

A New Start Toward a More Decentralized Federalism in Brazil?

Wayne A. Selcher
Elizabethtown College

Brazil's political history can be read as a cyclical alternation between centralization and decentralization—a contest between the center and the periphery. Centralizing tendencies reached one height under the "Estado Novo" of Getúlio Vargas (1937–1945) and peaked again under a series of military governments from 1964 to 1985. Forces favoring regionalism and more state and local autonomy have been given impetus during the 1980s by trends of regional differentiation, popular mobilization, return to civilian government in 1985, several key elections, and state and local financial crises. The constitution promulgated in October 1988 features decentralizing fiscal provisions that give reason to believe that federalism may be revitalized in the next several years in response to grassroots demands from state and local governments. However, these federalism reforms may be threatened by the national government's attempts to thwart the constitution's decentralization provisions and by national economic and political instability.

The year 1988 may prove to be a watershed year in the development of federalism in Brazil. In particular, the decentralizing fiscal provisions of the national constitution, adopted in October 1988 as part of a return to more democratic practices after the 1964–1985 military dictatorship, hold out the prospect of revitalizing federalism in Brazil. Brazilian federalism was adapted from the American model before the turn of this century; yet it stands as an example of the extent to which national values, political style and dynamics, and predominant public issues can modify institutional structures and legal outcomes. Just as a general acceptance of democratic discourse does not necessarily lead to a democratic polity, so too is the successful implementation of the new constitution's decentralization provisions not a foregone conclusion; instead, it depends upon substantial changes in political traditions and style.

This article puts the prospects of the constitutional changes of 1988 regarding federalism in a political dynamics context. After a summary of the historical development of Brazil's centralized federal system, it analyzes the forces behind the current efforts at decentralization, the success of these efforts in the 1987–1988 constituent assembly, the ensuing battle over the ex-

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tent to which the prescribed decentralization will be allowed to take place, and the effects of this issue on governance and the building of democracy in Brazil.

BROAD HISTORICAL TENDENCIES UNTIL 1964

Brazil's current federal system and regional politics evolved as a departure from the unitary administration of the independent Empire (1822-1889), which was able to maintain a degree of centralized control over local factions well beyond that exercised during the same period by governments in the larger Spanish American republics. The First Republic (1889-1930) adopted a system of dual federalism with extensive state autonomy, modeled on the American example, but which evolved instead into a quasi-centralized political combination whereby the two most powerful states—São Paulo and Minas Gerais—predominated in national politics and policy, and alternated the presidency between themselves.

Getúlio Vargas' rise to power through a revolt in 1930 resulted from regional rivalry in which Rio Grande do Sul and Minas Gerais reacted to their disadvantaged positions under the hegemony of São Paulo. Vargas' first presidency (1930-1945) marked the beginning of a clearer trend toward consolidation of centralized national power at the expense of Brazil's state and local bosses, through more effective and deliberate manipulation of state political structures and clientelistic bases down to the local level.

Vargas' "Estado Novo" dictatorship (1937-1945), modeled somewhat on Italian fascism, suppressed opposition and abolished all legislative bodies, political parties, and elections. The president appointed state governors, who in turn appointed mayors in their states. Vargas' style featured corporatism, populism, and nationally planned economic development. The Vargas dictatorship initiated some policies that had long-term centralizing consequences—the growing role of the state in the economy and social services, nationalization of some enterprises and resources, and a drive to organize the public service on a uniform national pattern.¹ These bureaucratic policies have since endured through several cycles in which periods of dictatorship and national centralization have alternated with more democratic periods characterized by modest decentralization and slightly enhanced autonomy for regional, state, and local governments and politics.

The linchpin of centralization has been a strong national executive dominating (but not totally controlling) the entire federal system through a concentration of fiscal authority, personnel resources, and constitutional prerogatives, which tended to accumulate over time. Representative institutions, including elections, linked traditional local political bosses, or *coronéis* (often large landowners), at the *município* (roughly, county) level with state and national officials through a clientelistic system of mutual obligations,

¹Miguel Reale, "Sentido da Cultura Política Brasileira," *Revista de Ciência Política* 22 (January-March 1979): 12.

traded favors, and government aid for votes.

The resultant interplay was one of power sharing and patronage bargaining among the three sets of elites, with the national government becoming gradually more powerful and with the more populous and economically prosperous states enjoying relative advantages. The state and national political establishments increasingly reflected the interests of an urbanizing and industrializing nation with a growing middle class.² Local government, the *município*, was deliberately weakened and kept dependent by the other two governments, which strove to co-opt or dominate the parochial *coronéis* of the interior who exercised control over most units at that level until the mid-to-late 1960s. Yet the realities of local and state power and clientelism had to be built into national electoral strategies and cabinet composition; consequently, personal relationships between presidents and governors of key states assumed considerable importance.

