NOTES

1. Personal interview.

2. One fundamental reason for this is that transitional conflicts are usually set in motion by shifts in political power produced by electoral change.

3. The regions' budgetary allocation had increased from 8 to 19 trillion lire from 1976 to 1979, and in the following three years the allocation doubled once again to 39 trillion lire.

4. Personal interview.

8

THE ROLE OF THE STATES IN THE BRAZILIAN FEDERATION

Lawrence S. Graham

INTRODUCTION

From the time Brazil first took formation as a national society, one can identify distinct cycles of centralization and decentralization of power in the relationships that have developed between central and local authorities. Within this context the twenty-one years of authoritarian rule extending from 1964 to 1985 represents by far the longest era of centralization yet experienced. When these developments are placed in perspective, the question that comes immediately to mind is whether the redemocratization of Brazilian politics now underway will lead to a new cycle of decentralization and thereby contribute to a revival in Brazilian federalism.

The return to mass-based politics and the reopening of government to the public contestation of major policy issues carry with them considerable impetus toward decentralization. Yet fiscal reforms first instituted by civilian technocrats in 1967 have concentrated control of public finance in the hands of central authorities to a degree unprecedented in previous Brazilian experience. The issue that these changes raises is this: Have economic conditions emergent since 1967 pushed Brazil in the direc-

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tion of becoming more like the other instances of federalism in Latin America (Mexico, Venezuela, and Argentina), where despite federalist constitutions one encounters de facto unitary rule; or have local authorities (composed of state and municipal officials) retained sufficient political power to be able to reshape national priorities to respond to regional needs and interests? To answer this question, there are three sets of variables requiring attention: structural-situational factors, changing fiscal practices, and the degree of compliance practiced by local authorities in accepting the dictates of the central government.

THE STRUCTURAL SETTING

The factors shaping the operating environment governing intergovernmental relations (the relations among federal, state, and local authorities) are these. Since 1891, when Brazil first became a federal republic, centralization/decentralization cycles have been shaped by a three-tier governmental system. Whereas other instances of federalism have usually involved a binary set of relations, from the outset Brazilian federalism has been characterized by the separate and distinct legal status accorded to municipal authorities.[1]

Beginning with the political reforms instituted by Getulio Vargas during the 1930s, Brazilian federalism shifted from a system dominated by the state governments toward one controlled increasingly by federal authorities. This process culminated in the Constitution of 1937. While the New State terminology derived from fascist models in southern Europe never took on real meaning in the Brazilian context, the concentration of power in the hands of the chief executive did. Accordingly in the Constitution of 1946 the anti-Vargas opposition attempted to redress this pattern of authority by writing into public law not only a clear-cut separation of powers but also measures designed to limit the power of the presidency by guaranteeing distinct state and local powers. Subsequently in the Constitution of 1967, and later in the drastically amended document imposed by decree under the authority of the ministers of the Navy, Army, and Air Force in October 1969, Brazil became an instance of "inclusive-authority federalism"--a regime so thoroughly dominated by its federal authorities that most observers concluded that Brazilian federalism was moribund.[2]

The changes incorporated into Brazil governance in 1967, 1968, and 1969 were not only legal and political, but also economic. Under tax reform legislation first introduced in 1967, fiscal authority was concentrated in the hands of the federal government. Holding the resource base of state and local governments constant, the central government embarked on a strategy designed to augment its own economic resources. Utilizing the precepts of a "nonconstant-sum game" identified with U.S. public-choice theory, Brazilian technocrats put into practice economic concepts hitherto relegated to more abstract political economic thought in the United States. By enlarging the "resource pie," these technocrats argued that all those who accepted the new fiscal rules imposed by a military-dominated government could win or make gains under the new order. Convinced that the earlier commitment to collective responsibility (through shared powers with the Congress) and to amelioration of conditions of poverty (through social policy and populist rhetoric catering to the masses) had led to unrestrained public spending, they argued that the first priority of the federal government should be to bring inflation under control and to get the country back on the course of an expansionary economy through stable growth.

The fiscal arguments advanced were these. By engaging in deficit financing for an indefinite period and indexing interest rates, the federal government could bring the previous excesses of populist democracy under control. Subordinate governmental units were assured that, in abiding by the new rules, they would receive conditional grants-in-aid more than equal to the autonomous tax base guaranteed by the 1946 Constitution. By their complying with authority from above, government advocates said, the federal government could expand total resources for everyone and raise more money. The federal government in turn could then offer more support to state and local authorities. Thus, as overall economic growth took place, they maintained, benefits would outweigh constraints.[3]

Now that the emotions surrounding this era--when economic expansion coincided with authoritarian controls--are past, what is striking is how the concepts used by Deil Wright (1978:23-28) to analyze the implications of the inclusive-authority model hypothetically in the United States were already being worked out in practice by Brazilian economists and planners during the late 1960s and throughout the 1970s. What most analysts have failed to understand about the Brazilian case is its relevance to other theoretically more advanced societies, such as the United States, in their shift to the right during the 1980s. The relevance of the Brazilian model stems from the fact that it was implanted not by the least developed sectors of Brazilian society, but by its most advanced ones, in accordance with a particular line of economic thinking their own planners and economists had picked up from within the United States.

