

**Poverty and Inequality: A self-perpetuating cycle  
due to intergovernmental transferences.  
A possible solution - A Brazilian example.**

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**Author: Evandro de Mello Xavier**

I AM NOT AN ADVOCATE FOR FREQUENT CHANGES IN LAWS AND CONSTITUTIONS. BUT LAWS AND INSTITUTIONS MUST GO HAND IN HAND WITH THE PROGRESS OF THE HUMAN MIND. AS THAT BECOMES MORE DEVELOPED, MORE ENLIGHTENED, AS NEW DISCOVERIES ARE MADE, NEW TRUTHS DISCOVERED AND MANNERS AND OPINIONS CHANGE, WITH THE CHANGE OF CIRCUMSTANCES. INSTITUTIONS MUST ADVANCE ALSO TO KEEP PACE WITH THE TIMES. WE MIGHT AS WELL REQUIRE A MAN TO WEAR STILL THE COAT WHICH FITTED HIM WHEN A BOY AS CIVILIZED SOCIETY TO REMAIN EVER UNDER THE REGIMEN OF THEIR BARBAROUS ANCESTORS.

THOMAS JEFFERSON

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# **Poverty and Inequality: A self-perpetuating cycle due to intergovernmental transferences. A possible solution - A Brazilian example.**

## **Summary**

This paper enters in the matters of: intergovernmental relations, giving value to local governments, enhancement of social participation, improvement in the quality of life.

It tries to reflect on the matter of local government articulation based on the evolution of apportionment criteria modeling for resource transference to municipalities.

The paper offers contributions to begin an accelerated development process, one that is continual and sustained in all Brazilian municipalities.

Such a model is supported on the “friendly rivalry” principle, that advocates that local governments with the best performances receive increasing amounts of resources and, on the other token, those who do not try to evolve be punished with resource transference reductions.

This mechanism is able to involve the entire civil society in planning and carrying out public policies since the result of these policies will generate an increase in the resources transferred to each community, and the entire community is interested in increasing such resources in order to better take advantage of better goods and services.

### **1 - Presentation**

This paper hopes to contribute to the municipal action democratization and articulation process aiming at improving the Brazilian people’s quality of life and enhance active political citizenship.

To do so, we will discuss to what extent, and how, the criteria for public resource transferences in Brazil influence, or not, Local Power.

We will indicate that regional disparities are aggravated by intergovernmental transferences, which create a cycle of perpetuation of the sub-regional differences.

What stimulated us to question the resource transference models was not only the overcoming of regional economic disparities, but also, above all, the disparities in life conditions and the local administration model that is distanced from popular participation.

We believe that it is not in the interest of the Brazilian population that the leveling be done from below to overcome these inequalities, by lowering the entire population's income and life conditions. On the contrary, we hope to point to paths to improve the HDI – Human Development Index in all Brazilian regions and micro-regions, by supplying alternatives to the apportionment criteria now used for resource transference to the Municipalities.

Thus, the discussion below may be applied on the national or state levels and through tax and non-tax transfereces. It is only because of space limitations that we will be limiting this paper to the current ICMS (Tax on the circulation of Goods and Services - Responsible for 87% of São Paulo State Total Revenue ) apportionment mechanisms.

We think that the Brazilian federalism's intergovernmental relations must be modeled in a harmonic and constructive manner, in other words, without ready-made models defined from top to bottom on how to govern, but rather with object identity and effort articulation between the three government spheres.

At this point, we think that a national- or state-level policy to confront the diverse Brazilian problems will not be successful unless there is local government and Local Power agent involvement.

Regional disparity reduction and a wide-ranging advance in life quality for the Brazilian people go through three matters to be discussed here:

- The existence of a reasonable balance in the *per capita* distribution in transference resources, not as an end in and of itself, but rather as a means to balance the offer of municipal goods and services (sanitation, education, day-care centers, health, public lighting, etc.)

- Changes in local government evaluation methods - currently linked to the public spending process -, going on to evaluate public policy results. This should be done regardless of the public power having spent a single cent.

- Community participation in the search for solutions for local problems.

## **2 – Local Management**

If we intend, by creating external stimuli, to trigger a Local Management evolution process by accepting that the reaction to the stimuli is nothing more than a decision-making process, we need to understand the Local Power logic and how such stimuli is able to affect it.

Local Power (Daniel/90) results from the contradiction between different power modes (economic, social and political power), in the decision-making process at the municipal level.

If public resources (that make it viable to materialize public decisions) can be increased or reduced as a consequence of Local Management qualitative results, we can claim that these qualitative results are a collective concern for the several competing players.

The stimulus created by apportionment criteria based on rewarding result quality creates an award (or punishment) perspective among all players that compete for local power, and not only in the local government, with an increase (or reduction) in their resources. It allows for the constitution of plural decision-making public networks, even if informal, on the municipal level.

Thus, if modeling a resource transference Apportionment Criteria is able to distribute, to the society as a whole, responsibility on public policy quality, it has the power to affect the local power dynamics in any municipality and, therefore, it foments the formulation and experimentation with innovative proposals, minimizes resistance to change, and prolongs policies beyond each term's (or administration) temporal limit.

### **3 – Social Participation**

The citizenship concept, incorporated by the market, places the citizen not as a doer or as a performing and participative member in the elaboration of the policies. Rather, it limits his creativity and self-esteem, situating him merely as a product and service consumer of little importance if the services and products offered are the most useful and adequate to his reality.

However, this is an arrangement that does not satisfy the citizen integrally.

“Social participation and citizenship refer to the appropriation, by the individual, of the democratic construction of his own fate. Its concretization goes through the collective organization of the participants, and allows for everything from the opening of discussion space within and outside of the community boundaries to priority definition, action strategy elaboration and the establishment of dialogue channels with public power.” (Tenório & Rosenberg - 1997)

Thus, if citizenship and social participation lead to such noble and grandiose ends, what generates the citizen's apathy to constitute this power?

According to Barber, it is not apathy that generates lack of power among citizens. It is the lack of power that generates apathy. Therefore, if there is empowerment” (actual capacity for a person to act), apathy is broken with, in a new virtuous circle.

#### **4– Local Government Role**

##### **4.1-The Importance of Decentralization ( A Historical View):**

Few theses have reached such a high degree of agreement insofar as local government importance is concerned, both relative to better performance of local administrative tasks, and also in the educational role they have in preparing the population to carry out participative democracy.

John Stuart Mill, in his book on Representative Government, published in 1861, pointed to the local governments as one of the few opportunities the average citizen had to work for public interest, over and beyond to think and speak, using as an example the district administrations then extant in the State of New England, U.S.A.

The third American president, Thomas Jefferson, was an enthusiast of local governments as a self-government policy instrument. He went as far as claiming:

*“Those districts, called Townships in New England, are of vital importance for their governments for the perfect exercise of self-government and for its preservation... As did Cato he concluded each of his speeches with the words Carthago delenda est, just as I conclude my opinions with the following injunction: “Divide the counties into districts” (Fisk, 1904).*

Alexis de Tocqueville in his visit to America was enchanted as well with the rich possibilities of self-government he has there. Tocqueville found the highly decentralized system superior to the centralized system he knew in France. While the latter is designed to perfect the power of administration, it is characterized also by a lack of energy and enthusiasm. The American system, while subject to experimentation , and logically error, is characterized by great animation and effort. He also believed that from the experience in organizing and participating of the communal self-management demands, people learn the science of living association that provide the seed of a well established democratic society (Ostrom, Bish and Ostrom, 1988).