CENTRALIZING LEGACIES OF THE 1964-1985 MILITARY REGIME

Whereas the relatively competitive period of 1946-1964 gave significant play to local, state, and regional interests, the post-1945 height of centralization and of national government power came under the military governments that followed the military's seizure of power in 1964. The "Revolution" dismantled state and local powers and created a quasi-unitary system. Centralization became mandatory within the logic of the military regime's drive to industrialize Brazil through state capitalism and multinational enterprises under unified development plans. The regime also sought to limit the effectiveness of representational structures, control opposition, and monopolize decisionmaking.

The Political Mechanics of Centralization

During most of the 1964-1985 "Military Republic," indirect elections were held for state governors, while mayors of state capitals were appointed by the president. Electoral rules down to the local level were manipulated by the national government to manufacture majorities in the National Congress for the pro-government party in spite of declining voter support.³

An outstanding effect of these artifices by 1985 was to give a greatly disproportionate weight in the National Congress to more traditional and socioeconomically less developed states in which support for the government party became concentrated (particularly in the Northeast and the North) and to diminish the representation of the more developed areas in which the op-

²Antonio Otávio Cintra, "Traditional Brazilian Politics: An Interpretation of Relations between Center and Periphery," *The Structure of Brazilian Development*, ed. Neuma Aguiar (New Brunswick, N.J.: Transaction Books, 1979), pp. 143-144.

³These devices are analyzed in David V. Fleischer, "Constitutional and Electoral Engineering in Brazil: A Double-Edged Sword (1964-1982)," *Inter-American Economic Affairs* 37 (1984): 3-36.

position was strongest (principally in the Center-South and South). The systematic curtailing of congressional powers relative to the executive further weakened the initiative of the states and municipalities, as well as the ability of senators and deputies to favor their constituencies through budgetary legislation. Brasília's prominent role in determining national economic development strategies, and in promoting its state corporations and creating many new ones, also tended to set the boundaries for state development and to push the states in similar directions because state industrial and major development decisions needed federal support to be viable.

The Fiscal Mechanics of Centralization

Fiscal centralization and tax reform reinforced the expanding power of the national government as well as its role in the economy—trends that survived into the post-1985 civilian government. The tax reform of 1966 and the constitutions of 1967 and 1969 reserved to the national government the sole power to create new taxes, passed to the Senate or the federal executive branch the former power of the states to determine their own tax rates, transferred to the national government all taxes considered related to economic policy, and restructured taxes for all three governments in order to provide the union with relatively higher revenues.⁴ The Senate also was given the authority to approve or reject all foreign loans to states and *municípios*.

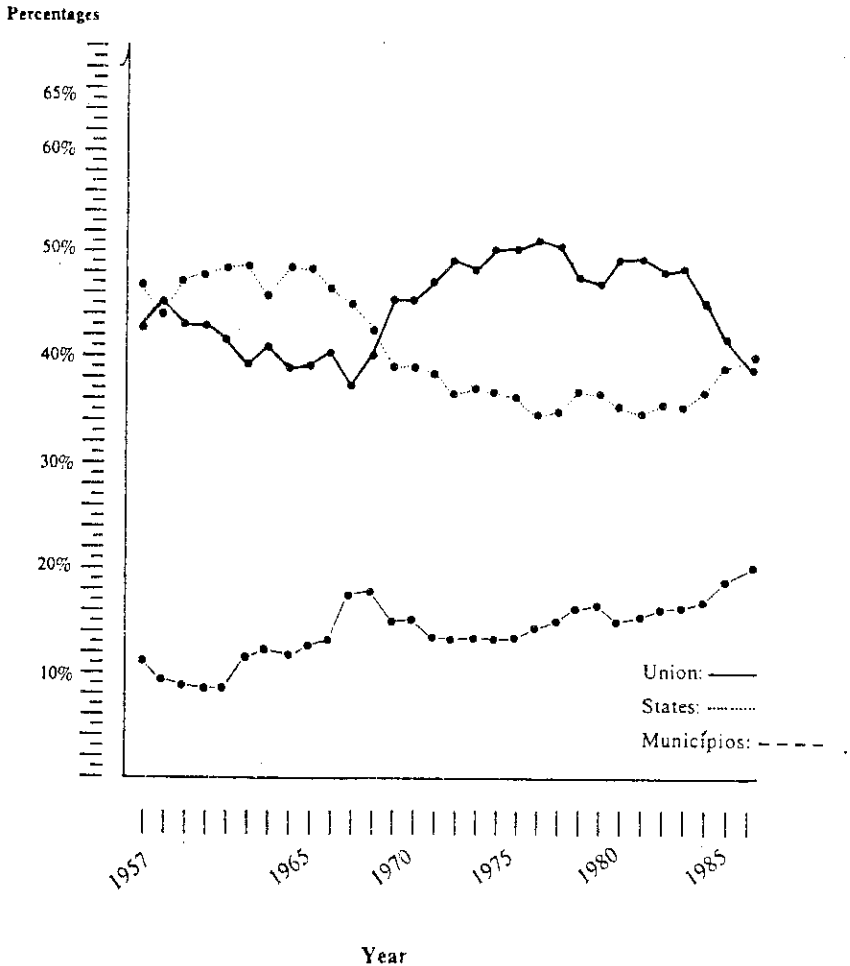
A revenue-sharing mechanism (the Participation Funds of the States and *Municípios* and a Special Fund) was created, with shares drawn from the two chief federal taxes, the income tax and the tax on industrialized products. The funds were redistributed to states and *municípios* on the basis of formulas weighing total population and tax receipts. The funds did make up for some tax-base losses of states and *municípios* and did have income-redistributing characteristics that favored poorer regions, but they further concentrated discretionary power in Brasília and lent themselves to partisan use. As the years passed, the union's developmental role grew, and a series of measures and practices further enhanced its manipulation of, and power over, national tax revenues, to the detriment of states and *municípios*. For example, an important federal incentive to promote exports was to exempt them from the tax on the circulation of merchandise (ICM), which was the principal tax base for the states. This was done without reimbursing states for lost revenue.

