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**Transfers from federal government to states
and municipalities in Brazil**

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Summary

This paper analyses the budget transfers from federal government to States and municipalities in Brazil. It focuses on the transfers not coming from revenue-sharing revenues. It reviews fiscal federalism principles for transfers and briefly compares Brazilian experience to other federal countries. We see that transfers to States are well explained by the principles of fiscal federalism theory and by the political component. However, the same doesn't happen with the transfers to municipalities. The political component certainly has a component in explaining these transfers, but it is necessary to deep the study in order to understand better the relationship among mayors, federal lawmakers and the President.

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Introduction

The study of the intergovernmental transfers is very important to the understanding of the type of fiscal federalism present in each country. This kind of analysis is a field in the so called fiscal federalism studies.

The Brazilian federalism model allows to each sphere of government to legislate, to manage and to collect its own taxes. A good example is the fact of the its main individual tax to be responsibility of states. Municipalities are also responsible for important taxes.¹

Though this, the quantity of transfers from federal government to states and municipalities is very big. In thesis, the main cause of this it is the huge difference of per capita income among the units of federation, for instance, the per capita income of São Paulo, the richest state, is six times the one of Piauí, the poorest one.

Beyond the search of fiscal equalization, the Brazilian system of transfers also aims to concentrate some taxes in the government sphere with best conditions of managing it. This is the case, for example, of the income tax collected by the federal government and shared with the other government spheres. This is also the situation of ICMS (Brazilian value added tax), that is collected by the states and shared with the municipalities.

Beyond the transfers by sharing of revenues, there are those with the objective of achieving some national aims, for example, those that are adressed to a minimum level of expenditure for student defined by Ministry

¹ The federal Constitution establishes the general rules for the states and municipalities taxes.

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of Education to be achieved in each unity of federation. Also in the Health area, there is similar mechanism.

There are still transfers from federal government to maintenance of Federal District and former federal territories, that represent a significant amount of money. Beyond these kinds of transfers, there are the voluntary ones, which are less than ten per cent of total transfers. In this group, there are resources to the building of ports at specific states, including some hundreds million of reais, until resources to the construction of cheap houses to the low-income population, distributed among thousands of municipalities, each one receiving not more than one million of reais. In these latter transfers, the political criteria has a big weight.

This paper searches to analyse the system of transfers from federal government to states and municipalities, with emphasis to those ones not related to sharing of revenues, which still do not have a deep analysis. In addition to introduction, the next section comments briefly the guidelines for transfers among units of federation. The following one describes how the transfers work in Brazil. The two last sections analyze more deeply the transfers to the states and municipalities.

Basic principals of transfers among units of federation²

The public finance literature cites the following reasons to explain the intergovernmental transfers:

² See, for example, Oates (1999), Inman & Rubinfeld (1997) and Atkinson & Stiglitz (1980)

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- i) internalization of externalities to other jurisdictions;
- ii) improvement of the tax system as a whole;
- iii) correction of inefficiencies;
- iv) fiscal equalization among jurisdictions.

The first three reasons are more directly related to economic efficiency. In the first case, the highest sphere of government incentives the provision of goods and services that also benefits other units. That is the classical case, in the public finance literature, of positive externalities. The activities that generate them need an incentive, because in the producer's objective function won't be the third one that is receiving benefits. For this, its supply will be smaller than the socially necessary level. The government acts establishing incentive mechanisms in order to the producer take in account, at his or her decisions of how much to produce, the third ones that receive benefits.

To avoid the undersupply, two mechanisms may be designed. One would be the compensation among spheres of government of the same level. In this way, If the Ceará state, for example, has been offering sites at its state University to inhabitants of the neighbour state, Piauí, for example, that latter state would compensate the Ceará state with some money. Other mechanism would be the federal government to compensate the Ceará for offering benefits to its neighbours.

Note that the absence of compensation prejudices the society as a whole. The jurisdiction could follow two ways, in the case of not receiving compensation: the first one would be not to change the quantity supplied

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of the good or service, i.e., to keep it at the same level of before the arrival of neighbours inhabitants. The result could be the formation of lines and the worse of quality of service to neighbours and to its own inhabitants. The second way would be to amplify the supply of goods or services in accord with the demand. To succeed, it would be necessary to increase the tax charge on its citizens, to reduce the supply of other goods and service or to issue debt. In the three cases, the population would be harmed and consequently they would pressure in order to impose restrictions to the utilization of those goods and services by the inhabitants of other states.

Transfers with the objective of improvement of the tax system as whole also has strong reasons related to efficiency. Very cited is the case of taxes on value added, that are better managed by the highest sphere of government in comparison with each level of government has its own VAT. It becomes easier the uniformity of rates and to administrate the mechanisms of credits and debits characteristic of the system, besides the fiscalization.