In Brazil, contrary to what happened in the British Colonization of North America and, most especially in New England’s, the Portuguese centralizing administration and the

commercial goals the local organization nucleuses were constituted for, consisted in unsurpassable obstacles to forming a model of popular self-organized government.

The donatory political system had disappeared in administrative terms, but promised to be greatly successful economically and financially through pau-brasil exploitation and through the incipient and already promising sugar mill and plantation complexes (Faoro, 1991).

Thus, the Portuguese Royalty idealized a system based on the delegation of authority to these mills, giving them advantages in exchange for Royal authority maintenance applied to the monopolies, incomes and taxes. The cost of this policy was the virtual dismantling of the local organization nucleuses (Faoro, 1991).

This structured a bureaucratic apparatus linked to the metropolis, and under its command. The local government statute was established aiming at keeping the dispersed population under close control. Thus, the Brazilian Municipality was constituted not as a strategic mechanism for social organization, rather as an instrument of the Portuguese Royalty domination (Faoro, 1991).

Perhaps the low rates of popular participation in government matters originate in the imposition of a bureaucratic shell on our population, even before the organized civil society had been constituted.

We believe that recovering the local administration system, stimulated by the State and with popular participation, is fundamentally important to restructure a more equal and just country.

Currently, the federative matter is once again gaining an important status since vital voting sessions on Tax Reforms are near in the National Congress.

From the fiscal point of view, the Brazilian federation is extremely decentralized, and Brazil is, perhaps, the country where a few of the greatest intergovernmental redistribution resource movements have taken place (Serra, 1994), concerning the GDP, in the world.

In 1960, the municipalities collected, through their tax competences, 4.7% of the total Brazilian tax load, and had 6.5% of it as their available revenue. In 1992, the municipalities collected 5,5% and had 16.9% of it as available revenue. In other words, a 17% increase in their own revenues for a 260% increase in available revenue. Meanwhile, the tax load increase was 36% during the same period.

We therefore believe that by and large vertical resource fiscal decentralization

among the government spheres is already a reality. Now we have to divide these resources in an equal and just manner between local and regional governments.

This decentralization has increased in the last 40 years, most especially in relation to municipal autonomy, since this division has a federative unit status insured by the Constitution.

Unfortunately, this resource decentralization is not accompanied by an incentive for the municipality's increasing its own revenue gain, nor by perfecting and developing mechanisms to insert the local population in the public spending definition and control process.

The Brazilian State Fiscal Reform (resource and attribution redefinition between the private and public sectors and, in the latter, between the several government spheres), that has neither been negotiated politically nor institutionalized constitutionally, has resulted from federal and state sphere unilateral decisions, which have partially or totally stopped rendering services. A few of these services have been taken-on by private organizations (profit and non-profit), while others by the municipal sphere. However, the decentralization, that can bring-on gains in quality and in making service adequate to characteristics specific to each community, due to the proximity of the population, depends on the funds each municipality has.

#### **4.2-Income Distribution:**

Brazil presents one of the highest income concentration rate in the world. The richest 20% have incomes that are 32 times greater than those of the poorest 20%. (UN - 1999)

Our Human Development Index (HDI) is medium, we rank 79<sup>th</sup> (UN – 1999) and lag behind countless countries that have much inferior per capita income. Our position would be much worse if the per capita income matter were disregarded. This indicates that our quality of life level is very distant from our possibilities.

If the index is detailed by the Brazilian States, we find huge regional and sub-regional inequalities. As examples (UN – 1996), we can present the following extreme cases: the adult literacy rate is 93.7 in Rio de Janeiro and in the Federal District, while 63.7 in Alagoas; the life expectancy rate at birth is 70.84 in Rio Grande do Sul and 61.89 in Alagoas. Undoubtedly, though, if we present the matter by municipalities, we will find cities with low HDI's in the Southern and Southeastern Regions, as well as cities with extremely high HDI's in the North and Northeast.



## **5-The American federalism:**

### **5.1-The role of the Local governments:**

The federalist system of government in the United States is an overlapping structure of federal, state and local governments, in which subnational governments play a very important role. The local governments are by law subordinated to the state governments, nevertheless, the relationship between state and local governments can vary from one state to another. For example, in New Hampshire the local governments play a dominant role in terms of expenditures and revenue assignments. However, in others, as in Hawaii, they play a minor role. The predominant form of local governments also varies from state to state. In Massachusetts, municipalities are the dominant form of organization, while in Maryland, for example, counties are the most significant form (Stotsky and Sunley).

### **5.2-The Grant System:**

In almost all Federal Countries the state and local governments are dependent on grants from the Federal Government to in order to meet their financial needs. Federal grants as a percent of state and local expenditures increased greatly in the mid 1970's , reaching 27% in 1977 and 27.6% in 1980. Federal grants then declined as a proportion of expenditures, reaching a low of 16.7 % in 1989. Nowadays (1998), total grants as a percent of total state and local spending is 25% (<http://www.census.gov>).

According with John Mikesell, the main functions of the federal grant system are:

- reduce the problems created by fiscal disparity
- encourage programs of special national merit
- reduce special problems associated with regional economic decline

- induce governments toward management reform as a condition for receiving aid
- compensate governments for benefits spillovers to nonresidents.

However, there is some problems related to these functions. As pointed out by Mikesell, there is a classic conflict between the donor and the recipient in transfer systems. On one hand, the donor will always try to impose some control on how the grant ought to be spent. In doing this, they do not respect local conditions, needs and priorities. On the other hand, it is much easier to spend somebody else's money, since the Mayor or the County Board do not suffer the onus of levying and collecting it. Therefore, they are more inclined to be careless with the grant's fund.

In the United States the federal grant system has included three types of assistance: (1) categorical grants (2) block grants, and (3) from 1972 through 1986, general revenue sharing. General revenue sharing is still the most popular way of sharing from state to local governments (Mikesell).

Grant programs in the United States are either nonconditional or conditional. The main nonconditional federal grant program was general revenue sharing. The funds, were provided from the federal government to local governments from 1972 to 1986, and to state governments from 1972 to 1981 (Stotsky and Sunley). This money was distributed among eligible governments according to a legislatively or administratively determined formula. This formula may include population, per capita income, their own revenue, as well as other statistics.

There are two types of conditional grants. The block grants and categorical grants. The categorical were responsible for about 90 % of all Federal grants in 1995.

Block grants apply to broad categories of related functions and impose few restrictions on how state and local governments allocate funds to activities within the block. Each block refers to areas where the money could be spent, with no other restrictions, such as, health, education, social services and other areas of expenditure (Stotsky and Sonley).

Categorical grants provide money for a more specific program or project, such as the construction of an airport or a road. These Project grants may have matching provisions that require the use of state money as a percent of each dollar spent by the federal government. Project grants are responsible for about 70% of all categorical grant programs ( Mikesell).

### **5.3-How grants have changed the American Federalism:**

According to Lorch (1995), the rising volume of federal grants to state and local governments has changed the US system of government by virtually ending federalism. He believes that these huge amounts of federal grants have put the subnational units in a distinctly subordinate role - that of middle-management supplicants. Daniel J. Elazar observed that the US political system is not supposed to be organized on the basis of a top-down pyramid structure. This would give most of the power to the federal government, reserving a secondary role to the state and local governments. The use of project grants as a form of state and local government co-optation by the federal government was called picket fence federalism by Deil Wright (1988). This created a strong oriented pattern from the national agencies which gives the grant in relation to local agency that receives the grant. Most of the time the federal government did not adequately take into account preferences of subnational policy makers.