The system of intergovernmental transfers resulted in the actual revenue availability picture shown in Figure 1. Faced with such revenue restrictions, yet increasing their own levels of activity, states and localities turned to taking loans and issuing bonds, which increased their indebtedness.⁵ As actual-

⁴Fabricio Augusto de Oliveira, "O Federalismo no Brasil: Evolução e Perspectivas," *Revista de Finanças Públicas*, No. 343 (July-September 1980): 50-51.

⁵Lawrence S. Graham, "The Role of the States in the Brazilian Federation," *Subnational Politics in the 1980s: Organization, Reorganization, and Economic Development*, eds. Louis A. Picard and Raphael Zariski (New York: Praeger, 1987), p. 124.

FIGURE 1
Shares of Revenue Resources Available after Intergovernmental
Transfers in Brazil's Federal System



SOURCE: Hélio Socolik, "Transferências de Impostos aos Estados e aos Municípios," *Revista de Finanças Públicas*, No. 367 (July-September 1986): 74-75, and Roberto Bocaccio Piscitelli, "Reforma Tributária e Constituinte," *Revista de Finanças Públicas*, No. 370 (April-June 1987): 45.

ly practiced, the governmental finance system greatly favored the national government, limited the ability of states and localities to collect taxes, and redistributed intergovernmental revenues in such a way as to favor the North, Northeast, and Center-West at the expense of the Center-South and South, particularly the state of São Paulo.⁶ (See Table 1.)

⁶Ibid., pp. 126-130.

TABLE 1
Federal and State Revenue Transfers to States and *Municípios* by Regional Shares, 1983
(percent)

Region	Federal transfers to states	Federal transfers to municípios	State transfers to municípios	Percentage of national population, 1980
North	14.8	6.1	1.9	4.9
Northeast	42.5	33.7	13.3	29.3
Center-West	7.8	7.9	5.2	6.3
Center-South	24.2	34.7	60.7	43.5
South	10.7	17.6	18.9	16.0
Brazil	100.0	100.0	100.0	100.0

SOURCE: "Recursos Tributários Efetivamente Disponíveis da União, Estados e Municípios, 1957 a 1983," *Revista de Finanças Públicas*, No. 360 (October-December 1984): 48.

Within the then twenty-three states (until 1988), the 4,100 *municípios* vied for state government resources and suffered greatly decreased autonomy relative to their states and to Brasília. (*Municípios*, roughly analogous to counties in the United States, are responsible for the provision of basic community services.) For example, in the six-year period from 1980 to 1985, the states depended on transfers for 10.2 percent of their total available revenues, while the *municípios* in the same period received 62.1 percent of their total available revenues from transfers.⁷ Poorer states and *municípios* received proportionately more, and richer ones proportionately less. Most typically, states competed to win greater individual shares of revenue from Brasília rather than to unite to gain more autonomous revenue through tax reform.

AN INCOMPLETE TRANSITION TO DEMOCRACY AND AN UPSURGE IN STATE AND REGIONAL ISSUES

The indirectly elected civilian government of President José Sarney, which was inaugurated on 15 March 1985 (the "New Republic"), came to power through a long (since 1974) and carefully orchestrated "transition through transaction" that left intact many power-holders, laws, and practices from the military regime.⁸ The gradual and evolutionary change to civilian

⁷Hélio Socolik, "Transferências de Impostos aos Estados e aos Municípios," *Revista de Finanças Públicas*, No. 367 (July-September 1986): 71. This article is a thorough study of the laws, practices, and accounting in the federal revenue sharing system at the start of the constituent assembly.