Of course, this concentration generates the necessity of transfers among the levels of government.

In Brazil, this mechanism is well known. Although the value added tax has been managed and collected by the states (ICMS), the federal government collects the tax income and after transfer part of it to states and municipalities. In this case, the reason is less of economic efficiency and more of social and fiscal equalization, beyond the technical and administrative defficiency of some states to collect it. Oates (1999) cites

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evidences that indicate that local and state tax systems are usually more regressive than federal tax system, what is a good point to justify big part of collection at the federal level, to following transfer.

The third situation is that of undersupply of goods and services by the local governments, what justifies the transfer with the aim of achieving a national standard. For example, if the federal government understands that the worker must be eight years of schooling, and the municipality only offers five years, the federal government could transfer resources tied to the increasing of years of schooling. There are a lot of situations like this in basic sanitation, housing programs, public health, etc.

Finally, the aim of fiscal equalization among jurisdictions is very important at federations with big inequalities among states and among regions. Without the equalization, the migration within the country will be very big, with states too crowd of people, causing all the problems that the excess of population brings, as shortage of infrastructure, traffic jam, violence, etc. At the same time, other states will not have people enough, inhabited basically by children and old people as most of the adult people leaves in search of a better life in other places of the country. It is typically the Brazilian case, in which the per capita income among states is very different what has caused a large migration from the poorest states to the richest ones along the last fifty years.

The system of transfers through “fundos de participação” (sharing of revenues of federal government income and consumption taxes) was created with the idea of distributing better the income in federation, establishing coefficients of participation inversely related to *per capita*

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income and directly related to the size of the state. In this way, São Paulo, the state of higher per capita income, is the state that receive less and Bahia, a state with a huge territory and low per capita income, is the state that receive more.

There are two basic kinds of transfers: those coming from the general budget of the government which is transferring, at many times voluntarily, and those coming from sharing of tax revenues, whose collection was concentrated at a sphere of federation for some reason. The first ones are divided at conditional and unconditional. Unconditional, as the name indicates, can be used at any end and the conditionals are tied for an specific purpose.

Usually, the conditional transfers have the objective of internalizing the externalities and standardizing the supply of an specif public good at a federation. In the first case, it can be the situation of an state offering medical assistance, a good hospital, for example, that attracts inhabitants of neighbours states. So federal government would transfer resources to the host state in order to allow that state to increase its supply of good or service. In the second case, the transfer has the aim of giving conditions to all the states to have the minimum level of a good or service offered at a national quality standard.

The unconditional transfers, in general, have the purpose of fiscal equalization among jurisdictions. As the source of most part of federal government's resources is from places of richer economies, the transfers of these resources to poorer places equalize the income – or reduce the differences - among the units of federation. Often, this kind of purpose has

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difficulties during the allocation of resources in the federal budget. The richest states have political power and many times their politicians have a short term view, only concerning about the next elections in order to divulgate the resources he or she brought to his or her state. The concern about the regional differences of income and the consequent migration is very little because it is not easy to say to their constituents that he or she preferred to send resources to the poorer states.

The sharing of revenues has the roles of improving the tax system as a whole and of fiscal equalization. In the first one, one understands as more rational the concentration of administration and collection of specific taxes at higher spheres of governments to following transfer to the lower spheres. As previously mentioned, it is the case of concentration of value added taxes in the federal government. Oates (1994) mentions the case of inefficiency at the state and local governments to collect some taxes. This happens when these spheres, fearing the adverse effects on business investments and economic growth, are reluctant to increase tax rates and to introduce new ones. This tax competition reduces the amount of resources available, necessary to offer public goods and services. So, it is needed a transfer from federal government to supplement their funds. This supplementation increases the efficiency because without it, it would exist a supply of goods and services at a level below the socially optimal. Of course, to do this, the federal government need to concentrate tax bases and collection to following transfers.

The function of fiscal equalization of revenues sharing is that the federal government can collect taxes at the richest places and transfer

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them to poorest jurisdictions. Again, the argument of the necessity of having an approximate level of income to avoid excessive migration into the country.

You notice that revenue sharing is very similar to the unconditional transfers. The main difference between them is about the systematic and the steadiness. Many times, the unconditional transfers are voluntary and are decided each year. That is, every year law makers fight to have a bigger share of the pie. This generates problems because states and local governments have difficulties at engaging in permanent activities which depend on those transferred resources.

The sharing of revenues mechanism is usually different. The revenue is not owned by the federal government which transfer them as a grant. In this case, part of the revenue is owned by states and local governments which delegated its authority to collect it to a higher level of government for following transfer.

The advantage of sharing of revenues compared to unconditional grants is that they are generally established by more steady rules, what gives a guaranty that the resources will come independently of the fights at the federal budget each year.