In that way, one possibility of reducing national control involves the distribution of aid according to some formula, rather than by project. By formula basis the reduction of the influence of the federal agencies will be almost automatically minimized and local discretion will be correspondingly enhanced. However, this again raises again the problem of the sometimes misuse of federal government money by state and local government authorities. How can this so-called great responsiveness of the local governments to the local needs be balanced with the justifiable interest of the donor (federal government and in other ways the whole society) by the ways the grants will be spent ?

The fiscal dependence of the local governments from federal and state grants has diminished since the end of 1970's but still remains high, about 38% of the total revenues. State governments themselves are becoming more dependent on national grants. Overall, a little less than 30 percent of all state revenues comes from Washington DC. Of course, the percentage is much higher in some states than in others (Hanson, 1999). In fact, in some states as Florida, Illinois or New Jersey, the citizens pay more in taxes than they receive in grants, being considered resource donators to poorer states, such as Louisiana, Mississippi, West Virginia or Wyoming ( US Bureau of Census, 1996). This brings us to a more complicated issue, should the donators interfere in how the poorer states are spending the resources sent by them?

It is not an easy task to come up with a simple answer, but I really believe that the resources sent by citizens of different units of the federation should be used to help the

poorer states. These resources should help the states and local governments in need to achieve specific minimal standards defined in a consensus within the whole society and not only by the regional or local governments.

## **6 – The Horizontal unbalance among Municipalities**

Let's look at the discrepancies in investments in education resulting from inequality in resource distribution among municipalities. Rich city halls such as Paulínia's, in order to tend to the education expenditure indices established constitutionally<sup>1</sup>, invest in lighting on the streets near the schools, supplementary courses, universities, technical schools, sporting center constructions (Caixeta, 1998), while poorer city halls, or at least those that are less favored by the currently extant transference criteria, don't have the minimum necessary to pay teachers, to remodel schools or even to feed the children who are at school age. Even the creation of Fundef<sup>2</sup> that foresaw that, during 10 years, 15% of the fiscal revenues, including transfers made by the states and municipalities, would be invested exclusively in fundamental teaching, did not solve the regional disparity matter among São Paulo State municipalities.

If the poor resource distribution among the municipalities and among the states is the true cause of these problems, reversing this is attacking these problems at their source.

And the cause of such poor distribution is using incorrect criteria to distribute resource transfers among the municipalities or among the states. The gravest matter involves ICMS (Tax on the Circulation of Goods and Services) apportionment to the municipalities.

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<sup>1</sup> (CF/88 determines that at least 18% of the Union's fiscal collection and 25% of the State and municipality revenues be channeled to promote and develop education)

<sup>2</sup> Fundo de Manutenção e Desenvolvimento do Ensino Fundamental e de Valorização do Magistério (or, Fund for the Maintenance and Development of Fundamental Teaching and Valuing the Teaching Profession)

## **7 – The Constitutional Criterion**

### **7.1 – Background**

When considered at large, the municipality budget “lump” grew significantly after the Federal Constitution was established in 1988, most especially with the increase in federal and state transferences. However, when looked at closer one may notice that a few municipalities have always been, and continue being, more favored than others. When considering the State of São Paulo, we notice that Paulínia receives 68,31 times more ICMS transference “per capita” than Francisco Morato. Considering that the ICMS transfers represents more than half of small municipality budgets, such a disproportion in resources between municipalities has caused a grave distortion in the quality and quantity of local service rendering.

In 1965, the state and the municipality had, simultaneously, competence to collect ICM, and the municipality had the right to 30% of the tax that was owed to the state. In 1966, the state ICM incorporated the municipal ICM, insuring the municipalities the equivalent of 20% of the collection made. As of 1972, the municipalities no longer received their quota of the tax collected in their territories directly. From then on they began receiving it in proportion to their economic movement, under the “added value” concept.

Later, Constitutional Amendment 17, dated 12.02.80, instituted the mixed calculation for apportionment of each municipality’s ICM quota-part, composed by: 75 %, in each municipality’s added value proportion; 25% according to criteria freely defined by the states, according to their particularities. Finally, the CF88 (1988 Federal Constitution) transformed the ICM into ICMS, enhancing its taxable base (covering old federal taxes on fuel and lubricants, minerals, energy, telecommunications and transport services), and increased the parcel of this tax to be transferred to the municipalities from 20% to 25%. However, the distribution criteria were not changed.

Generically, “Added Value” is the positive difference between the value of good and service disbursement, by alienation, and the value of the good and service entry, by acquisition, during a certain calendar year. Each municipality’s “Added Value” is the sum of the added values of the establishments registered in the ICMS registry in the respective territory.

As of 1981, the Federal Constitution established the following criterion for the ICM quota part apportionment: a minimum of 75% of the apportionment based on the added value criterion and at the most 25% of it based on criteria defined by state legislation.

In the State of São Paulo, due to the fact that this State establishes a part of the criteria, the currently effective criterion (after many advances) is: 75% based on added value, 13% based on the population, 5% based on the municipality's own tax revenue, 3% based on the cultivated area, 0,5% based on the environmental protection areas, 0,5% based on the areas flooded by hydroelectric reservoirs and 2% divided equally for the 645 municipalities.

## **7.2 – The Super-dimensioning of the Added Value Criterion**

The super-dimensioning of this criterion for ICMS transfer produces several types of damage to local economy, to citizenship and to the conditions of life.

Social well-being now depends on industrial poles, something that limits service, culture and technology poles, environmental preservation zones, the historical and cultural assets, etc., characterizing a distortion in the municipalities' vocation. Sometimes, the municipality, not having any other choice, accepts the installation of polluting industries in its territory. This leads to deforestation and environmental contamination. The worst scenario takes place when the municipal Public Power tolerates companies that don't even respect their own employee's social rights.

The urgency to compete for added value distribution, within the state's total added value, leads each Municipality to covet other municipalities' industrial parks, the mathematics behind such rationale being that the transference of an industry from a neighboring municipality is "worth two" (one less in the "adversary municipality", one more in "our municipality").

In the "Horizontal fiscal competition", the one to always lose is the Public Power. A "fiscal war" is an autophagic process in which companies promote true fiscal incentive auctions, becoming the owners of industrial policy decisions, while the several municipalities offer fantastic IPTU (Territorial and Urban Property Tax) reductions and direct budget subsidies. With progressive waivers to their own revenues, the municipalities lose their autonomy, becoming hostage of financial dependency of the other state and federal spheres. Diminishing the relationship between the community and the mayor. Seeing that, the mayor does not feel any necessity to negotiate with the people the city budget. The people for its turn, do not feel comfortable to claim for any improvement in the city services, no longer they do not perceive themselves paying for that. In that way, any improvement in the city services could be considered a god's gift, or worst, a mayor's gift.

Fiscal renunciation is nothing more than a decision on budget appropriation, according to which, from the available total, a certain amount of resources will not enter the public coffers, aiming at a certain result. It is very difficult to determine exactly what the amount that was given up on was, in other words, how much of the budget was destined to such a purpose. The proof of having carried out with the obligations by the party benefited is merely formal, facts that are impossible to verify.