In hindsight the most important new developments in Brazilian governance during this era were the establishment of hierarchy as the dominant organizing principle in the public as well as the private sector, and how this concept for organizing society came to Brazil, not merely by military fiat but also through a rational economic argument in the garb of democratic theory, coupled with economic necessity. Consequently when a new economic crisis appeared on the horizon in the early 1970s, as the first oil crisis descended unexpectedly on the world economy, such concepts as "doing more with less" and "cutback management," which had already gained currency in the United States, could easily be implemented in Brazil once it appeared that resource constraints would now become the new reality.

As the economic squeeze snowballed throughout the late 1970s and approached crisis proportions in the 1980s, more and more Brazilian intergovernmental experience became a case where national gains equaled state and local losses. As it became essential to ensure that export earnings would continue to increase in order to offset a growing trade imbalance, fiscal controls from Brasília were used to reduce still further the already limited outlays for social services and assistance to the less well-to-do, without provoking immediate popular reaction. Federalism, now under centralist garb, proved to be an effective means for dispersing and avoiding mass coalescence. With a federal government located in Brasília, away from population centers scattered along the littoral from north to south, federal authorities reduced transfers to state and local authorities, while they cut back on program allocations to field offices of central ministries concerned with social policy. Thus, when one examines the popular press or the scholarly literature on public finance (as well as on state and local government) during this period, there is the common complaint that the states and the municipalities have become dependencies of the federal government.

Nevertheless, some very important trade-offs were achieved in Brazil's tax reform. While authority patterns clearly advanced the values of hierarchy in state-federal relations and undercut the autonomy to which the states had become accustomed, the financial position of the municipalities did improve. Federal tax sharing and transfers through state governments increased municipal income across the board and benefited the poorest governmental units most of all.

FISCAL CONSTRAINTS ON THE STATES

The 1967 tax reforms constitute the basis of the present public finance system. They both simplified existing tax legislation and concentrated resources at the federal level. The primary arguments behind these reforms were twofold. By increasing federal revenues, federal deficits would be reduced, thus removing one of the main causes of inflation. By centralizing control, more rational decisions could be made over the allocation of public monies among regions and sectors, thereby promoting overall economic development. The fact that these reforms increased the regressiveness of the tax structure and undercut the tax autonomy previously accorded to state and local authorities, it was argued, was offset by the increased capacity to plan more rationally and by revenue sharing. The former (rational planning) was enhanced by giving the planning ministry a major voice in the allocation of funds; the latter (revenue sharing) was weighted in the direction of the lesser developed regions.

A decade later it became clear that few of these objectives had been achieved. Acute inflation returned, and it grew progressively worse each year, as internal and external public-sector indebtedness increased. Unrestrained public-sector expansion at the federal and state levels, through the creation of literally hundreds of new public enterprises in the federal and state governments between 1970 and 1978, made the problems of control and coordination even greater. While the logic of control and coordination through resource allocation from the center had seemed convincing in 1967, the autonomy given to public organizations outside the direct administration category, in the interest of accelerating development, made it difficult to curtail their operations, regardless of the deficits accrued.

When the growing indebtedness of state governments is added in, because of their need to provide certain basic services despite inadequate revenues, the surpluses generated at the national level through tax reform quickly disappeared. This situation was further aggravated by the pressures on state governments to hire new employees. For example, in the period immediately preceding the 1982 direct election of governors, it is estimated that 500,000 employees were added to the public payroll.[4]

As the crisis grew in the early 1980s, the shortage of funds at the national level meant cutbacks at the state level in such areas as police protection, public services, state-owned productive enterprises, and public housing. This generated in turn a movement advocating tax reform and increased independent tax collection at the state and local level, independently of the political and social pressures to open up Brazilian government.[5]

This loss of state revenues, the increase in state government activities (in response to a federal policy of stimulating economic growth through public-sector expansion), and the recourse to borrowing to cover deficits can all be documented.

