of government are, for the first time in Brazilian history, experiencing a real power-sharing relationship in a democratic environment, in which the federal government cannot take decisions about national issues without negotiating with the sub-national spheres. Although decentralisation has been on its way since the beginning of the political opening, its effective momentum came with the promulgation of the 1988 Constitution. Decentralisation was a reaction against the centralised authoritarian project which began with Vargas under the *Estado Novo* and was re-built by the 1964 military regime. The adoption of decentralisation and the strength of sub-national governments do not mean, however, that Brazil has partly returned to the ways of the Old Republic, in which the regional interests of a few states prevailed over the entire country. Between the Old Republic and post-1988 Brazil, the country became an urbanised society and an industrial economy, although agrarian and 'parochial' interests are still strong but they are no longer under the command of the old *coronéis*. The political and the electoral systems are more democratic and competitive and forms of horizontal solidarity are entrenched in society.

The power-sharing relationship set up since 1988 does not imply that every state or every municipality enjoys the same amount of power, but there are several unequal but competing power centres which have a voice in deciding on or in vetoing national policies. The existence of several power centres does not mean that the ways used by the states and the municipalities in their intergovernmental relations are the same. This study has argued that each of these sub-units follows different routes in their intergovernmental relations. The states have created several quasi-institutional, extra-constitutional and extra-parliamentary structures

and processes in their intergovernmental relations. These structures and processes can assume different forms. In their relationship with the federal government, structures and processes are developed by the states in the following ways: (i) by the influence governors exert over the states' delegation in Congress and over Congress's Budget Committee; (ii) by appointment to positions in the federal government's governing coalition; and (iii) by putting pressures on Ministers when their proposals hurt the states' interests. The states' relationships with the municipalities have tended to develop in two main ways: (i) the provision of infrastructure to the municipalities; and (ii) the provision of clientelist resources to local politicians.

The case of Bahia, which is centred on the figure of a politician who has managed to survive and to increase his importance during different political regimes, displays the extensive use of extra-constitutional and extra-parliamentary structures and processes to play the intergovernmental game. The history of ACM and Bahia's political, social and economic trajectory show the upgrading of a less developed state to a position of influence and veto on the national scene. During the authoritarian and the democratic regimes Bahian politicians had room to insert the state's demands into federal decisions and policies.

On the other hand, local politicians do not establish their relationships with the other spheres in an isolated and more independent way as the governors do. They influence and/or veto national decision-making arenas by (i) establishing a direct relationship with their elected representatives in Congress and officials, the latter especially with the federal government; and (ii) creating or supporting organisations to channel their demands. The latter is exercised either directly through associations of mayors and municipal secretaries of finances, or indirectly through supporting private institutions committed to local demands.

On the federal government's side the mechanisms used by sub-national politicians tend to set the basis for negotiations, compromises and bargaining. Because the federal government was left with a web of unresolved issues whose solutions the political system has historically been postponing, its position is more delicate. This study has shown that problems of inflation, public deficit, public debt, fiscal predicament, social and regional inequality, the accomplishment of new social rights and the search for a new economic paradigm have been on the political agenda for a long time. The conflicts faced by the Constituent National Assembly and the results of the 1988 Constitution made the national agenda even more congested by imposing upon the federal government the burden of finding solutions for old and new social and regional issues. Tackling all of these problems and promoting changes

requires difficult trade-offs, especially in a milieu of fragmented power where the political élites have been amplified by the nature of Brazilian transition. Addressing these problems means affecting the political and financial strength achieved by the sub-national governments as a result of the 1988 Constitution. However, this study has shown that the federal government, although facing increasing constraints, has its own mechanisms to allow for negotiations with sub-national governments and their representatives in Congress. The use of politically-appointed positions and of negotiated grants, postponements in making sub-national governments pay their debts to the federal government and the manipulation of financial resources are some of the means found by the federal government to negotiate with sub-national governments.