The Tax Legislation becomes complex, opening infinite loopholes for tax dodging/suppression, through endless judicial debates about different interpretations of the law. On its account, legislation complexity bars the common citizen from developing his performance/awareness in exercising active citizenship.

Furthermore, sometimes the over-dimensioning of the added value criterion generates the dismembering of strong municipalities, leaving the weak municipalities behind, a process in which rich abandons poor. This happens when industrial districts, that concentrate their respective municipalities' added values, emancipate, giving the old municipal headquarters (remaining municipality) the role of a dormitory city. This egotistical and opportunistic practice, above all, is a reversal of incentive to industrial and residential area urban planning and to environmental preservation, etc.

### **7.3 – The Conceptual Mistake of the Added Value Criterion**

The super-dimensioning of the added value concept has an allocation distribution conceptual mistake resulting, from one side, in municipalities with extremely high added values, distorted by the presence of super tax payers, such as ports and airports, oil refineries, sugar and orange mills, automotive industries, iron mills, etc.; while, on the other hand, municipalities with extremely low added values, most especially the dormitory cities and agricultural municipalities. As an example of the differences there are between neighboring municipalities, we may highlight that Paulínia (petrochemical pole) receives 10.7 times more ICMS per capita than Cosmópolis (the dormitory city that is a neighbor of Paulínia), São Sebastião (port and refinery) receives 9.60 times more ICMS per capita than Caraguatatuba (the dormitory city that is a São Sebastião neighbor) and São Caetano do Sul (automobile industries and metallurgies) receives 7.4 times more ICMS per capita than Rio Grande da Serra (the dormitory city that is a São Caetano do Sul neighbor).

It so happens that the excessive added values deriving from the oil refineries, from the automotive industries and from the iron mills is also formed by the effort of workers that reside in the dormitory cities, just as the one deriving from the sugar cane and orange

mills comes from the industrial transformation of sugar cane and oranges grown in countless agricultural municipalities from the same region, sold for extremely low prices (production structure distortion that is highly vertical). Meanwhile, ports and airports are destined to the entire state's people and cargo traffic.

Thus, it is clear that the "added value" criterion is inadequate to dimension each population's contribution to the State's economy and, consequently, to allocate the ICMS transferences based on this supposed merit.

#### **7.4 – The Essential Sharing Criterion**

The poor municipalities, formed by poor people, proportionally pay more ICMS, since the poor people spend the greatest part of their income on consumption. Later, the poor municipalities receive proportionally less ICMS, spending their entire budgets in assistance services to their poor populations, and, still, offering less and worse services than the rich municipalities. Finally, without any budget leftovers, the poor municipality city hall does not invest in development, becoming incapable of attracting any type of investment and perpetuating its poverty. Added to this is the fact that, by and large, poor municipalities are less capable of formulating and sustaining juridically better tax laws when confronted with the power of the major tax dodgers/contesters, as well as to maintain quick and effective controls on the collection of their taxes.

The "population" criterion is the one that locates demands and distributes resources proportionally. In a matter of objectiveness, this criterion must be the most relevant one. The resource must go where it is needed, and it is needed where there is demand, and there is demand where there is a population. Thus, considering that the population criterion is the essential sharing criterion, we propose that this be one of the preponderant criterions.

#### **8 – A Proposal for Change**

The proposal we present below, even if it does deserve being debated and adjusted regarding the suggested percentages, has the merit of bringing up the main problems connected to the current model and of pointing to paths for it to be overcome.

Considering that the added value must not be preponderant, we propose the ICMS apportionment constitutional criteria (or the apportionment that may come to substitute it) be redefined adopting the following "criteria basket":

*"I – ten percent, at least, in the direct proportion of the added value of the operations relative to the circulation of goods and to the rendering of interstate and intermunicipal transportation and communications services, carried out in their territories;*



*II - ten percent, at least, in the direct proportion of the Municipality's own tax revenue, in this considering the revenue resulting from the competence conferred by articles 145 and 156;*

*III – thirty percent, at least, in the direct proportion of the population;*

*IV – up to fifty percent, according to state law or, if no state law deals with this, in the direct proportion of the population.”*

The advantages of the proposed criteria are:

- a) a minimum balance in resources distributed per capita among the municipalities;
- b) adequate weight for the added value criterion;
- c) affirmative policy on the municipality's obligation to collect taxes of its competence;
- d) adequate freedom for the states to define their own transfer criteria.

### **9 – Minimum balance in resources distributed per capita between the municipalities**

Just as the guarantee of minimum individual income is necessary for survival, freedom and minimum self-determination of the individuals, and the guarantee of a minimum municipality per capita income is a condition for minimum self-management capability and to offer local goods and public services.

Furthermore, the reduction of the current distributive distortions opens space to the usage, by several States, of diverse affirmative policies relative to their regional particularities.

### **10 – Adequate weight for the added value criterion**

An adequate balancing of the added value criterion that allows the citizen to develop tax awareness when he feels that part of the tax collected in his municipality returns to its own city hall to generate public goods and services for his community.

At the same time, it allows one to commit the municipalities to collaborate in the ICMS control, tax awareness and collection so long as the States institute and strengthen participation channels in order for the municipalities to collaborate, such as:

- divulge, on the light bills, the values transferred to the municipality in which the respective property that uses electric energy is located, in such a manner as for the inhabitants to be aware that a part of the ICMS goes to his municipality's coffers and, thus, become accustomed to ask for the fiscal document (purchase receipt) for each good and/or service purchase;

- establish cooperation partnerships with the municipal revenue services, aiming at updating ICMS tax payer registries, as well as municipality business functioning permit registrations;

- over and beyond reciprocal registry updating, create an instrument for the municipalities to denounce the companies that operate without the regular issuing of fiscal documents, as well as those that commit other types of fraud;

- extract the added value information from the monthly ICMS tax credit verification document itself (in the case of São Paulo, such document is called GIA - Guia de Informação e Apuração do ICMS, or, ICMS Information and Verification Guide), in such a manner that the municipalities induce the businesses registered in it to declare the tax they owe, allowing for the State Revenue Service to execute the collection (administratively or judicially) from the delinquent tax payers;

- involve the municipalities in “*Fiscal Education for Citizenship*” campaigns, elaborating videotapes, class plans, discussion plans for social movements, essay contests and other activities, such as municipality partnerships in order for their execution to reach all social segments, according to each location’s language and culture.

## **11 – Affirmative Policy to Increase the Municipalities’ Own Collection**

### **11.1 – Contributive Capacity**

Data referring to IPVA<sup>3</sup> transference and to the set of self-owned tax revenues that refer to the municipal competence taxes (ISS, IPTU, ITBI)<sup>4</sup>, give us an idea of the negligence the municipal tax bases are treated with. For example, of the 645 São Paulo State municipalities, 248 (38%) receive state transfereces relative to 50% of the IPVA of the vehicles registered in their territories that add up to more than that which is collected with the three taxes of their competence together (1997 data).

Why, of these municipalities populations own vehicles and are able, financially, to pay IPVA, this indicates that these municipalities’ populations are able to pay taxes. The local government, taxing property, service rendering and real estate transactions, should also explore this contribution capacity potential.

### **11.2 – Greater Link Between Public Action Costs and Benefits**

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<sup>3</sup> Imposto sobre a Propriedade de Veículos Automotores (Tax on the Property of Automobile Vehicles), collected by the state sphere.