Table 8.1 reproduces tax revenue information comparing the three levels of government. Table 8.2 shows the distribution of revenues once it is corrected to reflect the impact of federal transfers to state and local governments. Table 8.3 reflects the computation of the weight of federal transfers in state tax revenue in terms of its redistributional impact on the regions.

These data support the following conclusions. First, the 1967 tax reform did notably increase the percentage of revenue received by the federal government, to the detriment of the states. But municipalities, after suffering a decline in resources in the years right after the tax reform, held their own and actually improved their total income percentage in 1977 and 1978.

When these figures are corrected to include revenue-sharing arrangements and the amount of revenue available after transfers occurred, the picture is somewhat similar. While the states still end up with a sizable reduction in available funding, the actual percentage of funds received by local government, both before and after the tax reform took effect, comes out much better. Since intergovernmental transfers have been widely used in Brazil for years, what differs about the 1967 tax reform, then, is the extent of

Table 8.1. Tax Revenue of the Three Levels of Government

Year	Share (%) Federal	State	County
1967	45.8	49.4	4.8
1968	51.5	44.7	3.8
1969	53.6	42.7	3.7
1970	54.4	41.9	3.7
1971	56.4	40.0	3.6
1972	58.4	37.8	3.8
1973	58.5	37.7	3.8
1974	59.3	36.9	3.8
1975	58.9	37.0	4.1
1976	62.3	33.0	4.7
1977	60.9	34.0	5.1
1978	58.1	36.1	5.8

Source: Ministério da Fazenda, Revista de Finanças Públicas, 1982, p. 53. Table reproduced from Eurico H. Ueda, "Brazilian Tax System," unpublished conference paper (mimeographed) (São Paulo: Instituto de Pesquisas Econômicas da Universidade de São Paulo, August 1983), p. 15.

Table 8.2. Revenue After the Transfers

	Share (%) Federal	State	County
1967	36.9	45.2	17.9
1968	40.6	42.5	16.9
1969	45.8	39.8	14.4
1970	45.7	39.6	14.7
1971	47.7	38.4	13.9
1972	49.7	36.5	13.8
1973	49.1	37.1	13.8
1974	50.2	36.2	13.6
1975	50.3	36.0	13.7
1976	51.4	34.3	14.3
1977	50.3	34.8	14.9
1978	47.3	36.7	16.0

Source: Ministério da Fazenda, Revista de Finanças Públicas, Abr/Mai/Jun, 1982, Table reproduced from Eurico H. Ueda, "Brazilian Tax System," unpublished conference paper (mimeographed) (São Paulo: Instituto de Pesquisas Econômicas da Universidade de São Paulo, August 1983), p. 26.

Table 8.3. Federal Transfers as Percentage of State Tax Revenue

	1976	1977	1978	1979	1980	1981
North	210.0	190.0	170.0	140.0	000.0	110.0
Northeast	80.0	70.0	70.0	70.0	60.0	70.0
Southeast	00.0	00.0	10.0	10.0	10.0	10.0
South	20.0	20.0	20.0	20.0	10.0	20.0
Center-West	40.0	30.0	30.0	100.0	80.0	70.0

Source: Ministério da Fazenda, Revista de Finanças Públicas, Abr/Mai/Jun, 1982. Table reproduced from Eurico H. Ueda, "Brazilian Tax System," unpublished conference paper (mimeographed) (São Paulo: Instituto de Pesquisas Econômicas da Universidade de São Paulo, August 1983), p. 25.

the concentration of resources in the hands of the federal government, the curtailment of tax-collecting authority at the subnational level, and the extensiveness of the recourse to intergovernmental transfers.

The financial squeeze experienced by state governments during these years, while new when measured by the size of its impact, is also part of a very old pattern in Brazilian federalism. Throughout the First Republic (1889-1930) state taxing authority was equally limited and the recourse to the federal government was constant (Dallari, 1982:20-24).

The most important new departure in the 1967 tax reform was the commitment of the federal government to the redistribution of public monies through tax sharing, conditional grants, and interregional transfers. The extensiveness of this transfer of public funds from richer to poorer regions is summarized in Tables 8.3 and 8.4. The basic formula used by the federal government in revenue sharing was to weight the amount received according to the level of development. Thus, for every 100 cruzeiros collected by the federal government in taxes set aside by law for transfer to the states, the North received back 210 cruzeiros in 1976. Over time complaints about the inequities imposed on other regions by the priority given to development in one (the North) and the shortage of funds in other regions for important public services led to readjustment, so that by