Note-se que as transferências intergovernamentais também recebem críticas importantes. Uma delas é a que confiaria excessivamente na capacidade das esferas mais altas de governo de resolver as falhas de um sistema descentralizado. Inman e Rubinfeld (1997), por exemplo, mencionam que parece haver pouca relação entre

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externalidades interjurisdicionais e o tamanho ou a estrutura das transferências recebidas.

The system of transfers, whatever it is designed, also receive a lot of criticisms. One of them is that it would trust too much in the capacity of the higher spheres of government at solving the failures of a decentralized system. Inman & Rubinfeld (1997), for example, mention that the empirical evidence shows little relationship between interjurisdictional externalities and the amount and the structure of transfers received.

Other criticism is about the called “flypaper effect” . Basically, the point here is that states and local governments would tend to spend much more than the federal government. That is, the low-tiers would have a bigger propensity to spend than the federal government (See Oates, 1994, for a survey to this kind of criticism).

A last kind of criticism is that a system of transfers without date to finish would reduce the incentive of lower-tiers to explore their tax bases. In general, it is not very sympathetic to collect taxes. So, local politicians would tend to search resources at the higher-tiers instead of collecting tax locally (Oates, 1999).

Although the shortcomings, no analyst would recommend to eliminate fully the system of transfers at a federation. Many people could recommend to rethink the current system at many countries. The reason can be various: it gives wrong incentives, it stimulates overspending or it is bad designed or bad implemented. But there is a consensus that it is necessary.

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The system of intergovernmental transfers in Brazil

In Brazil, there are transfers above with the four purposes mentioned. The main are the transfers of sharing of revenues, that are destined to the fiscal equalization among the units of the federation and to turn the national tax system more rational. They consist basically of the Fund of Participation of States and Municipalities, formed by the product of the collection of the income tax and of the tax on industrialized products. The federal government legislates, administers and collects those tributes, transferring considerable portion for the other government spheres. There is still the transfer of fifty percent of the collection of the rural territorial tax from the federal government to the municipalities, that still receive from the states the half of the tax on property of vehicles (IPVA) and twenty-five per cent of the tax on circulation of goods and services (ICMS), both of state competence. That topic is already plenty known, having been studied by many authors (for instance, Afonso, 1993).

The other transfers, however, still needs a deeper analysis. Difficulties exist with relationship to the data and with relationship to the classification methodology. For instance, a comparison of the government programs along the years it is practically impossible, because the federal government accomplished considerable change in the classification of the expenses in 1999, breaking the historical series.

The norms that govern those transfers are the Federal Constitution, the Complemental Law number 101/2000 (Law of Fiscal Responsibility), the laws of budget guidelines (Lei de Diretrizes Orçamentárias – LDO) and law of annual budget.

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Starting from a database extracted of the System of Financial Administration - SIAFI, elaborated by the Service of data processing of the Federal Senate - Prodasen, and by the Advisory Group of Budgets of the Chamber of the Deputies (Conof/CD), tried to define the principal characteristics of the transfers from the federal government for States and Municipalities in 2000.

The first aspect that one notice is that the transfers non original of partition of revenues represent about 50% of the resources transferred to the states. To municipalities, this participation is around 55% (table 1).

Total Transfers from federal government to states and municipalities (2000)

Transfer	States	Municipalities
Revenue Sharing	15,735,280,117	12,839,573,843
SUS (System of Health)	1,729,933,548	7,251,558,677
Compensation for exemption of ICMS (LC 87/96)	2,463,300,095	821,099,696
FUNDEF (Fundamental Education)	3,046,696,710	2,820,963,476
Keeping of Federal District and former territories	2,617,740,084 -	
Quotas - minerals, petroleum and natural gas	1,082,528,089	1,064,887,546
Other Transfers	3,631,898,005	3,032,290,603
Total	30,307,376,648	27,830,373,841

Fonte: Conof/CD SIAFI data. Elaborated by the author.

Table 1

In order of importance, the transfers destined to the municipalities to finance the unique system of health (SUS) occupy the second place, with R\$ 7.3 billion. Also significant, the transfers to the municipal districts destined to the Fund of Development of the Fundamental Teaching (FUNDEF), with R\$ 2.8 billion.

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For States, the transfers destined to FUNDEF have great relevance. Also significant it is the participation of the transfers for compensation of the exemption of ICMS for the states exporters (Complemental Law number 87/1996. The transfers for SUS have smaller weight in States, because the Constitution determines the municipal execution of this program.

Be noticed that so much the transfers for SUS as for FUNDEF they are related with the reason of correction of inefficiencies in the offer of local public goods. For instance, the federal government establishes a minimum level of expense for student, in case it is not reached, it complements the necessary resources, so that in all the federation the expense for student doesn't have great disparities among the federation units.