⁸The concept of "transition through transaction" is discussed in Donald Share and Scott Mainwaring, "Transitions Through Transaction: Democratization in Brazil and Spain," *Political Liberalization in Brazil: Dynamics, Dilemmas, and Future Prospects*, ed. Wayne A. Selcher (Boulder, Col.: Westview, 1986), pp. 175-215.

government was the result of many compromises with the dictatorship and so did not involve a clear break with those elements comfortable with centralization and the dictatorship. Thus, the political system and its establishment did not wholeheartedly embrace or adopt fully democratic principles, institutions, or goals. Those political actors who seek to build a more democratic system can at least count on the anti-authoritarian feelings of the majority of the citizens, but have to confront the still entrenched power of a traditional establishment suspicious of taking chances with free-wheeling liberties.⁹

In 1985 and early 1986, a number of authoritarian measures were repealed and more democratic measures instituted. In the area of national-state-local relationships, however, almost all changes were put off onto the constituent assembly (the National Congress as elected in November 1986), which was called to write a new and democratic constitution to replace the 1969 document imposed by the military. The assembly convened in February 1987 and finished final voting in September 1988. As with other attempts at basic changes, such as agrarian reform and workers' rights, the pressures to limit a major restructuring of the federal system were strong, despite state and local calls for decentralization under democracy as a reaction to the disadvantages of the centralization imposed by the military.

The Pressure to Decentralize Increases

During the military regime, regional and federal conflicts could be treated with minimal open discussion and preferably in closed rooms. Governors, state legislators, and mayors were rather compliant. The democratic opening after March 1985, however, brought participationist pressure from constituents and criticism of the former model. The states' fiscal crisis added urgency to the need for reform, and the constituent assembly provided the means to change the equation of power through reform of tax bases and revenue sharing.

Strong gubernatorial mandates from the electoral sweeps of the broad-based and center-left Party of the Brazilian Democratic Movement (PMDB) in November 1982 and November 1986 and generally better staffs gave the governors more partisan compatibility and more leverage. Hence, state politics took on more vitality. Numerous neighborhood, community, and other small-scale cooperative organizations were created during the mid-1970s and afterwards, and, while not yet a major political force, their representatives have put unaccustomed pressure on local politicians and government officials. Mayors of state capitals (the largest cities) must now be more alert to the demands of the constituents who elected them in 1985 and 1988. A more assertive Congress in the New Republic, with active lobbies, completed the picture, giving regional, state, and local interests an energetic resurgence across party lines.

⁹Guillermo O'Donnell, "Challenges to Democratization in Brazil," *World Policy Journal* 5 (1988): 284.

The municipal elections of 15 November 1988 clearly demonstrated progressive and leftist electoral tendencies in the major state capitals. These tendencies are in sharp contradistinction to the conservative bent of the national government. Encouraged by dissatisfied grassroots communitarian and civic participation groups, the anti-establishment vote brought many new reform-minded contenders to power. It also reversed the ascension over the last several elections of the popularity in the larger urban centers of the Party of the Brazilian Democratic Movement, formerly the chief opposition to the military dictatorship. The PMDB is now identified in the voters' minds as too closely linked to the unpopular Sarney administration in Brasília, despite that party's ongoing attempt to distance itself from Sarney. Most notable was the victory of the Workers Party (PT) in the mayoral race in São Paulo, Brazil's industrial heartland, bringing to power militants who had suffered police repression in recent years.

The financial crisis of the states is probably the single most important issue in current state views of the federal relationship. By early 1987, many of the states had insufficient income even to cover their payrolls, let alone public works promises made during the November 1986 gubernatorial campaigns. Beyond the unfavorable long-term trends already mentioned, the 28 February to late November 1986 euphoria over the low rates of inflation of the first Cruzado Plan and the furor of the energetic election campaign led many states to plan expansions of payrolls and services. They then faced those obligations in a bankrupt condition after 15 March 1987, when inflation again advanced, economic growth slowed, and tax receipts dropped sharply. Fearing short-term economic and political damage from reductions in program and personnel, states, as usual, sought help from Brasília, achieved a partial rollover of state debts, and contracted new loans. Numerous state-owned banks realized large deficits that were then "covered" by the Central Bank. The Sarney government, needing all the political support it could get, was reluctant to resist; hence, a more definitive solution of the problem was postponed.¹⁰

The Rhetoric of Federalism

Keeping with tradition and pressed by economic difficulties, the dialogue on federalism among politicians in the New Republic is of a low philosophical content. Its principal concerns are tax burdens and the distribution of resources, and less so the concepts of structure, governmental representation, spheres of responsibility, the purposes of policy autonomy, or administrative effectiveness. It also takes on a North-South dimension. The North and Northeast argue that the federal government has a moral obligation to provide disproportionately more resources to them because of their lower levels of development and income, as well as their weaker tax bases. These two regions hope to use tax reform to reduce regional disparities. The

¹⁰"Salto no Escuro," *Isto é*, 10 June 1987, pp. 70-71.