<sup>4</sup> Imposto Sobre Serviços (Tax on Services), Imposto sobre a Propriedade Predial e Territorial Urbana (Tax on Urban Building and Territorial Property) and Imposto sobre a Transmissão de Bens Imóveis (Tax on the Transmission of Real Estate Goods)

The citizens must not deceive themselves, thinking that public goods and services are free gains coming from the governing agents and that public money is infinite and that it can be managed carelessly.

On the contrary, the citizens must know that the goods and services offered by the State have costs and that they are supported by the entire society.

By doing this, they can and must discuss: how big is the State one intends to have, what goods and services will be demanded and in what amount and quality, what tax load is needed to provide the public goods and services demanded, as well as to follow-up on and inspect public expenditure, in order for this to be done economically and to favor the objectives offered by the people, through the Budget Law that is discussed and voted on by the Legislative Power.

For this to be done, it is necessary to have tax legislation that is simple and understandable to common people, a trustworthy and transparent accounting procedure and popular participation channels to plan and follow-up on public spending. Concerning popular participation channels, for some ten years, originating from Porto Alegre, several experiences have surfaced that are called, generically, "Participative Budget" (Genro & Souza - 1997). This practice also includes, by and large, an "Account Rendering" stage. With the advance in computer sciences, several States and Municipalities have been making information available on their budget performance through the Internet, in other words, not only to their citizens, but also to citizens from other States and Municipalities.

### **11.3 – Greater Balance and Efficiency in the National Tax System**

The Brazilian National Tax System is very advanced and sophisticated. It has even been used as a paradigm for several more developed nations and has a rational distribution of the tax competences for the three government levels.

Obviously, the local tax policies, since they are the legislative competence of each municipality, are different from one another due to the different compositions of the population's contributive capacity in each municipality, as well as aiming and promoting some priority economic activity for the local community.

However, this freedom must not go as far, as in fact takes place, as several municipalities not even instituting the taxes of their competence.

It is a fact that people do not like to pay taxes, and that tax demands are more difficult for local governing agents, who are close to the population. But this cannot lead the governing agents to the self-indulgence of only administering using revenue collected by other government levels and received through transferences.

#### **11.4 – Favoring Municipal Budget Autonomy**

Since the days of the colonels (Leal - 1989), the matter of the absence of legal local autonomy (solid financial base and lack of vulnerability to state power intrusions) versus extralegal local autonomy (given to local heads that line up with the governments) permeates the Local Power relationship with the State Power and Central Power with physiology. Local autonomy, confronted with the absence of legal guarantees (condition for the crowning of the representative regime, by the majority of the voters, through mandataries named at the ballot boxes), of the voter's rights transformed into state power a gift that can only be accessed by the municipalities that are positioned next to the state officialism. The representative regime ends up being mystified, since the even the freest and most regular voting process works as mere channels of previous governmental nominations, since the voter does not opt freely, but by the one who, having the state government support, will be more able to carry out a more profitable administration.

*“The 3 negative aspects of the intergovernmental transferences: reduction of the sub-national level fiscal effort (solution: include incentives to self-obtained revenues in the distribution criteria); absence of control on the revenue to be transferred, that can be reduced by law or by elimination of negotiated transference agreements; disinterest of the level that collects the revenue to exploit it adequately.” (Silva - 1995 - 28)*

Yet today, the cases of local government agents, from municipalities that do not exercise their tax competence fully, going to state and federal government reception rooms, “with their collection plates in their hands”, waiting for resource transferences negotiated to cover their budget deficits, to pay backlogged employee wages or even to make the building of some type of public construction or some other type of local population demand are not rare.

By inducing the municipality's own tax revenue and, as a result, reduce its dependence on negotiated transferences from other government spheres, we will be contributing positively to the improvement of the political aesthetics. The increase in the municipality's own revenue is a determining element for local government autonomy. A community can and must opt for their own collection efforts aiming at their desire to develop other activities through public power.

#### **12-Elite Accountability:**

As we have been discussing in this article, the Brazilian federative pact is far from

increasing political participation and enhancing efficacy and elite accountability. The lack of political participation for sure leads to greater marginalisation and exclusion of existing non participants.

There are reasons to explain this lack of participation. Generally speaking, wealthy areas can expect much higher participation than economically disadvantage ones. However, in Brazil, in spite of the absence of specific research, the motivations that lead to a higher political participation are more related to the availability of different mechanism that can increase the quantity and enhance the quality of the participation, such as the “participative budget” in Porto Alegre and Belo Horizonte cities.

Our main goal with this paper is to try to provoke the discussion of the elite political accountability and responsiveness of local factors or citizens’ perceptions *vis-à-vis* the public responsibility in deciding and controlling the budget.

The way the federation pact was established distanced the people from the political participation process, especially at regional and local governments. About 90% of the States revenue come from indirect taxes that are not related directly to people due to indirect collection methodology. Therefore, the people do not feel how much they are paying or even why they are paying. At the local level, things could be worst, since the majority of the Brazilian municipalities rely heavily on grants from state and federal governments.

We believe the understanding of the democratic process ought to pass through a more profound discussion. This discussion should be about how and in which way a more rational and local centred tax system could enhance the political participation for one hand and elite accountability on the other.

### **12.1-Municipal Reliance on Grants:**

After 1988 we saw an extraordinary explosion toward the incorporation of the new municipalities, and for sure it is not in essence good or bad per se. Nevertheless, the incorporation of its new municipalities was not supported by an economic sustainability study. Therefore, many of these municipalities, despite the constitutional concession to levy taxes, have not enough tax base to support themselves and must rely almost entirely on grants from the state and federal levels.

Nowadays, Brazil has more than 5500 municipalities, 50% of them with less than

10,000 inhabitants. Of the 1400 municipalities created after 1985 about 52% have less than 5,000 inhabitants and 78% have less than 10,000. In regional terms, the south (with 405) and the north-east (with 402) are the most prolific in the incorporation of municipalities.

To try to demonstrate the reliance of the municipalities on state and federal grants, we will show the relationship between total current revenues and the revenues from grants:

- taking into account all Brazilian municipalities with less than 5,000 inhabitants, only 9% of the total current revenue are from the municipal own tax base and 91% are from state and federal grants.
- the reliance on state and federal grants among the municipalities ranging from 5,000 to 10,000 inhabitants are almost the same ( 10,5% of own revenue and 89,5% of revenues from grants). In fact, only the municipalities with more than 50,000 are able to generate more than 25% of their total current revenue by themselves.
- At the north-east region the situation reached an extreme where the municipalities with less than 5,000 and 20,000 inhabitants are not able to generate more than 2% and 5% respectively, of their total current revenue.
- the situation in the south-east are not so different. The 87,8% of the south-east municipalities rely on grants with a percentage superior of 70%.

In the north-east the municipalities with less than 5,000 inhabitants spend more than 15 times with the municipal employees than they can collect with taxes. Only the municipalities with more than 50,000 inhabitants have their own tax revenues superior with the spending with the legislative branch. In other words, we can say that 92% of the north-east municipalities do not collect enough revenues to support the spending of the legislative branch.

### **13 – Added Freedom to Define State Apportionment Criteria**

#### **13.1 – Changing from Restricted Freedom to Full Freedom**

When compared to the constitutional norm currently in effect, the proposal being presented here represents an increase in state freedom to define its own apportionment criterion.