To sum up, intergovernmental relations in Brazil since 1988 have two main characteristics. First, the strength given by the 1988 Charter to sub-national politicians and governments, and, therefore, to local and regional interests, as a result of redemocratisation, as a way of legitimising the new regime and of correcting the excessive centralism of the previous authoritarian regimes. Second, the fact that the military regime and the 1988 Constitution left to the federal government the burden of finding solutions to an over-congested agenda. These two events worsened distributive cleavages between levels of government because there are fewer resources available to the federal government to enable sharing, transference of resources and bargaining with sub-national spheres.

8.2 Decentralisation

In this study decentralisation is seen in three dimensions: how it was set in the political agenda; how its decision-making process was; and how it affected the allocation of public expenditure at the sub-national level. Hence the study concentrates on different momentums of decentralisation and follows the theoretical formulation which argues that the characteristics of particular reforms determine the type of conflict and opposition that surround their decision and their implementation. Therefore, the conflicts which have surrounded the decision to decentralise were likely to be echoed in the implementation of decentralisation.

The analysis of decentralisation's first momentum showed the decision appeared on to the political agenda as a response to different issues. First, as a reaction against centralisation. This reason is more likely to be at the basis of such a decision in a country like Brazil, not cut across by ethnic, religious or linguistic cleavages or by threats of territorial

disaggregation. Second, as a result of redemocratisation, given that in Brazil decentralisation and democracy have always been associated. Third, as a search for 'efficient' government and for allowing citizens' demands to be channelled through sub-national spheres, in line with the normative promises of development theories. Fourth, as a response to the lack of federal government involvement in several sensitive topics that were discussed in the constitution-making process.

However, the decision to decentralise showed the intense intersection of conflicting interests among regions and between the states and the municipalities, becoming therefore a critical aspect in explaining why decentralisation occurred to such an extent. The decision-making process reflected the complex nature of political decisions and policy-making when taken in the context of the turmoil of regime changes. Because of those characteristics the decision to decentralise was largely uninformed, that is to say, the decision preceded discussion and evaluation of its consequences and the trade-offs it would involve. Because the decision was largely based on the need to legitimise the new democratic order, there was no room to build up a social consensus on what was to be achieved through decentralisation. Although many today blame the lack of a clear definition of the responsibilities of the sub-national governments to justify the federal government's predicaments, decentralisation was endowed with a certain degree of flexibility that rejected the rigid idea that governmental functions must be irrevocably assigned to one level of government or the other. This flexibility provides more room for regional demands to come to the fore.

That the decision was taken by Congress highlights decentralisation as a political process. Otherwise, why would elected representatives bother with it? Although the decision was taken by the constitution-makers, pressures from sub-national governments and from regions were voiced. They also influenced and vetoed the details of how decentralisation would operate and how far decentralisation would go. These forays inside the decision-making process of the Constituent National Assembly show the intersection of conflicting interests. Conflicting interests became an important variable in explaining the reason for the extent of the decentralisation adopted in Brazil. The view of policy making and policy change as conflict-ridden arenas allows a better understanding of the decision to decentralise in Brazil when the political actors decided to promote a breaking away from the country's recent past of financial centralisation.

The other momentum of decentralisation, i.e. its impact on sub-national expenditure,

especially on education, is linked to the assumption that the features of a particular decision, especially one which affected Brazil's territorial balance of power, determines the type of conflict that follows its decision and influences its implementation. Because there was a lack of social consensus on what was to be achieved by decentralisation, sub-national governments showed no great commitment to improving the educational conditions of their populations, with the exception of the state capitals. However, although not totally fulfilling a role in the provision of social services, sub-national governments are replacing the federal level as investors and consumers.

Because decentralisation was implemented in the milieu of a consociational democracy, both the new and old political élites are involved with its implementation. This fact, plus the conflicts raised during the decision-making process, characterises the way decentralisation is being implemented and highlights the importance of political forces in the implementation of any given policy. Thus, commitment to the implementation of decentralisation may differ deeply, reinforcing the argument that the outcomes of implementation efforts are highly variable. Furthermore, those outcomes are affected by the arena in which responses to implementation take place. Because there are traces of both the new and old ways of dealing with politics, education is used by politicians as a tool to cement clientelism. The implications of clientelism for policy results is that the state apparatus to deal with it is deeply affected by its existence, which means that tackling the problem of education requires the existence of an apparatus outside that of the traditional bureaucracy.