Northeast has a decades-old record of being the "poor sister." This region and its institutions suffer from negative stereotypes held by the two most developed regions, as do its numerous emigrants who have settled in southern areas. The North, or Amazon Basin region, feels so neglected by the federal government that its governors were actually pleased by the 1988-1989 international furor over destruction of the rain forest and over land-use issues, because it forced President Sarney to take their problems and viewpoints more seriously.¹¹

The Center-South and South see themselves as producers who are disadvantaged by a net transfer of federal aid to the North and Northeast, aid that they say has produced poor results and is disbursed largely to local elites. The South is further frustrated by its declining economy and loss of seats in Congress. The frontier Center-West tends to side with the North and Northeast because of its current underdevelopment in spite of a relative economic boom.

These interests cut implicitly into the meanings attributed to federalism in Brazil because the North, Center-West, and Northeast (with poor tax bases) favor a more centralized and redistributionist form of federalism, while the wealthier Center-South and South would be relatively more advantaged by decentralization in the form of devolution of tax bases and functions directly to the states. Both sides strove for maximum representation on key tax committees of the constituent assembly. Regional interests on the revenues distribution issue prevailed over many partisan considerations, as the three poorest regions assembled a majority coalition on fiscal federalism issues.

THE CONSTITUENT ASSEMBLY ADOPTS A FEDERAL FINANCIAL REVOLUTION

Responding to heavy lobbying by *município*, state, and regional groups, the constituent assembly voted final approval in September 1988 for broadly negotiated revenue-sharing and tax base provisions that, if fully implemented, would bring major changes in the national political order. According to the constitutional changes to be phased in over time and become fully effective in 1993, transfers from the Participation Funds will increase gradually, and a fund will be created to compensate states for losses in sales taxes because of federal export incentives. Several federal "unified taxes" (*impostos únicos*) will be incorporated into the value-added tax on goods and services that is already levied by the states. States also will be given the option to levy a 5 percent income tax on financial assets and capital gains. The federal executive is also prohibited from creating so-called "compulsory loan" taxes (supposedly, investment funds) without congressional approval.

As the system is phased in, the states' share of the revenue from the federal income tax and the federal tax on industrialized products (IPI), which are

¹¹Marlise Simons, "Brazil, Smarting from the Outcry over the Amazon, Charges Foreign Plot," *New York Times*, 23 March 1989, p. A14.

the base of the Participation Funds, will rise from the current 14 percent to 21.5 percent, and that of the *municípios* from 17 percent to 22.5 percent. The Special Fund for the three poorest regions will rise from the present 2 percent to 3 percent of the federal income tax and IPI, while the new compensation fund for exporting states will rise to 11 percent of federal receipts in the IPI. (A part of this latter fund will be passed to the *municípios*.) In the phasing-in process, the federal government's ultimately available share of national tax revenues will drop from the current 44.8 percent to 36 percent in 1993, the states' share will rise from 37.4 percent to 42 percent (45 percent for the three poorest regions), and that of the *municípios* will rise from 17.8 percent to 21 percent. This revision substantially favors the *municípios* (especially the poorer ones) and clearly repeals the centralizing effects of the 1966 tax reform.

Implications for Federalism

The regional variation of expected benefits from the revenue transfer reforms is considerable, as seen in Table 2. The three poorest regions will gain some small specified additional benefits in the Special Fund and will share disproportionately in the increased largesse from the Participation Funds. The wealthier Center-South and South, however, are in a much better position to take advantage of the changes granting more autonomy—export compensation, the shift in “unified taxes,” and the option of a financial assets and capital gains tax. These latter regions also have the administrative machinery to use the new resources more effectively. Thus the North, Northeast, and Center-West will continue to be relatively more dependent on the federal government, which may now have fewer resources for large-scale infrastructure development there. The Center-South and South (bulwark of the middle classes) will have greater financial autonomy to express their opposition to Brasilia and to resist federal dictates. On balance, the two more developed regions can be expected to gain in both relative political influence and in comparable wealth, further widening the North-South gap.

The federal government's ability to impose its political standards on transferred funds (in the grants-in-aid area called “negotiated transfers”) was curtailed severely. State and local patronage networks will therefore gain at the expense of the federal one, giving a future president less bargaining power among politicians nationwide. Nor, with almost all transfers “automatic” rather than *ad hoc*, will the federal government have the same range of policy instruments to affect state and local elections and priorities that it has long enjoyed.