The end of the added value criterion over-dimensioning, as well as the tragic consequences of such over-dimensioning, together with the supremacy of the population's

distributive criteria, eliminate the need to adopt compensatory criteria, whether these be general (geographical area, egalitarian distribution or fixed quota, etc.) or relative to specific disadvantages that make it difficult for the added value to grow (cultivated area, area flooded by hydroelectric reservoirs, etc.). These criteria, jointly, according to the State, vary from 4% (Paraná) to 20% (Pará and Maranhão).

On the other hand, the criteria relative to the population (or to the electorate) and to the municipality's own tax revenue were incorporated into the constitutional text, and today, jointly, they occupy part of the criteria defined by the States, varying from 2.5% (Tocantins) to 18% (São Paulo).

Thus, if the space for fomenting alternative regional policies used to vary from 0% (Tocantins) to 10% (Rio Grande do Sul), except for Espírito Santo (20%), now all states will be fully able to take advantage of, without restriction or fear, the 50% of the constitutional freedom.

The challenge will be, therefore, to choose priorities and model criteria that serve as a regional policy articulation instrument. The logic of the awards for results in tending to social demands is able to induce innovations in the municipal administration, to include attraction and involvement by the entire society.

At this point it is adequate to ask if it is legitimate for the States or even for the Union to interfere in local public management quality, as well as with objectives, and in what manner.

### **13.2 – The Beneficiary Protector Principle: An Inductive Criteria Paradigm**

The “Ecological ICMS”<sup>5</sup> case is a paradigmatic instrument used by the State of Paraná for local government articulation in the state environment policy.

That experience (associating the preserved area's quantity and quality indicators) differs substantially from the other states' experiences (that only use preserved area quantity as an indicator).

The other states have criteria that are strictly for indemnity, “compensating” the municipalities that have preservation areas for the fact that they do not exploit such areas economically, something that would limit that community's development possibilities. Then, when justifying an indemnity, the existence of an environmental preservation area is seen as “death”. Contrary to this, Paraná's criteria are based on the premise that preserving the environment is life!

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<sup>5</sup> This information was obtained in the Prêmio FGV/Fundação Ford, Projeto ICMS Ecológico files. This project was one of the 100 finals of that award contest in 1996.

By combining preservation area quantity and quality indicators, Paraná points to the improvement of each area's environmental quality. To begin the process, a qualitative area registration was undertaken, and they started being monitored.

Then, the local governments, aiming at improving their performances, gained a new dynamic in the sector. In fact, environmental policies in the local sphere were virtually absent. Without their own know how, local managers were lead to dialogue with the local community on what to do in this sector. There was a great potential, by environmentalists from several origins (local NGAs, universities, international institutions, etc.) to develop specific projects for each locality, however, there were no public resources. Most of the municipalities didn't even have a budgetary signature for their environmental projects. Furthermore, even if the budgets were adjusted, such resources would be reduced from allotments from the other sectors (education, health, social service, etc.). So, contractors and other municipal suppliers accepted to finance environmental projects. Teachers included the local environmental matter in their class programs and began making groups of parents aware of the issue. City councilmen studied and approved legislation (for soil use and occupation, on industrial activities, etc.) consistent with the environmentalists' projects. Farmers reduced the use of chemical pesticides that affected several species' ecological cycle. Industries installed filters and other residue treatment solutions, many of which developed with technology from the region itself. The local press participated in the entire community's ecological awareness movement, publishing permanent follow-ups on advancements being reached, patrolled the less cooperative sectors, and praised the more cooperative ones. Other local power agents got involved in several manners.

All of this being done, after seventy years of several frustrated attempts, progress was significant: total state preserved areas were multiplied by six and the preservation standard qualitative classification went from 3.2 to 4.3 (on a scale from zero to nine).

Municipalities with great preservation areas, which due to the lack of resources and perspectives were becoming "ghost towns", once again flourished. The environment became their greatest capital. It also became an important visit card and an ecological tourism attraction, as well as for activities related to seedling production, aquatic species breeding areas, etc. Tourism started to absorb the region's handicraft, especially foods (cheeses, preserves, alcoholic beverages, etc.) and souvenirs of all types. Art and folklore consumption, in countless areas, also resurfaced. Such products are expressed through music, dance, sculpture, poetry, etc. Beyond noticing income going up and unemployment



going down, these cities gained, most of all, a new identity. People started being proud of their city.

This was reached based on the application of the “beneficiary protector” principle, rewarding the municipality that protected the environment.

In order for it to be applied, state environmental agencies spent very little, only enough to register and monitor the areas. It was no longer necessary to directly develop environmental recovery activities, the promotion of which was transferred to the local communities. At the same time, these environmental agencies were able to get much more precise and detailed registration of the problem throughout the State. With this, plus the new knowledge obtained together with the community and international institutions, more qualified research projects and diagnosis were set-up. The information became useful to those who desired to exploit new ecologically correct venture opportunities. The greater collection and demand for information increased the value of employees who were environmental specialists.

More than all of the environmental and economic gains involved, what this example gives us is the certainty that the “beneficiary protector” philosophy has been tested and approved and it may be applied for countless other policies in which the State intends to get local power involved with, such as education, attention to childhood, employment, sanitation, agriculture, etc.

### **13.3 – Solutions Adequate for the Local Reality**

Another problem that leads to public action inefficiency is the formulation of diagnosis and solution proposals developed in a centralized manner (nationally or regionally).

When the federal (or state) government tries to promote advancements in social life sectors through municipal action articulation, without imposing some type of preconceived solution, it allows each community to try to make a diagnosis of specific local causes for the problem one intends to confront nationally (or regionally).

In different locations, problems in the same area can have very distinct causes. For example, school drop-out may result from, among others, the following unique causes: children work in order to compose family income, fear of drug trafficking at school doors, etc.

At the same time, identical causes may have distinct solutions, more adequate to each local reality, culture and resources. In the family income complementation case, in

order for the children to not have to work and, thus, miss classes, we could mention, among others, the following solutions: the city halls with more resources can implant a Minimum Income Guarantee Program or stimulate self-employment through micro-credits. The more solidary communities can create collect food good donations and distribute basic food baskets. Cities with freer land extensions can distribute seeds for family vegetable gardens to be planted or even organize community vegetable gardens. The more venturing communities can create new job openings by recycling scrap, etc.

Even insofar as implementing the chosen solution is concerned, there may be differences according to each location. For example, organizing community vegetable gardens may be done through: direct registration and guidance by city hall technicians, religious leadership mobilization, action by already extant community associations, technical cooperation agencies linked to universities or even international ones, etc.

Freedom for local action (for diagnosis, choice of solution and of the mode of implementation), added to responsibility for the results, is the best path to effective, economic and long-lasting solutions for social problems.

#### **13.4 – Personalism Rupture**

Personalism is supported by the Idea that everything that is done by public power is the work of the authority on duty that carries out such work as a gift to the people, who, in turn, must be eternally grateful and subservient to it.

To the personalist government, sustained improvement of the people's conditions of life (elimination of illiteracy, income distribution, elimination of hunger, guarantee of a job and of employability, etc.) certainly represents a risk of the people becoming free from their dependency relationship.