In the other transfers there are the voluntary transfers that involve from resources for the construction of popular houses, construction of dams and artesian wells, usually of low individual values, until those destined to the construction of roads , usually with expressive individual amounts.

The table 2 illustrates the principal programs for which the transfers were destined in 2000. Excluding the related to the health and education, they stand out, in States, the programs "Professional Qualification of the Worker", "the Citizen's Safety" and "Proágua Infrastructure." Basically, the objective of these programs is to enlarge the offer of goods and services that seemingly would have intrinsic merit. For the municipalities, excluded the referring ones to the health and education, more important they are the

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programs “to Live Better”, “Support to the Agricultural Development” and “Civil Defense.” This last one refers to the federal government's support in the case of droughts or inundations. The first and the second has the end of completing the local offer of well or meritorious service.

Table 2

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Voluntary Transfers from Federal Government to States and Municipalities Main Programs (2000)

Programs	R\$ million	
	Value	% States
States and Federal District		
<i>Aceleração da Aprendizagem</i>	574.58	13.70
Escola de Qualidade para Todos	201.40	4.80
Desenvolvimento do Ensino Médio	175.68	4.19
Reestruturação do Sistema Penitenciário	141.22	3.37
Segurança do Cidadão	261.69	6.24
Erradicação do Trabalho Infantil	109.92	2.62
Saúde da Família	155.93	3.72
Prevenção e controle de doenças transmissíveis	180.44	4.30
Qualidade e Eficiência do SUS	225.55	5.38
Atendimento Ambulatorial, Emergencial e Hospitalar	825.94	19.69
Qualificação Profissional do Trabalhador	304.57	7.26
Corredor Transmetropolitano	138.35	3.30
Corredor Nordeste	123.97	2.96
Proágua Infra-Estrutura	254.49	6.07
Demais	520.32	12.41
1. Subtotal	4,194.07	100.00
Municipalities		
Morar Melhor	318.04	2.97
Apoio ao Desenvolvimento do Setor Agropecuário	110.93	1.04
<i>Aceleração da Aprendizagem</i>	1,032.61	9.66
<i>Escola de Qualidade para Todos</i>	372.68	3.49
Atenção à Criança	218.77	2.05
Saúde da Família	2,192.50	20.51
<i>Prevenção e controle de doenças transmissíveis</i>	129.23	1.21
Qualidade e Eficiência do SUS	194.55	1.82
Alimentação Saudável	148.38	1.39
<i>Atendimento Ambulatorial, Emergencial e Hospitalar</i>	4,218.88	39.46
Saneamento Básico	171.63	1.61
Agricultura Familiar - PRONAF	136.92	1.28
Esporte Solidário	127.22	1.19
<i>Proágua Infra-Estrutura</i>	151.29	1.42
Defesa Civil	175.45	1.64
Outros	991.83	9.28
2. Subtotal	10,690.93	100.00
3. Total (1+2)	14,885.00	

Fonte: SIAFI

Obs.: In italics, they are the programs to municipalities which also go to the states

Transfers to States: the criteria of transfers of resources

The simple direct observation of the data not to allow to notice a pattern among the transfers from federal government to states, no-original

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of partition of revenues, and GDPs, populations and state per capita GDPs (table 3). It is observed, for instance, that the State that more received resources in 2000 was São Paulo, also the one of larger population, the one of larger GDP and the one of second larger per capita income. In compensation, the third largest receiver of resources was Ceará, seventh larger population and tenth-second GDP and of one the lowest per capita incomes among the states of the Brazilian federation.

Seemingly, some relationship is noticed between the receiving of resources and the fact of the governor to belong or not to the base of the federal government's support. It is noticed that the three states that more resources received (São Paulo, Paraná and Ceará) have governors of parties of the base of the federal government's support. In compensation, the states of Rio de Janeiro and of Rio Grande do Sul, of great population and GDP, were in the last positions in the receivers' of resources ranking. As it is known, those states are governed by opposition parties to the federal government.

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Table 3
Transfers to States - 2000

(Without transfers to revenue-sharing and keeping Federal District and former territories)