Another feature of Brazil's decision to decentralise is linked to the country's historically deep regional inequalities. As discussed in Chapter 2, Brazilian federalism was born under the aegis of financial concentration in a few states and with little concern for the country's regional inequalities. Although many measures have been introduced since the 1930s to cope with regional inequality, the issue has never been Brazil's outstanding priority. The struggle among regions recounted in Chapters 3 and 4 showed how deep the problem is, thus the impact of decentralisation on policy results discussed in Chapters 6 and 7 shows how the effects of decentralisation may be highly limited by regional and social inequalities.

By incorporating into the analysis of Brazil's experience on decentralisation the state and the local levels, the study suggests the importance of taking into account both spheres of governance when analysing the implementation of a given policy in federal states, especially in those where jurisdictions are interwoven. The case studies showed how different both

spheres are in tackling the same problem and how their political structures are subjected to different pressures and demands. The case of Bahia, although considered by the study as Brazil's most noticeable example of how redemocratisation and decentralisation did not disintegrate the old political coalitions, shows the strength of a political leader who survived all changes of political regimes. ACM's long-lasting hegemony in the state's political life has assured Bahia a certain degree of political and economic continuity. His hegemony, however, has not prevented the emergence of more democratic political actors and institutions. Bahia should be seen as a state in political transition, where ACM's power is smaller in electoral terms than is thought by his opponents and publicised by his allies. Despite accusations that ACM dominates Bahian politics, new forms of societal and political organisations, although still few and as yet in their infancy, are finding their way into the political arena.

The case of Bahia shows how disappointing the results of decentralisation on expenditure on education were and how clientelism continues to capture decisions on the provision of social services, including education. It suggests that economic modernisation and clientelism can survive in the same political structure and that clientelism can be a way used by the political system to cope not only with demands coming from their clientele but also to accommodate the demands of the poor. Through the Bahian case it was also possible to assess how state-level politicians assumed political control of the media, which, in a certain way and for certain politicians, plays a similar role to that played in the past by clientelism. On the other hand through the Bahian case it was possible to argue that at the state level the political system can develop mechanisms to counterbalance the country's fragmented polity, therefore suggesting that the correlation between political fragmentation and the incapacity to implement policies is not automatic.

The study of the two Bahian municipalities highlighted the dilemmas and limited choices which local politicians confront in governing their constituencies. Those dilemmas are critical to understanding the effects of policy change on policy results. Although decentralisation positively affected the finances of Salvador and Camaçari, it was not enough to free their politicians from dependence upon other institutions. Redemocratisation and decentralisation produced a new balance of power in which patterns of a more democratic society began to emerge. However, neither phenomenon proved to be enough for local governments to improve their constituents' educational skills. The reason is that local governments and their politicians have little room for improving social services when their

constituencies, despite their political or financial importance, shelter the very poor.

The findings, on Brazil's experience in a decade of political and financial decentralisation, show that although decentralisation fosters democracy, there exist various political and economic factors influencing its outcomes, thus exposing the limits of decentralisation in the following aspects. First, the limits of financial decentralisation in countries cut across by regional inequalities and in levels of government with a large poor population or with no important economic activity. Second, the limits of political decentralisation when there is no disintegration of old political coalitions, and clientelism still plays a role in influencing policies. Third, the limits of decentralisation on policy results when there is a lack of social consensus on what is to be achieved by decentralisation. The latter aspect is particularly important in countries such as Brazil that have a congested agenda of unresolved issues. These conclusions help our understanding as to why decentralisation has generally promised more than it has delivered, both in the political system and in policy results, emphasising the view that decentralisation is not the panacea promised by its advocates, and that its results are influenced by political and economic factors.

Furthermore, a decade of political opening has proved to be time enough to assess the impact of decentralisation on political institutions but it is maybe not enough to evaluate its impact on deeper patterns of policy results, given that a generation of politicians and officials brought up under the aegis of democratic rules has yet to come. Those factors shape the nature and scope of conflict surrounding efforts to introduce changes after decentralisation has occurred. This conflict is as it is because decentralisation, intergovernmental relations and federalism do not evolve in a void but are rather part of a preexisting context, especially in Brazil where decentralisation emerged as a result of the search to legitimise a democratic order without rupture.