Table 8.4. Federal and State Transfers as Percentage of Municipal Tax Revenue

	1976			1977			1978		
	Federal	State	Total	Federal	State	Total	Federal	State	Total
North	470.0	170.0	640.0	420.0	180.0	600.0	390.0	180.0	570.0
Northeast	290.0	190.0	480.0	270.0	190.0	460.0	270.0	190.0	460.0
Southeast	30.0	120.0	150.0	30.0	110.0	140.0	20.0	110.0	130.0
South	90.0	200.0	290.0	90.0	200.0	290.0	80.0	180.0	260.0
Center-West	200.0	150.0	350.0	210.0	170.0	380.0	200.0	160.0	360.0

Source: Ministério da Fazenda, Revista de Finanças Públicas, Abr/Mai/Jun, 1982. Table reproduced from Eurico H. Ueda, "Brazilian Tax System," unpublished conference paper (mimeographed) (São Paulo: Instituto de Pesquisas Econômicas da Universidade de São Paulo, August 1983), p. 25.

Table 8.5. Who Provides Governmental Services: State and Federal Expenditures

States	Expen- ditures	I Govt. and Central Adminis.	II Agri- culture and Natural Res.	III Energy	IV Transpor- tation and Commun.	V Indus. and Com- merce	VI Educ. and Cul- ture	VII Housing and Urban Serv.	VIII Health and Sani- tation	IX Labor and Social Welfare	X Defense and Secur- ity	Total
					Northeastern Region, Percentage Distribution for 1975							
Maranhão	Fed.	66.7	35.5	--	32.7	3.1	45.3	--	52.5	87.6	73.5	61.0
	State	33.3	64.5	100.0	67.3	96.9	54.7	100.0	47.5	12.4	26.5	39.0
Piauí	Fed.	68.7	85.8	100.0	54.7	7.9	39.3	6.7	76.8	86.1	70.7	69.8
	State	31.3	14.2	--	45.3	92.1	60.7	93.3	23.2	13.9	29.3	30.2
Ceará	Fed.	60.9	92.6	100.0	65.0	54.2	58.9	3.4	77.1	88.5	69.1	75.5
	State	39.1	7.4	--	35.0	45.8	41.1	96.6	22.9	11.5	30.9	24.5
Rio Grande do Norte	Fed.	51.0	67.4	--	74.3	2.4	68.9	--	75.9	92.5	92.6	73.8
	State	49.0	32.6	100.0	25.7	97.6	31.1	100.0	24.1	7.5	7.4	26.2
Paraíba	Fed.	57.6	79.5	--	58.6	2.1	50.4	--	74.5	86.5	77.0	68.5
	State	42.4	20.5	100.0	41.4	97.9	49.6	100.0	25.5	13.5	23.0	31.5
Pernambuco	Fed.	64.5	71.7	100.0	63.3	80.9	58.6	4.3	58.8	88.7	73.0	73.5
	State	35.5	28.3	--	36.7	19.1	41.4	95.7	41.2	11.3	27.0	26.5
Alagoas	Fed.	55.4	61.0	--	35.8	69.7	48.6	--	80.5	85.6	55.9	66.2
	State	44.6	39.0	--	64.2	30.3	51.4	100.0	19.5	14.4	44.1	33.8
Sergipe	Fed.	63.8	48.9	--	47.7	3.1	42.0	--	77.3	83.6	73.6	66.2
	State	36.2	51.1	100.0	52.3	96.9	58.0	100.0	22.7	16.4	26.4	33.8
Bahia	Fed.	43.1	72.5	--	42.3	22.1	37.6	2.8	54.2	85.5	63.7	56.3
	State	56.9	27.5	100.0	57.7	77.9	62.4	97.2	45.8	14.2	36.3	43.7
Northeast Region	Fed.	56.9	75.6	23.2	50.0	47.1	49.9	3.1	64.4	87.4	72.3	66.8
	State	43.1	24.4	76.8	50.0	52.9	50.1	96.9	35.6	12.6	27.7	33.2
					Southeastern Region, Percentage Distribution for 1975							
Minas Gerais	Fed.	36.5	38.8	--	45.2	4.2	36.6	7.9	73.7	84.4	29.8	54.1
	State	63.5	61.2	100.0	54.8	95.8	63.4	92.1	26.3	15.6	70.2	45.9
Espírito Santo	Fed.	52.2	42.0	71.3	47.6	31.7	34.1	--	58.8	84.7	46.5	59.6
	State	47.8	58.0	28.7	52.4	68.3	65.9	100.0	41.2	15.3	53.5	40.4
Rio de Janeiro	Fed.	78.5	95.2	94.3	97.4	99.0	56.7	0.3	76.1	91.6	75.3	87.8
	State	21.5	4.8	5.7	2.6	1.0	43.3	99.7	23.9	8.4	24.7	12.2
São Paulo	Fed.	14.4	5.7	--	24.6	60.7	2.9	1.2	36.8	85.4	27.2	45.8
	State	85.6	94.3	100.0	75.4	39.3	97.1	98.8	63.2	14.6	72.8	54.2
Southeast Region	Fed.	44.4	66.7	40.0	74.4	89.9	22.5	10.7	49.2	57.8	53.6	66.3
	State	55.6	33.3	60.0	25.6	10.1	77.5	89.3	50.8	42.2	46.4	33.7