R\$ mil

States	Population 1998 ⁽¹⁾	GDP 1998 ⁽²⁾	GDP Per		% Total	Base
			Capita	2000		
DISTR. FEDERAL	1,923,406	21,680,645	11.27	36,024	0.86	Sim
MATO G. DO SUL	1,995,578	10,983,563	5.50	37,391	0.90	Não
GOIÁS	4,744,174	15,645,102	3.30	92,292	2.21	Sim
MATO GROSSO	2,331,663	8,678,416	3.72	39,662	0.95	Sim
REGIÃO CENTRO-OESTE	10,994,821	56,987,726	5.18	25,610	0.61	Sim
ACRE	514,050	1,741,642	3.39	39,779	0.95	Não
AMAPÁ	420,834	1,375,772	3.27	12,064	0.29	Não
AMAZONAS	2,520,684	10,373,910	4.12	28,458	0.68	Sim
PARÁ	5,768,476	17,459,085	3.03	55,342	1.33	Sim
RONDONIA	1,276,173	5,707,004	4.47	21,174	0.51	Sim
RORAIMA	260,705	981,493	3.76	34,880	0.84	Sim
TOCANTINS	1,107,803	1,312,876	1.19	89,870	2.15	Sim
REGIÃO NORTE	11,868,725	38,951,782	3.28	56,321	1.35	Sim
ALAGOAS	2,688,117	6,222,047	2.31	68,045	1.63	Não
BAHIA	12,851,268	33,238,200	2.59	72,586	1.74	Sim
CEARÁ	7,013,376	14,682,903	2.09	151,670	3.63	Sim
MARANHÃO	5,356,853	7,847,377	1.46	112,839	2.70	Sim
PARAÍBA	3,353,624	5,954,300	1.78	104,725	2.51	Sim
PERNAMBUCO	7,523,755	18,643,592	2.48	85,938	2.06	Sim
PIAUI	2,714,999	3,857,238	1.42	55,536	1.33	Sim
RIO G. DO NORTE	2,624,397	7,013,969	2.67	87,650	2.10	Sim
SERGIPE	1,684,953	4,355,795	2.59	54,981	1.32	Sim
REGIÃO NORDESTE	45,811,342	101,815,421	2.22	221,847	5.32	Sim
PARANÁ	9,258,813	47,179,572	5.10	239,926	5.75	Sim
RIO G. DO SUL	9,866,928	56,306,261	5.71	32,501	0.78	Não
SANTA CATARINA	5,028,339	24,636,827	4.90	102,272	2.45	Sim
REGIÃO SUL	24,154,080	128,122,660	5.30	20,692	0.50	Sim
ESPÍRITO SANTO	2,895,547	12,103,146	4.18	17,132	0.41	Sim
MINAS GERAIS	17,100,314	78,971,543	4.62	139,087	3.33	Não
RIO DE JANEIRO	13,681,410	89,417,273	6.54	30,950	0.74	Não
SÃO PAULO	35,284,072	300,268,085	8.51	372,752	8.93	Sim
REGIÃO SUDESTE	68,961,343	480,760,046	6.97	90,703	2.17	
NACIONAL				1,543,206	36.97	
TOTAL	161,790,311	806,637,635	4.99	4,173,903	100.00	

⁽¹⁾ Population of 1998. Sources: IBGE and IPEA.

publ. Outubro de 1999, Tabela 35)

⁽³⁾ The expenditures classified as National or in the Region are those that didn't leave in the budget allocated by state.

For us to try to be more rigorous, we estimated, with ordinary least square, the following equation:

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As dependent variable, the amount of transfers received by the states from federal government (T), non-revenue sharing, and as explanatory variables: GDP, Population, GDP per capita (GDPPOP), one dummy variable (Base), with value "1" if the governor is of the base of support of the President and with the value "0" if he or she is of opposition to the federal government. The results were the following:

$$T = -0,6 C - 1,08 GDP + 3,01 POP + 0,01 GDPPOP + 0,74 BASE$$

(1,2) (3,9) (10,6) (0,044) (2,071) (t)

$$R^2 = 0,89$$

$$F(4,26) = 54,31$$

To test the homocedasticity hypothesis of the disturbances, we have used the Goldfeld-Quandt test: To test:

Ho: homocedasticity

H1: heterocedasticity

$F(5,21) = 2,713$. The critical value to 1% is 4,04. So, we do not reject the homocedasticity hypothesis.

What these results suggest is that the transfers are positively correlated to population and with the fact of the governor to be of the base of support of the President. At the other side, the transfers are negatively correlated with the size of GDP. The GDP per capita was statistically insignificant. The result of F test suggests that the regression is significant to 1%.

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Transfers to States: qualifying the results

Analyzing transfers to states in full detail, for function and action, it is noticed that those destined to SUS correspond to more than 50% of the resources transferred to São Paulo (table 4). To Paraná, those transfers answer for more than 90%. To Ceará, however, they represent less than 8%. In States less portioned, it is observed that the weight of the transfers for SUS is also significant. In Rio de Janeiro it was close to 50% and in Rio Grande do Sul, to 40%.

It is noticed that in states of Ceará and of São Paulo, the participation of the function transport is significant. This is, maybe, the kind of transfer of larger liberty of allocation on the part of the federal government. Certainly, here, it can have destination larger or smaller, in accord with the political convenience of the sphere of government which is transferring. It is noticed that most of the transfers in this area are destined to great projects. In São Paulo, for construction of Rodoanel, a project at a road, and in Ceará for the port compound of Pecém. Rio de Janeiro didn't receive transfer that deserves mention and Rio Grande do Sul received only R\$ 3 million.