8.3 Federalism

The literature on territorial politics emphasises that different territorial arrangements influence the outcomes of the political system. Federalism as a value reflects interests which shape the federation, intergovernmental relations and the decentralisation-centralisation continuum in different forms according to the federation's needs at a given time. This study argued that the driving force of Brazilian federalism is the need to accommodate the demands of conflicting élites and to cope with the country's deep regional inequalities. Although the Brazilian federation has experienced several changes, federalism has remained one of the most

important mechanisms of political negotiation in accommodating the country's regional inequalities. Regional interests have always enjoyed political salience in Brazil. Those interests have historically been voiced not only by the state and local-level politicians but also by Congress. Throughout Brazilian history Congress, not just the Senate, has incorporated and acted to shield a range of economic, political and socio-cultural attributes and to produce compromises in Brazil's complex patterns of divergent interests and regional disparities. The Brazilian Congress became an important element in the conflict-pacification equation regarding the regional question, thus keeping it on the political agenda even when authoritarian regimes intended to ignore it.

On the other hand, and as suggested by the literature in which this study found its foundations, federalism and consociational democracy share the characteristic of being mechanisms which allow for the existence of conflicting interests in a political whole. Following this line of reasoning, this study has argued that, although Brazil does not fulfil all the requirements of a consociational democracy, there are many elements of that model which have always existed in Brazil and which have been expanded with redemocratisation. One of the main differences between a stable consociational democracy and Brazil after redemocratisation is the lack of adequate counterweights for dealing with the ensuing fragmentation and blockades. This is why the study has labelled the Brazilian national political system a 'paralysed competitive arena'. However, the strength of sub-national interests cannot be taken as the only element of this 'paralysed competitive arena'. Congress's increasingly assertive role and the strength of the Judiciary are important elements in fostering power fragmentation.

The Brazilian case showed that both federalism and the political pacts which reflected the political ideology sustaining Brazilian federalism are different from what they were. As in the political transition to democracy, Brazilian redemocratisation is still confusing and experimental; old issues such as fiscal predicament, regional inequality and the lack of commitment by the governing élites to education have not yet been addressed. What is new is that, for the first time, the states have assumed a financial importance equivalent to their political importance. Throughout Brazil's history, but particularly since 1988, several unequal but competing power centres, especially those of state-level politicians in executive positions, have the strength to participate in the decision-making process. In a milieu of weak political parties in which parliamentarians are more loyal to their constituencies and to their governors

than to their parties, and in which individual players are more important than collective ones, those actors provide the federal government with the conditions to govern. However, they also act as veto players when a federal decision might affect their regional and local interests. This experiment with power-sharing makes Brazil a good 'test' for two assumptions in the literature on federalism: the interdependence of local, regional and national interests, and that conflicts must be recognised as inherent to the federal setting.

This apparently confusing and experimental redemocratisation made Brazil more federal and more democratic by decentralising power and financial resources to sub-national governments and to the two other branches of the State, namely the Legislature and the Judiciary. It pushed the federal government to incorporate regional and local demands into its congested agenda. This experience produced a 'peripheralised federalism'. The review of both features of the Brazilian national political and federal systems, i.e. its 'paralysed competitive arena' and its 'peripheralised federalism', is on the political agenda and has been the basis of attempts to review the 1988 Constitution since its promulgation. Instead of seeing these features of the Brazilian federation and of its political system as drawbacks, this study argues that they should be seen more as improvements in the country's polity and federalism than as obstacles to the country's needs to face old and new issues.