Source: M. H. Costa (Coordenadora), Regionalização das Transações do Setor Público, FGV/IBRE/CCN, Rio de Janeiro, 1981. Table reproduced from Carlos Alberto Longo, A disputa pela receita tributária no Brasil (São Paulo: Instituto de Pesquisas Econômicas da Universidade de São Paulo, 1984), pp. 170-71.

1981 the North was receiving 110 cruzeiros for every 100 collected.

These figures on state finance alone, however, do not reflect the full extent to which redistribution was achieved and how it benefited a variety of regions once local government transfers are added in. While the bulk of the intergovernmental transfers at the local level came from the federal government, it should be noted that the states were also required by law to share part of their own revenues with the municipalities within their jurisdiction. Seen from this perspective, what Table 8.4 shows is that the North, the Northeast, and the Center-West were the greatest beneficiaries of revenue sharing, and that the region that continually subsidized these operations was the Southeast.

While Ueda (1983) does not break these figures down by state, he does make the observation that the states of the South and Southeast regions receive less than 25 cruzeiros for each 100 they collect. In the state of São Paulo, this contrast is even more marked. It receives only 7 cruzeiros for each 100 it collects from the value-added sales tax (the ICM) and the tax on real estate transfers (the ITBI).[6]

A second body of material on Brazilian public finance of relevance to this discussion of intergovernmental relations is that that examines the category known as direct administration (federal and state mainline departments providing standard services). It seeks to determine the extent of federal-state cooperation through joint funding of basic activities. Part of these data are reproduced in Table 8.5. These concern the Northeast and the Southeast of the country.

What is most significant about these figures is how, after a decade of erosion of state autonomy and centralized rule from Brasília, Brazil continued to function not as a unitary state in terms of public finance, but as a federal republic. Consultation of these figures demonstrates further that the federal-state mix varies greatly by state and by sector, from a high where 100 percent of the expenses related to energy needs is covered by the federal government in Piauí, Ceará, Paraíba, and Pernambuco to a low of 0.3 percent of federal funds being used for housing and urban services in Rio de Janeiro State. No federal funds are used for energy needs in Maranhão, Rio Grande do Norte, Paraíba, Sergipe, Bahia, Minas Gerais, and São Paulo.

More interesting is the fact that in terms of the total amount of funds expended, one cannot generalize by saying that the poorest states automatically receive the most federal support and the richest the least, for the patterns vary greatly from state to state. Those states depending for more than 70 percent of their revenues on the federal government--Ceará, Rio Grande do Norte, and Pernambuco--certainly are among the poorest, but Rio de Janeiro also belongs here. Nevertheless, the converse is true: The most developed state in these two regions, São Paulo, received more than 50 percent of its revenues from state sources.

COMPLIANCE PATTERNS IN FEDERAL-STATE RELATIONS

A third dimension, which is important in evaluating the interplay between national and local authorities, concerns the relationships in individual states among centralized administration (traditional state government agencies), decentralized administration (state-operated autonomous agencies, services, and institutes), and consolidated administration (activities involving joint state and municipal operations). As a general rule, states meet most of their own direct administrative costs (those involved with standard public services) out of their own revenues. However, depending on the schemes arrived at within each state, when new services have been assumed by state governments as a consequence of their more active roles in society and the economy, these have been covered in most cases by federal funds made available on a revenue-sharing or grant-in-aid basis.

This information is summarized in Table 8.6 (Rezende, 1982:491, 509-10). It is instructive in two ways. First, it shows that while there is extensive public-enterprise development at the state level matching that that occurred within the federal government, the overall development strategy and the funding of these organizations came from the center. During this era it became common practice to use a holding company structure whereby the national organization would oversee investment policy in a given sector and set priorities for state owned-companies within the same sector. Thus, state companies in utilities, communications, and industry, for example, would function

Table 8.6. Composition of State Public-Sector Revenues: Central Administrative Services, Decentralized Services, and Consolidated Services