Also important it is the participation of the function education. Seemingly, the transfers to this purpose don't involve a lot of freedom. Part of the resources goes necessarily to those states that didn't reach the minimum level of expense for student, defined by the Ministry of Education, in agreement with the rules of FUNDEF, as a complementation of the federal government. Usually, the poorest states will receive that complementation. The action School Feeding is not also allocation free,

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being distributed in agreement with some preestablished criteria. Ministry of Education also has a plan for the improvement of the school net to States of Smaller Index of Human Development–IDH, what benefits the poorest states, independently of the governor's political slope.

As it is noticed, removing the transfers to SUS and for the function “Education” they don't remain a lot of transfers. The largest is them sent to the function Transports. It is right, as we commented previously, that the difference of transfers of resources for SUS is significant among the states of the federation, not observing a pattern of transfers, according to the size, the population or the income of the states.

There are states with great population that receive little and those with smaller population that receive a lot. The law number 8.080/90, in your art. 35, the called “law of SUS”, it establishes that at least half of the resources should be distributed by the population criterion, while the other half would follow technical criteria to be defined later. As the criteria was not still regulated, the law number 8.142/90 orders the distribution criterion to be exclusively for the population criterion. This doesn't come happening (See study number 1 of the Division of Health, Advisory Group on Budget of the Chamber of Deputies).

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Table 4

Transfers to selected States by function and action - 2000		
	R\$	
Especificação	Value	% in the State
São Paulo	367,520,463	
Function Health	196,324,340	53.42
Atendimento Assistencial Básico - referente aos municípios em gestão plena da atenção básica	105,449,713	28.69
Atendimento Ambulatorial, Emergencial e Hospitalar em Regime de Gestão Plena do SUS	85,418,870	23.24
Demais	5,455,757	1.48
Function Transportation	126,350,117	34.38
Construção do Rodoanel	80,000,000	21.77
Duplicação do Trecho Rodoviário no Corredor Transmetropolitano - BR 381 SP Divisa MG	45,650,117	12.42
Other	700,000	0.19
Other Functions	44,846,006	12.20
Paraná	239,926,075	
Function Health	220,556,357	91.93
Atendimento Ambulatorial, Emergencial e Hospitalar em Regime de Gestão Plena do SUS	216,928,203	90.41
Demais	3,628,154	1.51
Function Educação	12,423,099	5.18
Alimentação Escolar	11,613,100	4.84
Other	809,999	0.34
Other Functions	6,946,619	2.90
Ceará	151,669,635	
Function Health	16,520,248	10.89
Atendimento Ambulatorial, Emergencial e Hospitalar em Regime de Gestão Plena do SUS	11,675,248	7.70
Implantação e Ampliação de Unidades de Saúde - KfW	3,750,000	2.47
Other	1,095,000	0.72
Function Educação	50,354,402	33.20
Expansão e melhoria da rede escolar (Plano de Apoio aos Estados de Menor IDH)	30,452,614	20.08
Alimentação Escolar	12,488,560	8.23
Garantia de Padrão Mínimo de Qualidade - Complementação da União ao FUNDEF	7,413,228	4.89
Function Transportation	64,000,000	42.20
Complexo Portuário do Porto do Pecém	64,000,000	42.20
Function Assistência Social	11,893,015	7.84
Atendimento à Criança em Creche	10,650,946	7.02
Other	1,242,069	0.82
Other Functions	8,901,970	5.87
Rio de Janeiro	54,349,842	
Function Health	31,815,157	58.54
Implantação, Aparelhamento e Adequação de Unidades de Hematologia e Hemoterapia	2,999,999	5.52
Atendimento Ambulatorial, Emergencial e Hospitalar em Regime de Gestão Plena do SUS	23,400,000	43.05
Atendimento Ambulatorial, Emergencial e Hospitalar Prestado pela Rede Cadastrada do SUS	2,682,864	4.94
Other	2,732,294	5.03
Function Educação	18,087,330	33.28
Alimentação Escolar	18,087,330	33.28
Other functions	4,447,355	8.18
Rio Grande do Sul	35,901,380	
Function Health	15,940,361	44.40
Implantação, Aparelhamento e Adequação de Unidades de Hematologia e Hemoterapia	2,300,000	6.41
Atendimento Ambulatorial, Emergencial e Hospitalar em Regime de Gestão Plena do SUS	9,080,570	25.29
Atendimento Ambulatorial, Emergencial e Hospitalar Prestado pela Rede Cadastrada do SUS	3,400,000	9.47
Demais	1,159,791	3.23
Function Educação	8,973,486	24.99
Alimentação Escolar	8,973,486	24.99
Function Transportation	2,999,999	8.36
Construção de Trechos Rodoviários no Corredor Mercosul - BR 481/RS	2,999,999	8.36
Other functions	7,987,534	22.25

Source: Consultoria de Orçamento da Câmara dos Deputados, a partir de dados do SIAFI. Author's elaboration.