This is not to say that tensions and conflicts will not emerge or that they will not be intensified. However, whether or not the constraints on the federal government brought about by the 'paralysed competitive arena' and by the 'peripheralised federalism', as well as the slow path that negotiations in such circumstances require, will evolve to keep the political system as it was designed by the constitution-makers remains to be answered through and by the political process itself. This study has shown that despite the limits to decentralisation and its implications for the federal government, the tensions surrounding the Brazilian federation and its intergovernmental relations lie more in historical problems, in regional and social inequality and in a congested agenda of social and economic problems which have not been addressed by previous regimes, rather than on the strength of sub-national governments *per se*.

This study examined a political process undergoing contrasting, conflicting, and sometimes paradoxical developments. Politically, fiscally and constitutionally, the political system moved to more federalism and to more democracy. From the viewpoint of the federal government those movements are forcing it to incorporate local and regional issues in its decision-making process on national issues. This assumption calls for suggestions of further

studies to refine this research's findings. This study has indicated the need for future scholarly works to fill the blanks not considered within the thesis's scope. Those works should go in three directions. First, there is the need to expand the case studies to other Brazilian states and municipalities in order to look for similarities to and differences in the patterns found in Bahia, Salvador and Camaçari. Of particular importance is the investigation into whether there is a correlation between expenditure patterns at sub-national levels and the type of political arrangement within each state and its main municipalities. There is a fertile topic for scholarship in understanding why some state capitals are more committed to the provision of education than others. There is need also to build comparisons aiming at explaining why some local leaders are expelled from elected positions after they become mayors, as happens in Salvador, and others are able to broaden their leadership from the local to the regional sphere, as in São Paulo, Rio de Janeiro, Belo Horizonte, Curitiba and Vitória. On the other hand, why some regional leaders with different political backgrounds are well accepted by the electorate, such as ACM in Bahia and the political groups in Ceará and Paraná, while others leave office in great discredit.

Second, there is the need to develop sharper questions to guide studies able to capture the historical and current reasons for Brazil's regional inequalities beyond the traditional views that over-emphasise the economic and cultural aspects. This line of research should also answer why some poor states and municipalities in the North-East have been able to achieve good governmental and fiscal performances whereas in some better-off areas their governments face financial constraints.

Third, there is the need to understand how policies and decisions become part of Congress's agenda and how regional disputes influence Congress's decision-making process. This study has shown those disputes at a time of deep political change. However, new lines of inquiry should be opened up, especially the examination of how regional disputes are dealt with in Congress's daily routine. The relationship between Congress, on the one hand, and governors and mayors, on the other, deserves the same scholarly attention enjoyed by studies on the relationship between Congress and the federal Executive. This effort should search for answers to how governors' extra-parliamentary and extra-constitutional representations are triggered, and how Brazil's high degree of political localism operates in Congress. Our knowledge of the existence of a web of relationships encompassing all of these actors and institutions has to be deepened by mapping how conflicts and negotiations are dealt with

between Congress and local and regional interests and how they influence the federal Executive.

No matter how the trends in the Brazilian federation discussed in this study are described in shorthand terms, either as a 'paralysed competitive arena' or as a 'peripheralised federalism', they represent prominent and potent decentralising forces. Solutions to any given set of political and financial problems such as those discussed in this study are not obvious, because their impact cannot be known in advance. The choices involve uncertainty and risk. Federal pressures to change the status of sub-national governments have occurred frequently. However, the reshaping, rebuilding, or repositioning of the entire federal arrangement may occur as a result of shifting forces and factors that do not directly alter the keystone position of the importance of local and regional issues in the type of federation onto which Brazil has embarked.

What is certain is that after the military regime came to an end, Brazil not only began a transition to a civilian form of government, but went far beyond that: a process of profound political change has subjected the political system, intergovernmental relations and the federation to unprecedented novelties, pressures and disturbances. Such a process of redemocratisation boosts the number of players, exacerbates class and regional conflicts, and intensifies the awareness of disparities, thereby making consensus difficult to achieve. This kind of change does not occur in an orderly, Cartesian, rational, monolithic manner; rather, its course is sometimes destabilising and unpredictable. Some might prefer a strictly controlled process conducted by a small pro-modernisation élite or, to take up a once fashionable term, a 'sequencing' after the Asian or the Mexican models, in which economic modernisation precedes political participation and diffused power. In this sense Brazil's experience is almost unique.

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