		State Receipts (%)		Federal Transfers (%)		Credit Operations (%)	
		1965	1978	1965	1978	1965	1978
Selected States							
Ceará	Central	94.74	48.92	--	49.36	5.26	--
	Decent.	8.15	22.94	34.39	5.00	13.92	0.38
	Consol.	77.58	52.56	--	46.15	9.42	0.14
Pernambuco	Central	93.48	63.58	5.56	24.33	0.38	12.08
	Decent.	21.42	21.84	50.83	30.97	0.46	5.78
	Consol.	80.19	58.07	18.81	39.43	0.43	11.65
Bahia	Central	83.26	55.37	10.38	27.80	6.37	16.80
	Decent.	30.52	11.58	31.39	5.20	12.93	14.54
	Consol.	76.44	51.17	15.44	25.44	8.12	19.91
Minas Gerais	Central	81.03	65.74	12.14	18.91	6.84	13.15
	Decent.	16.97	25.04	0.72	4.47	14.34	0.77
	Consol.	78.17	66.27	11.14	18.25	10.63	12.01
São Paulo	Central	92.94	81.07	7.06	8.98	--	9.55
	Decent.	30.95	36.65	0.07	0.24	--	9.62
	Consol.	94.48	80.61	6.23	7.39	--	11.63
Paraná	Central	77.44	70.54	1.00	10.43	21.56	19.03
	Decent.	13.27	11.57	16.24	11.33	33.19	4.20
	Consol.	66.18	64.83	5.98	13.99	27.83	17.98
Rio Grande do Sul	Central	93.94	67.01	3.43	11.64	2.63	21.26
	Decent.	25.31	43.95	40.05	19.11	8.90	1.59
	Consol.	85.34	66.78	10.69	13.58	3.97	19.06
Regional Totals							
North	Central	73.47	38.84	25.51	64.05	0.98	7.11
	Decent.	6.38	17.00	41.50	27.12	3.39	9.66
	Consol.	62.82	34.51	36.18	49.13	9.96	8.42
Northeast	Central	88.68	49.58	6.63	39.59	4.63	9.57
	Decent.	18.24	18.85	42.76	8.82	5.81	10.10
	Consol.	75.27	48.71	17.79	36.72	5.36	11.65
Southeast	Central	90.44	75.86	7.99	11.56	1.43	11.10
	Decent.	29.39	35.85	1.23	0.84	6.24	7.35
	Consol.	87.89	76.34	7.26	10.03	3.54	11.90
South	Central	86.36	65.77	3.34	11.49	10.19	22.19
	Decent.	16.89	21.37	20.51	10.63	18.00	2.95
	Consol.	77.72	64.36	8.55	13.38	13.64	20.39
Center-West	Central	59.22	51.14	38.54	38.69	1.84	9.07
	Decent.	15.89	14.57	8.36	6.72	--	3.46
	Consol.	17.35	51.41	37.77	37.03	1.50	9.50
Country Total	Central	88.12	67.80	8.59	18.41	3.16	12.56
	Decent.	25.33	29.06	8.63	4.61	7.09	6.86
	Consol.	83.32	67.47	10.36	17.23	5.24	13.02

Source: FIBGE (Brazil). Table reproduced from Fernando Rezende, "Autonomia política e dependência financeira: Uma análise das transformacões recentes nas relações intergovernamentais e seus reflexos sobre a situação financeira dos estados." Pesquisa e planejamento econômico 12 (August 1982):526.

autonomously in terms of their routine operations, while questions of finance and development strategy were decided at the federal level.

The second body of data contained in Table 8.6 warranting comment is the category called "credit operations." Because the state governments were consistently short of operating funds, credit arrangements and borrowing became a standard, accepted way to meet the need to continue public services and state government-sponsored activities. Generally speaking, when one discusses the crisis posed by public indebtedness today in Brazil's domestic economy, it is associated primarily with this expansion in government services and activities in areas within the jurisdiction of the state governments and outside the functions they had previously fulfilled.

Central bank figures reproduced in Table 8.7 show the extent to which this indebtedness was centered in the indirect administration category. Of the 22.8 billion in U.S. dollars contracted abroad, 18.7 billion fell in the indirect administration category. More notable still is the fact that this indebtedness was centered primarily in the most developed part of the country--the Southeast (18.3 billion). Within that region two states stand out for Brazil as a whole: São Paulo with 8.1 billion and Minas Gerais with 4.8 billion. Likewise, there too the majority of this indebtedness has been concentrated in the indirect administration category: 16.7 billion for the Southeast as a whole; 7.7 billion for São Paulo, and 4.2 billion for Minas Gerais.