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We also have analyzed a base of data that brings the voluntary transfers exclusively classified in agreement with the definition of the Law of Fiscal Responsibility and Instruction Normative no. 1, of 2001, of the Secretary of National Treasury. Of the previous base, they are basically excluded the transfers for SUS.

Table 5

Voluntary Transfers to States - 2000

Criteria LC nº 101/2000

<u>States</u>	<u>Value (R\$ mil)</u>
DISTR. FEDERAL	83,205
MATO G. DO SUL	47,537
GOIÁS	99,978
MATO GROSSO	54,071
ACRE	36,986
AMAPÁ	11,337
AMAZONAS	42,644
PARÁ	75,609
RONDONIA	22,059
RORAIMA	34,485
TOCANTINS	81,912
ALAGOAS	101,157
BAHIA	191,603
CEARÁ	181,444
MARANHÃO	73,393
PARAÍBA	110,708
PERNAMBUCO	196,682
PIAUÍ	47,619
RIO G. DO NORTE	106,341
SERGIPE	51,565
PARANÁ	98,618
RIO G. DO SUL	73,007
SANTA CATARINA	97,583
ESPÍRITO SANTO	50,062
MINAS GERAIS	185,371
RIO DE JANEIRO	101,718
SÃO PAULO	444,172
TOTAL	2,704,188

Source: Secretaria do Tesouro Nacional.

We estimated the same model above with the Treasury Secretary data and the results were very similar to the obtained with the previous data:

$$RT = 0,266 C + 0,06 GDP + 1,0257 POP - 0,165GDPPPOP + 0,34 BASE$$

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(1,069) (0,295) (3,093) (-1,005) (2,133) (t)

$R^2 = 0,85$

$F(4,26) = 31,51$

To test the hypothesis of homocedasticity of the disturbances, we used the test of Goldfeld-Quandt:

Ho: homocedasticity

H1: heterocedasticity

$F(7,14) = 1,67$. The critical value to 1% is 4,28. Therefore, we didn't reject the homocedasticity hypothesis.

The main difference is that in the first data base states GDP was statistically significant, while in the second base, not.

Be noticed that, in both bases of data, the transfers of resources were estatistically and positively correlated with the size of the population andwith the fact of the governor to belong to the political support base of the President.

Municipalities: criteria of transfers of resources

The transfers for municipalities not coming from revenue sharing, from SUS, from FUNDEF and from compensation for the loss due to the exemption of ICMS (Law Complemental number 87/96), they originate basically from the parliamentarians' individual amendments.

Each deputy and senator is entitled of amending the budget of the federal government in 2 million of reais (the Brazilian currency). As they

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are 513 deputies and 81 senators, Federal budget has about R\$ 1,2 billion per year due to individual amendments. Besides, there are the called collective amendments. These amendments are of Committee and of law makers of a specific state or region, who meet each other to amend the budget at something of interest of their states or regions.

In spite of the name, these amendments have been used by part of the parliamentarians through mechanisms that allow “to individualize them”, dividing the value destined to the State for parliamentary. Like this, depending on the case, the amount of R\$ 1,2 billion arises for close to R\$ 3 billion.

Those transfers can be destined for any purpose. From construction of dams to paving of highways. The individual values of each municipal district are low, less of R\$ 500 thousand, although some receive more expressive values.

As it is well known, the Executive Power doesn't execute the totality of the budget. First because of the institutional mechanism of the decree of financial programming, which consists basically at an authorization to the Executive branch to reduce the amount of expenditures defined in the budget law, if the fiscal target is at risk of not being achieved. This mechanism is regulated by the Complementary Law number 101/2000 (Law of Fiscal Responsibility, previously mentioned),

Second, there are situations in which the execution of the expenditure defined in the budget doesn't happen because there was not time enough for signing an agreement or because the government solved, for a reason or for other, simply not to accomplish the authorized expense

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for the National Congress. Besides, the Executive Power prioritizes, for obvious reasons, its original programming, being the modifications done by the Congress in second plan. In that way, what is liquidated in the budget execution it corresponds to about of 90% of the authorized.

That fact indicates that the parliamentary political influence on the federal government matters for the execution or not of its amendment, existing many political agreements involving votings in the Congress and the execution of the budget.

In spite of that, the simple direct observation of the mayor's party doesn't allow to infer whether the municipalities governed by opposition mayors receive less resources than those governed by members of parties of the base of the President's support. The table 6 shows that in 2000, year of municipal elections, the average of per capita transfers was almost the same in the mayors' two situations.