DECENTRALIZATION VERSUS CENTRALIZATION

At the level of public political discourse, political, administrative, and financial decentralization in the federal system is an idea that achieves very broad

TABLE 2
Revenue Transfer Effect on States, by Region, of the 1988 Constitutional
Changes in the Participation Funds and the Special Fund

States and territories by region	Number of cruzados received from the Funds for each cruzado paid to the union in income tax and the tax on industrialized products (IPI) ^a	
	Currently	Forecast for 1993
NORTH		
Acre	14.58	20.76
Amazonas	0.93	1.32
Pará	1.06	1.51
Amapá	9.89	14.08
Rondônia	4.70	6.69
Roraima	15.65	22.29
NORTHEAST		
Maranhão	8.70	12.40
Piauí	2.90	4.13
Ceará	1.48	2.10
Rio Grande do Norte	3.44	4.90
Paraíba	3.98	5.67
Pernambuco	0.55	0.78
Alagoas	3.75	5.34
Sergipe	3.08	4.39
Bahia	0.79	1.13
CENTER-WEST		
Mato Grosso	1.40	1.99
Mato Grosso do Sul	1.34	1.91
Goiás	1.22	1.74
Federal District	0.02	0.03
CENTER-SOUTH		
Minas Gerais	0.29	0.41
Espírito Santo	0.45	0.64
Rio de Janeiro	0.04	0.06
São Paulo	0.04	0.06
SOUTH		
Paraná	0.27	0.48
Santa Catarina	0.32	0.46
Rio Grande do Sul	0.18	0.26

SOURCE: "A Disputa do Bôlo," *Veja*, 13 April 1988, p. 83.

^aIncludes revenue received from the Funds by each state government and by all of the *municípios* of each state. The Funds are financed as percentages of the federal income tax and the IPI paid in nationally.

support, principally as a concomitant of democracy in a large nation and as a way to curb the powers of the federal executive branch. Like "tax reform," of course, the motivations and expectations of those promoting decentralization are rather diverse, and what the mandated decentralization will achieve is not yet clear. Much enabling legislation for new provisions

in the entire constitution must be passed, and key changes with major policy implications are likely to occur during the phase-in period. The actual implementation of the new constitutional provisions must be interpreted and carried out within the context of other major national, state, and local political currents, practices, and priorities.

The Case for Decentralization

Not all advocates of decentralization are populists. Private sector leaders see in the movement another way to lessen the role of the interventionist national government relative to the private sector, thus making government a minor rather than a major partner. Urbanologists would like to develop a real urban policy, to provide more funds for the major cities, and to create metropolitan regions to adapt to urban sprawl. Regional development advocates seek ways to use decentralization to accommodate the growing diversity among the five major regions and, indirectly, to encourage regional development poles. State government officials are looking for a way out of their financial straits, while the "municipalists" argue that local government is more economical as well as closer to, and more responsive and accountable to, the electorate. Local clientelistic machines would like more autonomy in raising and disbursing revenues.

The decentralization debate on structure and policy has tended to revolve around polar dilemmas of centralization versus autonomy, rather than "marble cake" federalism, ongoing negotiations, or integrated partnership. The twenty-six states (since 1988), ironically, have no organization that promotes state government *per se*, and very little "horizontal federalism" or interstate cooperation occurs or has been institutionalized.¹² On the other hand, although the Constitution of 1969 did not even consider the *município* to be a component of the federal system, there are three local government associations plus a Movement of the Mayors of State Capitals, all of which lobbied the constituent assembly and issued declarations of principles.

Some sharing of perspectives and experience is occurring across *municípios*, such as in state associations of mayors. Most of the attention was addressed to Brasília in order to channel more funds directly to local governments, partly to avoid the common clientelistic use by the states of their own funds and of funds passed through them to the localities (which prefer to court their own clientele). It has also been common for state governments to withhold funds from *municípios* that are governed by a majority from an opposing party.

The net political effect of increased activity and funds in the more than 4,100 *municípios* will be uneven and difficult to predict because of extreme

¹²The 1988 constitution created a new state (Tocantins) out of part of Goiás, and made states of the former territories of Amapá and Roraima, which had the effect of creating in the National Congress sixteen new deputies and nine new senators from the conservative periphery. São Paulo state was allowed only ten new deputies and remained seriously underrepresented because of a continued ceiling (albeit raised) on the total number of deputies allowed any one state.

variations in wealth and human resources.¹³ Even before the 1988 tax reform, Brazil devoted a higher percentage of national tax revenues after transfers to the localities than did any other developing country. Yet about half of the *municípios* have no really significant tax base, and fewer than fifty *municípios* in the nation raise over 50 percent of available financial resources from their own tax base.¹⁴

As a group, the *municípios* have been accustomed to paternalism, and thus take a parochial view of their situation. More localism, and perhaps more political responsiveness, are probable outcomes, but most smaller *municípios* do not have requisite administrative capabilities to manage either new funds or new functions. Consequently, waste and inefficiency might result from decentralization.