The contrast of this external indebtedness with the percentage of state income derived from federal government transfers (see Table 8.7) demonstrates dramatically the failure of the 1967 tax reform to meet the needs of state government. Yet this was a time of overall public-sector expansion, and defense of revenue-sharing schemes was but one aspect of the technocratic elite's overall growth strategy for Brazil. While there is not an inverse relationship, strictly speaking, between size of external indebtedness and percentage of federal government transfer represented in state government income, generally those states that were the most developed or had the greatest development potential found it easiest to borrow abroad. In contrast, as might be expected, the poorer states had the least capacity to do so, but they were able to expand their resource base through federal transfers, already weighted in their direction.

Table 8.7. Brazil's External Debt as Contracted by the State Governments as of April 1981 (U.S. $1,000)

Regions/ States	Direct Administration	Indirect Administration	Total
North	53,773.1	177,175.3	230,948.4
Acre	--	--	--
Amazonas	40,060.8	30,133.4	70,194.2
Pará	13,712.3	147,041.9	160,754.2
Northeast	1,190,593.1	377,475.5	1,568,068.6
Maranhão	154,800.8	--	154,800.8
Piauí	48,388.0	--	48,388.0
Ceará	266,015.2	68,980.2	334,995.4
Rio Grande do Norte	43,498.3	982.1	44,480.4
Paraíba	47,736.3	3,054.5	50,700.8
Pernambuco	218,017.4	60,137.2	278,154.6
Alagoas	59,011.6	42.0	59,053.6
Sergipe	21,055.3	--	21,055.3
Bahia	332,070.2	244,279.5	576,349.7
Southeast	1,581,808.7	16,709,382.1	18,391,190.8
Minas Gerais	615,042.4	4,181,346.9	4,796,589.2
Espírito Santo	85,246.1	1,997,417.7	2,082,663.8
Rio de Janeiro	397,402.1	2,969,364.6	3,366,766.7
São Paulo	484,118.2	7,561,052.9	8,045,171.1
South	1,022,060.9	1,381,216.7	2,403,277.6
Paraná	498,983.7	437,546.4	936,530.1
Santa Catarina	363,099.9	61,052.8	424,152.7
Rio Grande do Sul	159,977.3	882,617.5	1,042,594.8
Center-West	192,206.4	77,741.2	269,947.6
Mato Grosso	35,871.2	14,246.7	50,117.9
Mato Grosso do Sul	40,583.4	--	40,583.4
Goiás	115,751.8	63,494.5	179,246.3
Total	4,040,442.2	18,722,990.8	22,763,433.6

Source: Banco Central do Brasil. Table reproduced from Fernando Rezende, "Autonomia política e dependência financeira: Uma análise das transformações recentes nas relações intergovernamentais e seus reflexos sobre a situação financeira dos estados." Pesquisa e planejamento econômico 12 (August 1982):535.

Table 8.8. Percentage of State Government Income Derived from Federal Revenue-Sharing Arrangements, 1970-79

States	1970	1975	1979
North	54	57	56
Acre	50	87	88
Amazonas	61	48	48
Pará	50	57	54
Northeast	37	39	34
Maranhão	43	50	61
Piauí	49	72	70
Ceará	30	40	43
Rio Grande do Norte	46	41	43
Paraíba	33	45	48
Pernambuco	17	28	19
Alagoas	30	29	37
Sergipe	63	57	60
Bahia	23	31	22
Southeast	12	19	12
Minas Gerais	14	18	21
Espírito Santo	24	43	33
Rio de Janeiro	5	9	12
São Paulo	3	6	8
Center-West	26	35	49
Mato Grosso	29	23	56
Goiás	25	24	35
Distrito Federal	3	57	57
South	9	11	11
Paraná	10	7	10
Santa Catarina	12	18	14
Rio Grande do Sul	6	8	10

Source: "Execução orçamentária estadual--indicadores de compartamento; período 1975/1979." Revista de Finanças, Rio de Janeiro, 41 (abr/jun 1981):13-43. Informação: p. 26. Anuário Econômico-Fiscal. Brasília, Secretaria da Receita Federal, CIEF, n. 2, 1971; v. 7, 1976; v. 11, 1980. Table reproduced from Flávio Riani, "Efeitos do sistema de tributação sobre as unidades de governo." Fundação JP (Belo Horizonte) 14 (March/June 1984):33

When considerations such as these are added in, what emerges is anything but the clear-cut image of hierarchy and the coherent strategy promoting overall economic growth suggested by governmental technocrats. Public-sector expansion in São Paulo State in autonomous agencies and state enterprises reflected, for example, not so much the increase in productive capacity as the transfer of public services from the federal to the state level. Within state government this entailed in turn the setting up of urban services on a pay-as-you-go basis, with the consumer paying for the costs of the services received from separately constituted state-owned enterprises rather than directly from government itself. While the objective behind this approach was the reduction of governmental social costs, it proved to be impossible in such areas as public transport and utilities to make these services entirely self-supporting; hence, widespread resort to public borrowing to cover their deficits.