With relationship to the size of the municipal population, it is noticed that the municipal districts with inferior population to 50 thousand inhabitants, that represent more than 90% of the Brazilian municipal districts, receive very superior per capita transfer to the one of the larger municipal districts. That is due mainly because the votes of most of the federal deputies come from small cities and it is for them that they destine your amendments at the budget. If we had included the other transfers, mainly for FPM and for SUS, that order would be inverted.

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Table 6

Transfer <i>per capita</i> from federal government to municipalities (2000)		
(it excludes transfers for revenue sharing, to the SUS, to FUNDEF and Complementary Law 87/96)		
	Quantity	Transfer
	(Data of 1997)	<i>per capita</i> (R\$)
Municipalities with less than 50 mil inhabitants	5026	7.68
Municipalities com mais de 50 mil e menos de 100 mil inhabitants	479	1.32
Municipalities com mais de 100 mil e menos de 500 mil inhabitants	200	2.9
Municipalities com menos de 500 mil inhabitants	26	3.33
Municipalities with mayors of President base of support (total)	4437	7.27
Among those which received resources	2121	15.21
Municipalities with mayors of parties of opposition to the federal government	1068	7.16
Among those which received resources	501	15.26

Source: Conof/CD and IPEA. Elaborated by the author.

We estimated the same equation already used to model the transfers to States, that is, the transfers to municipalities as dependent variable and the population, GDP, the per capita income and the variable dummy “1” if base, “0” if of opposition, as explanatory variables, besides a constant. The results were statistically insignificant. So much for the regression as a whole, as for the variables individually.

That is due, probably, to the fact that is not the fact of the mayor to belong to a party of the presidential support base that will assure him/her federal resources. It is necessary, indeed, that the parliamentarian elected with votes of that municipality to be close to the ministers. That helps to assure resources.

In general, mayors do not have direct access to the federal government, unless the mayors of bigger cities. The most part of them do not. They need a federal parliamentarian to intermediate their demands. This fact may explain why the party of the mayor does not appear as statistically significant in the estimated equation. In Brazil, it is common a

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deputy or a senator to belong to a party of federal government support and to be linked to a mayor of an opposition party. The contrary also happens. This fact obscures the correlation between support to federal government and transfer of federal resources.

The political logic probably has larger explanatory power to understand those transfers that the principals of fiscal federalism. It is necessary, though, to deepen the study of the mayors' behavior, of parliamentarians, of the Federal Executive Power, the process of voting of projects of the federal government's interest and the budget execution. Criteria of size of the population, of GDP, of the municipal per capita income and even the fact whether the mayor belongs or not to the support base of the President were not revealed capable to explain the transfers of the Union for the municipal districts.

In the states levels, this does not happen. The relationship between the governor and the President is direct. So, the party of the governor matters for the transfers.

Conclusion

This paper tried to analyze the transfers from federal government to states and municipalities. It has emphasized the non revenues sharing transfers and the year of 2000. The reason was the availability of good works on Brazilian revenue sharing transfers and data for the year 2000. This first one has indicated to me that it would not be necessary to deep this point because other authors had already done. The second one, on the contrary, has indicated the way that I could follow.

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The paper surveyed the principals of intergovernmental transfers. Basically, the theory of the fiscal federalism mentions the correction of externalities, the improvement of the tax system, the correction of inefficiencies in the offer of local public goods and the fiscal equalization among jurisdictions as reasons for the of transfers.

This literature has been studied by many public finance economists. Maybe the seminal work has been the Tiebout (1956) where he created a theory of local public expenditure. Also important is the Richard Musgrave's book *The Theory of Public Finance* (1959). But the most important work in this field was Oates (1972)'s work *Fiscal Federalism*. The literature has been developed since then and it has had a big influence on the public debate. We tried to incorporate part of it in this paper.

In Brazil, we found transfers accomplished by he four reasons mentioned by the fiscal federalism literature. There is a significant volume of partition of revenues, that has, in part, the objective of reducing the disparities among units of the federation and, in part, to contribute to rationalize the taxation process. There are those with intention of establishing a minimum level of expense in the federation, as the case of the complementation of the federal government of resources of FUNDEF. There are still the transfers to help in the maintenance of great hospitals or state universities that benefit neighboring states.

The non revenue sharing transfers to States are well explained by the population criterion and for the political criterion, this measured by the

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governor's fact to belong or not to the base of the federal government's political support.

The non revenue sharing transfers to the municipalities, however, are more complex. Nor the population criterion, nor the mayor's simple fact to belong or not to a party of the base of the federal government's support were capable to explain the transfers of the federal government. Certainly, the political criterion is important, but it is necessary to deepen the form of measuring that criterion. For so much, there is need of additional researches that analyze carefully the federal parliamentarians' behavior and their relationships with the city halls and the federal government for a better explanation of what determines the transfers from the federal government to the municipal districts.

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