The Forces Against Decentralization

The above forces, constitutional reforms, and policy prescriptions are working against the momentum of an entrenched national bureaucratic state with paternalistic, cooptative, and clientelistic preferences, a large role in the national economy that it uses for political purposes, and a security apparatus leery of grassroots mobilization. The national government regularly uses funds and federal jobs to cajole states and *municípios* to support the president generally, and especially at times of trouble over key congressional roll calls. The military establishment, always influential, prefers a centralized administration because of its preference for strategic national projects and national state-run corporations, as well as its greater influence in the national government rather than in the state governments.

The recent and serious political and economic problems of the Sarney government lead it to see decentralization as one more attack on its waning power. The president and his advisers lobbied against decentralization during the assembly, and presented in stark terms the probable losses in tax revenues for the federal government.

Decentralization of functions (i.e., jobs) is even more controversial than decentralization of tax revenues, and has as yet been little discussed. At the state and local levels, the old system allowed national and state deputies to obtain federal or state funds so that they could appear as "saviors" to their districts. The old system also enabled officials in trouble to transfer blame higher up.

The new constitution does not specify a shift of federal functions to match the shift in revenue; therefore, implementing legislation from Congress must define those functions through a process not made clear at the time the constitution was completed. Further, the states will all rewrite their constitu-

¹³The nature and possibilities of the *municípios* are analyzed in Diogo Lordello de Mello, "Local Governance in Brazil," *Local Governance and National Power*, ed. Samuel Humes (The Hague: International Union of Local Authorities, forthcoming).

¹⁴Interview with Professor Diogo Lordello de Mello, Brazilian Institute of Municipal Administration, Rio de Janeiro, 28 July 1988.

tions during 1989. Whereas the former state constitutions tended to be replicas of the national one, the Constitution of 1988 does allow a bit more leeway to state framers.

The battle over definition of functions will be a difficult one, and its outcome will determine major contours and practice of Brazilian federalism. The staying power of the national establishment has proven rather formidable. Even before the final congressional vote on the new constitution in early September 1988, the national government began vigorous and almost retaliatory measures to thwart the decentralizing intent of the document by manipulating the crucial implementation phase and procedures in its favor through a so-called "Operation Takedown" (*Operação Desmonte*). On the face of it, this operation is an attempt by Brasília to trim its programs to fit its newly reduced revenues. The political key to this operation, however, has been the abrupt transfer to the states (circumventing the Congress) of far more formerly national responsibilities than their new revenues can possibly fund, thus leaving them more dependent on Brasília than before.

To flaunt power further and to assure state financial subservience, President Sarney requested in his 1989 budget proposal to Congress that the states pay to the national government not only the interest for 1989 on their foreign debts, but also 25 percent of the principal of those debts and part of their debts outstanding since 1983, both of which had earlier been assumed by the Bank of Brazil. This suddenly accelerated payback to the national treasury, worth about \$3.1 billion and due in 1989, would by itself annul the new fiscal gains made by the states and localities. State governors and finance secretaries lobbied fiercely in the national executive and the Congress to forestall the fiscal blow or to blunt its impact.¹⁵

The final effect of such measures, should they succeed, would be to cripple the decentralizing provisions and make their full implementation impossible in a practical way, thus rendering that part of the constitution more declaratory than effective. In this sense, the national executive would just be reasserting its traditional role as the ultimate civilian political arbiter of constitutional practice. The implementation maneuverings among the three main governments of the federal system were far from over at this writing, nor were the probable results clear.

PROSPECTS FOR DECENTRALIZATION AND DEMOCRACY

The Brazilian political transition to a fuller democracy has run into social class issues of elite conciliation and elite-mass relationships, issues that are more fundamental, severe, and polarizing than those concerning federalism, regionalism, and the organization of the national state *per se*. The very viability of Brazil's precarious democracy, however, depends upon addressing the social problems and institutional instability inherent in a dualistic nation in which the richest 1 percent of the population earns as much of the national

¹⁵"O Fim da Caixa-preta," *Veja*, 30 November 1988, pp. 106-108.

income per year (13.1 percent) as the poorest 50 percent,¹⁶ while yearly inflation for 1988 reached nearly 1000 percent. Federalism in Brazil has become inevitably tied up in a number of competing agendas. The most fundamental of these is the clash between those in dominance who want a strong central state to govern from the top down and those in resistance who see in decentralization a way to organize society and politics more from the bottom up.¹⁷ The ultimate purposes of the actors in this elitism versus openness struggle may not always be quite that clear, but they do not see the organizational form of the state as a neutral factor.

In part, the movement to diffuse power in the federation is a product of the newer grassroots organization trends, and in part it is a product of contention among the elites, local versus state versus national. Diffusion of power would tend to strengthen state and local elites and to strengthen grassroots organizations if public money is spent on social purposes. Mayors are certain to become major players in social policy, for example, but in the past many have been more inclined to spend on showy physical infrastructure than on social services, such as health and education.