Under these terms, the implication between the apportionment criteria molding proposal presented and the perspective of personalism rupture is clear. The proposed modeling places three "wedges" in this direction:

- the first, and most obvious one, is that the criteria may oblige the improvement of the social indicators concerning education, health, etc.;
- the second one is that, by making the personalist government, that does not gamble on improving its voters' quality of life damned to see its resource transferences successively reduced and its performance margin corroded;
- finally, if the municipal resources are reduced, it will be clear to the population that the things that the personalist leader carried out, including Pharaoh-like constructions of

questionable usefulness, were not gifts that came from him, rather the fruit of a public budget that its action will be helping destroy.

### **13.5 – Citizenship Activation**

Actual power transference (empowerment) allows the rupturing of the citizen's inertial apathy. Such an empowerment isn't given directly by the simple definition of the proposed apportionment criteria molding. This is the case because it would not be feasible, nor would it be legitimate, for the state and/or federal legislation to define civil society participation mechanisms in the local power game. It would not be feasible because, otherwise, it would be necessary for each location's civil society to have the same mobilization capability, the same type of culture, the same formal organization, etc. It would also not be legitimate, even if it were feasible, since we would be like "putting a cast" on the different forms of participation of the civil society.

However, a new fact will tend to propel the construction of such an empowerment in the several locations. This new fact is that part of the financial resources to be transferred to the municipality will depend on that municipality's performance in relation to the established social indicators.

Thus, the entire local society is a party that is interested in increasing the financial resources available to that municipality. District movements call for urban improvements, mothers call for day-care centers and clinics, servers call for wage increases, cultural preservation movements call for folkloric festivities, councilmen want to concretize campaign promises, constructors want the city hall to hire their work, suppliers at large also want to sell to the public power, etc.

Why, if the municipality's financial resources are, and always will be scarce, it is important to everyone that they are not reduced, but rather, increased. Thus, each citizen, within his social revindication group, will be attracted to interfere in the planning and performance of the policies that increase such resources. Each citizen will also tend to actively participate with donations and voluntary work whenever necessary.

The alternative forms of local civil society participation will vary, from location to location and from time to time, according to the diversity in social actors and in their political maturity, in the normal historical process cycle.

Bringing back to mind Vítor Nunes Leal's lesson on "Colonelism" (Leal – 1989), the colonel's greatest commitment was to remain in the state government's situation, in such a manner that his municipality would not lose state government benefits. In order to do this, as an exchange coin, the colonel used the "voto de cabresto" (or, "halter vote").

In the model we are proposing, in order to receive more state resource transferences, the mayor will have to chase positive results in the priority criteria established by the population of the State as a whole, through social debate. To do this, the mayor will have to involvement of several social actors, he will have to give value to the server, he will have to count on exchange with knowledge detaining means (academic realms, NGAs, etc), on voluntary work, etc.

### **13.6 – Administrative Continuity**

Another chronic problem in the Brazilian public administration is the lack of consolidation in administrative advancement resulting from the lack of administrative continuity. At the beginning of each administrative period, the new government simply abandons the work that was being done by the previous one, sterilizing all resources (financial, technical, human, political) put into developing and performing those work plans.

This is an astronomical waste, most especially of time, that will never again come back, while the solution of social problems is delayed indefinitely.

On the moral aspect, the population feels discouraged since it believes all initiatives and postures will most likely change, or even be discarded, in the next administration.

With the proposed apportionment criteria molding, this tends to change since a successful work plan may no longer be interrupted, if not because of the leader's desire, because of the entire civil society's demand, since it is interested in continually maintaining and improving the municipality's performance regarding the established social indicators.

Furthermore, certain Pharaoh-like public constructions that have questionable results will tend to not even be began, since they will be committing valuable resources for the improvement of the municipality's social performance.

### **13.7 – Knowledge development**

When the federal (or state) sphere transfers to the local sphere the freedom and responsibility to contribute to the improvement of the nation's (or of the region's) general social indicators, the public management innovation thinkers and possibilities are multiplied.

If previously the state sphere, along with its technicians, had a possibility to innovate, innovation possibilities will be greatly multiplied. Instead of 27 states, there will be some 6,000 municipalities to innovate in search for solutions, as well as 6,000

municipal legislative powers, 6,000 communities, a countless number of popular organizations and social movements, etc.

Adding this innovation possibility multiplication to wide-ranging divulgation and debate on the solution examples found at the several locations, something that has been promoted by countless award contests (UNICEF, Fundação ABRINQ, FGV/Fundação Ford, etc.), as well as by countless seminars, congresses and other forms of debate, as well as the wide range of articles and books that have been published, one reaches a significant accumulation in the registration of such practices.

Competition and redundancy between several possible solutions isn't always bad, since by this it is possible to constitute an innovation acceleration mechanism and a change process.

*“Contrary to the habitual belief, redundancy and competition between projects and alternative solutions is not, necessarily, a form of inefficiency. ... What we are advocating for – at the face of the fascination brought-on by uniformity and by symmetry in our public organizational culture – is the need and the convenience to demonstrate that different solutions, no matter how heterodox they may seem to the conventional administrator, may be equally efficacious. The competition among consecrated solutions and alternative solutions has a dialectic role of the utmost importance and allows for the inertial resistance to change to be surpassed.” (Castor & França - 1986) (The underlines are ours.)*

It is common to see, among public administrators and the population at large, symptoms of chronic skepticism, tossing “buckets of cold water” on any idea or attempt of change, through expressions such as: this problem has no solution, this will never change, this idea won't work, people will not participate, the Idea is good, but this is not the ideal moment, etc.

In this context, competition between the communities that have to evolve in their performances is the example that a few communities' positive experiences is able to break other communities' inertia since they will tend to evaluate those experiences according to their possibilities, go on to performing adaptations and adjustments, finding and experimenting with their own paths.

Even divulging, evaluating and analyzing experiences that didn't work (totally or partially) is important for knowledge evolution. It is indisputable that it is possible to learn from mistakes.

## **14 – A Few State Criterion of efficiency Induction**

### **14.1 – Sectorial Criterion for the Environment**

The State of Paraná uses the quality of the preservation and the amount of green and spring areas as indicators. Minas Gerais also monitors trash destination and sewage treatment indicators.

Another indicator that can be given priority to is recycled garbage amounts. This priority is current and promising. Material recycling avoids natural resource destruction, the waste of energy during original raw material production, it avoids environmental contamination (a few materials such as plastic don't ever degrade), generates jobs and income, and it solves the cultural matter of people throwing garbage on the streets.

### **14.2 – Sectorial Criteria for Education (children at school age)**

Although currently 95% of the Brazilian children aged 7 to 14 years go to school, only 35% of them finish 8<sup>th</sup> grade. And even among those who finish it, only 3% do so in the eight normal years. Repetition reaches 30% of the students matriculated in elementary teaching. (Caixeta, 1998).

The repetition problem is vitally important for the education matter since: it makes the student go through the same grade several times, retarding one's graduation, reducing one's self-esteem, generating discouragement that may lead to one's dropping out of school, and increasing his schooling costs for the State.

In order to revert this picture, apportionment criteria may use the following indicators: the percentage of children out of the school, the dropout rate and the repetition rate. When evolving these criteria, one may also opt to compare the student's performances in preestablished basic knowledge tests.

In order to reduce the repetition rate (failure), local communities may, once the learning difficulty causes are identified: reevaluate teaching methods, incentive fathers and mothers to help the students with their homework, propitiate reinforcement classes with voluntaries, improve the school's physical environments, stimulate the reading habit in rotational libraries set-up with donated books, etc.