In other areas of the country, public-sector indebtedness perhaps can be linked to regional development schemes. But again there is no one single dominant pattern. For example, Minas Gerais is an example of a state not included in central government development plans where the regional elite made development a priority and succeeded in obtaining needed central government supports and in extracting extensive capital resources from abroad. Bahia, in contrast, benefited directly from the priorities set by the federal government and over time reinforced that position through its close relationship with influential members of the federal government.

Consequently from the moment one enters into the politics of resource distribution in Brazil and leaves aside the patterns of public-sector growth expansion, it becomes apparent that constraints on the centralization of power and authority in the federal government continued to operate, despite changes in the relations between central and local authorities. There is no doubt that the central government had the authority to impose centralized rule under the 1967 and 1969 Constitutions. But it did not always have the power to do so uniformly throughout Brazil.

The political game of extracting resources from the federal government is an old one in Brazil; what changed after 1964 was the way in which resources were extracted, instead of an ending to such practices. Pre-World War II bargaining relationships between regional elites, housed in state capitals, and the federal government can be documented in the regional histories available for São Paulo, Minas Gerais, Bahia, Pernambuco, and Rio Grande do Sul (Love, 1971, 1980; Wirth, 1979; Pang, 1979; Levine, 1978). Such was also the pattern in the more open-style politics established after the war. Likewise after 1964, even though political participation, elite as well as mass, was drastically curtailed, those within the system continued to play politics in the national capital as had long been the practice. In exchange for central government financial support, one could always promise to deliver needed and necessary regional political support. What were different between 1969 and 1985 were the arenas utilized. Whereas under the First and Second Republics the corridors of Congress were central to the agreements arrived at, in the 1964-85 authoritarian regime (like Vargas's New State of 1937-45), central government ministries and independent agencies played a much more central role. But even then there were certain constants in politics. The offices attached to the presidency of the republic had always been central to the politics of influence, as were those of individual ministers, and they remained so.[7]

CONCLUSION

To seek to understand Brazilian politics and bureaucracy and the policy process from the vantage point of the states is to enter an extraordinarily complex and poorly researched universe. Long assumed to be relatively unimportant, the revival of mass-based politics, the return to direct elections for governors in 1982, and indirect presidential elections in January 1985 not only have brought about a relaxation of authoritarian rule, they have also coincided with a shift in the direction of decentralization of authority and control; and with this change has come a revival in state politics.

None of this denies the very serious difficulties that lie ahead, the acute shortage of funds among the state governments, and their heavy indebtedness. What all this does suggest is that, for all the centralization that occurred during the late 1960s and throughout the 1970s, Brazil did not become simply another instance of formalistic federalism, masking the realities of a unitary state. Instead, having reached the extremes possible under federalism of strong executive-centered control by the national government, the states are coming to play once again an important role in Brazilian politics and government as redemocratization proceeds.

Whatever particular mix of intergovernmental relations emerges over the next decade, a redefinition of the jurisdictions, the powers, and the responsibilities of the three levels of government that have characterized Brazilian federalism since its inception in 1891 is in the offing.

In this context local authorities housed in state offices as well as in the municipalities will continue to constitute significant actors. In such a setting subnational politics is certain to continue to constitute a distinct political arena, coterminous with that operating at the national level.

NOTES

1. From the time of its first inception in 1891, Brazilian federalism has involved three distinct levels of government, rather than the two identified with classic federalism. An excellent summary of Brazilian thought regarding federalism is to be found in Dallari (1976:67-88).

2. For an example of how legalism was used in the attempt to legitimize the new order taking form in the late 1960s, see the prefatory paragraphs of the "Emenda constitucional no 1, de 17 de Outubro de 1969," as published in Dias (1976:999).

3. This discussion is based on the models Wright (1978:16-30) develops for analyzing intergovernmental relations in the United States. His terminology has been used here intentionally to heighten the saliency of the Brazilian case.

4. These estimates come from Diogo Lordello de Mello, the foremost authority on state and local government in Brazil.

5. For an excellent summary and analysis of these proposals, see Ueda and Torres (1984).

6. The ICM alone provides an estimated 95 percent of all state tax revenues. The second most important state tax is the ITBI.

7. For a discussion of these patterns in Bahia, see Santos (1983:18). An even more fascinating case of state-induced economic development is that of Minas Gerais, where the primary incentive came from regional elites rather than the federal government (see Andrade, 1980:291-97).