Political parties stand to benefit from the diffusion of power, but will have to develop closer contacts with their constituencies. Minority reformist parties with largely localized strengths, such as the Workers Party (PT) and the Democratic Workers Party (PDT), will have more opportunity to build bases. State and local administrators may be tempted to overextend themselves because of the relatively copious flow of new money. They also will feel more public pressure to perform because the new community groups are not satisfied with postponement and vague promises.

It is probable that the push for political decentralization will continue as a component of the push for greater democratization. It is, however, more likely to lead to delegation (and duplication) of functions than to a clear net devolution of functions or a change of relationships that would alter the character of Brazilian federalism sufficiently to approximate the American model.

Difficulties of Implementation

To make decentralization work efficiently and effectively, Brazil would have to develop a vastly improved system of cooperative intergovernmental relationships and in-service administrative training for the states and localities. There is, as yet, no national program to train state officials, and there is little state interest in such a program. Federal administrative capability is already weakest in the education, housing, health, and social security areas,

¹⁶Hélio Jaguaribe, Nelson do Valle e Silva, Marcelo de Paiva Abreu, Fernando Bastos de Avila, and Winston Fritsch, *Brasil-Reforma ou Caos* (Rio de Janeiro: Paz e Terra, 1989), pp. 17-18.

¹⁷See, for example, the key points raised by Maria Helena Moreira Alves, "Dilemmas of the Consolidation of Democracy from the Top in Brazil," *Latin American Perspectives* 15 (Summer 1988): 47-63.

which are the kinds of social services most likely to be transferred and also traditionally most prominent in patronage. It is a common contention that the worst unit of government in Brazil for corruption, inefficiency, and nepotism is state government, and a greater flow of funds to the states could suffer from that tendency and swell state clientelistic networks and employee ranks with minimal impact on development. States and *municípios*, to use the funds effectively, will need clearer priorities and tighter management, even to balance their budgets. (Most states and localities ran budget deficits in 1988.) The *municípios* in general may not have the experience to handle much higher revenues without considerable waste. Because of their poverty, the North and Northeast will remain the most dependent on and beholden to Brasília and solicitous of help through regional development agencies.

A More Complicated Federalism

State, local, regional, and national relationships will continue to become more complicated because of growing national diversity and institutional acknowledgment (political and administrative) of the hitherto nearly ignored multi-layered nature of the federal system—*municípios*, a large number of mid-size cities, state capitals, metropolitan regions, states, federal regional agencies, and the union. Urban and metropolitan problems will assume considerable weight in the federal system because about 30 percent of the population lives in the ten largest urban agglomerations. Decentralization could direct more attention and resources to their deepening problems, which in the past have been given short shrift by the federal and state governments. While multiple levels of decisionmaking authority bring the possibility for greater local and state government responsiveness, it could also make Brazil more difficult to govern because of a poorly developed system of intergovernmental coordination and problems in determining and enforcing the responsibilities of various units in a situation of economic crisis and great political fluidity.

Regionalism and Decentralization

Regional issues or, more commonly, issues with inherent regional interests will become more important. With development of the Center-West and the Amazon, national diversity in occupied regions is increasing. An expanded budgetary role for Congress now allows greater open play for regional interests than did a very dominant executive. No studies of congressional voting on regional issues are available to support generalization, but region as a differentiator is not likely to be as important across all issues as social class and is unlikely to be as significant as urban-rural or political party distinctions.

Beyond the North-South distinction, there may well develop a three-way rather than a five-way political regionalization of the nation: the developed South (Center-South plus South), the underdeveloped Northeast, and the

underdeveloped Frontier (Center-West plus North).¹⁸ Regional differences can be expected to be most pronounced on matters of federal resource distribution, which is why they assumed a clear significance in the constituent assembly. 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. Brazilian nationhood is well enough established at the elite and the mass levels that a real "regional crisis" is unlikely. The strongest loyalties in Brazil are national and local, not state or regional.

CONCLUSION

Effective federal governance in Brazil faces numerous challenges because the national decisionmaking process as a whole is likely to become somewhat more fragmented, a little less organized, and significantly more attuned to state and local forces and interests than it is now. Real state and local power would run against the grain of some deeply established traits of Brazilian political culture. As the politics of the constituent assembly showed, neither the forces for major change nor those for continuity clearly have the upper hand; consequently, adaptation, accommodation, and compromise continue to characterize institutional operations and modifications. The current tendency toward decentralization in funds and perhaps in functions is therefore not yet institutionalized. Above all, it could be imperiled by national political and economic instability that might threaten the democratic institutions themselves.

¹⁸The geographical reasoning behind this delineation is found in Archibald O. Haller, "A Socioeconomic Regionalization of Brazil," *Geographical Review* 72 (October 1982): 450-464. This is also the breakdown used, relative to social indicators and population density, in the World Bank's *Brazil-Human Resources Special Report* (Washington, D.C.: World Bank, 1979).