An interesting example is the Carazinho municipality experience, in Rio Grande do Sul, which, once it was decided to solve repetition and school dropout problems, diagnosed that its greatest enemy was mathematics, or better, the discipline that flunked most students and the one they liked the least. In the 1<sup>st</sup>, 5<sup>th</sup> and 6<sup>th</sup> grades, repetition was as high as 40% of the students. The municipality hired a specialist from the Universidade Federal do Rio Grande do Sul (Rio Grande do Sul Federal University) and courses were

offered to the school teachers and directors, debates and workshops were disseminated throughout the schools and the math concepts started being presented in the other disciplines. Furthermore, a game library was implemented in which games made out of materials typical from the region are used by the teachers in an attempt to promote math learning. As a result, the repetition rate fell to less than 5% and school dropout, at the time around 7%, fell to 0.5%. (Caixeta – 1998)

Undoubtedly, initiatives such as Carazinho's are promoted and multiplied through the proposed model.

### **14.3 – Sectorial Criterion for Education (adult population)**

So far as the adult population is concerned, only some 15% have a minimum of 11 years of schooling. The situation, highlighted at the basic level, allows for only a little more than 1% of the Brazilian population to reach the University, a rate that is comparable to that extant in the 1960's (Caixeta, 1998).

Among the 72 million Brazilians that compose the EAP (Economically Active Population), the average schooling level is 3.8 years, a level comparable to that in Haiti and Honduras (which have much less financial resources per capita) and much inferior to those of Argentina (8.7 years), Paraguay (9.0 years) and South Korea (11.0 years).

To give priority to this problem, apportionment criteria must consider the following indicators: illiteracy percentages, average schooling year percentage, percentage of those who concluded eighth grade, or high school, etc.

As a result of these apportionment criteria, among the possible actions on the local level we may list: community literacy campaigns, of elementary and high school supplementary teaching, creation of classrooms and study groups in work locations, prizes (in cash, days off, trips, etc.) to the servers who help one person become literate during non-work hours, use of community association physical spaces, with privileged classrooms where students already feel at ease, and several partnerships.

### **14.4 – Sectorial Criteria for Health**

It is common for politicians to "render accounts" in the health sector pointing to the increase in total spending, of the number of hospital beds, or even in state-of-the-art equipment purchases.

However, what is expected to happen is the improvement in the population's health conditions as a whole, in such a manner as to make the demand for beds and for other procedures that occur after the disease sets in.

A few effective result indicators are: infant mortality rates, endemic disease control, life expectancy, etc.

In order to reduce infant mortality, communities could apply one or more of the following initiatives: stimulate maternal milk bank formation together with the church and/or day-care centers, stimulate voluntary activity among health agents for pre-natal and new-born follow-up with nutrients based on rich nutrients extant at the location and of easy acceptance for the community's habits, stimulate companies to create adequate installations for milk-giving as well as to respect shift intervals for that end.

#### **14.5 – Sectorial Criteria for Agriculture**

In relation to agriculture, the State of Rio Grande do Sul uses two inductive criteria:

- agricultural production value, that stimulates the State's agricultural GDP with countless advantages, such as: income increase in the interior of the state, improvement of the agricultural techniques, settler capacitation and several modes of community partnerships, improvement of the species produced in the State with the enhancement of commercial possibilities, increase of the labor in the field (and consequent reduction in migration to urban centers, with their negative externalities), increase in food offer to the State population;

- the amount of municipality agricultural properties, something that stimulates small production and the democratization of the access to land.

The use the land is put to could also be measured, in order for it to not become degraded. This, it would be possible to incentive, selectively, the adoption of certain land handling techniques, the low use of agricultural defensives, correct plague control, etc.

#### **14.6 – Social participation Inducing Criterion**

An interesting challenge is to think about criteria that stimulate the opening of institutional channels that, in any public policy area, favor social participation. A few states use the formalization of diverse fora, such as Municipal Health Councils as indicators.

However, the mere existence of the municipal council does not insure social participation. What insures social participation is the condition people have of actually deciding something concrete in the policy in question.

Thus, another possible indicator would be the percentage of the resources spent in the municipality (on education, health, assistance to minors, etc.), managed directly by users and interested parties, such as student parents in school councils.

The potential matters such as education, health, assistance to the minor, etc., have in order to make people participate voluntarily in the entire analysis and decision-making



process, on where and how to invest resources is huge and it propitiates a new and stimulating learning process for most people.

## **15 – How to Model State Criteria**

### **15.1 – Choice of the Priorities**

First off, it is necessary to keep in mind that: those who have all priorities have no priorities at all. This implies in the fact that the choice of criteria must be parsimonious, allowing one to attribute an adequate weight (percentage) to the respective criterion.

In any event, the path to choosing the priorities must, certainly, go through a wide range of social debate, catalyzed by each State's Legislative Power.

Insofar as the apportionment criteria to be implemented, the ones to have most "inductive power" will be those that, adopting the "beneficiary protector" principle for the sphere of the priority chose, will have, cumulatively, the following characteristics:

- be aimed at an objective public policy;
- combine local qualitative and quantitative indicators;
- measure the indicators using sources and methods accepted as valid by social actors.

## **16 – Final considerations**

The main objectives of this paper, using arguments relative to equality and distributive justice, were:

First: denounce the perverse regional inequality and poverty perpetuation cycle caused by mistakes in the Brazilian Federative Pact among other reasons. This regarded the horizontal distribution of resources, through the super-dimensioning of the added value criteria, prescribed in article 158, single paragraph, clause I of our Constitution.

Second: demonstrate the rich political citizenship learning possibilities that the local governments, associated to policy inducing methods, such as those suggested in the text, may come to incorporate in many communities' daily lives. This facilitates active communitarian participation in local problem solutions and brings the government closer to the population.

Third: make it clear that municipal tax bases are not being used in the most adequate and efficient manner, creating distributive anomalies that only reinforce the discrepancies pointed to previously by the over-dimensioning of the added value criterion.

Fourth: remember that the investments in infrastructure and education can, in the mid-term and in the long run together with other governmental initiatives, enhance the de-concentration of private initiative investments, making the forgotten and poverty-stricken

regions more attractive, most especially by forming industrial or agro-industrial clusters, considering regional peculiarities and vocation.

Fifth: demonstrate that the initiatives foreseen in the model allow, regardless of the political party that rises to local power, the priorities defined by state law to be maintained, giving continuity to the projects incorporated by the community and, putting an end, even if only partially, to one of the greatest ailments that has affected the national policy during the last decades. In other words, the lack of continuity in the initiatives causes, over and beyond discouragement incorporated by the entire population, a general feeling that we are always starting from nothing, or not evolving.

Sixth: propose an alternative model that initiates an accelerated development triggering process, one that is continual and sustained in all Brazilian municipalities. It is no longer tolerable that economic and human development depends on mere chance, without consensual policies that induce and ease resource and initiative distribution.

Seventh: provoke the debate about the role and relationship between the state and municipalities, while in addition advocating that a negotiated roll of goals and a more coordinated strategy on spending power should be decided at regional level and not at a Federal Constitutional level . Each individual state ought to have the right to decide different ways to enhance effectiveness and efficiency on its spending. This ability to decide at the regional level is one the main points of the federalism that for sure will improve the responsiveness and accountability not only in states but also in local governments.

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