

Brazil: Federation building and social welfare

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Brazil has a vast territory and a complex and financially asymmetric federal system. The country has been trying to achieve economic stability, while struggling against entrenched social inequalities and regional disparities. The objectives of the present constitution are the consolidation of democracy, decentralization of government, and improvement of the social conditions of the population. Constitutional rules have been changing over time, largely to adapt to the changing economic context. However, Brazil's republican federalism as a form of government organization has shown remarkable stability.

Attempts to implement a federal form of government can be traced back to 1831. However, it was the organization constitutionally into states in 1891 that led to the first republican federal constitution. The present constitution was adopted in 1988. It demonstrates a clear motivation for decentralization in order to bring power closer to the people, and has been in constant evolution through intra-constitutional legislation, the so-called "Complementary Laws."

The drafters of the current federal constitution aimed to achieve a decentralized organization of government in order to enhance the democratic process in the country.

Article 1 introduces the basis of federalism as a permanent link between the federal government, states, and municipalities. The aim was to promote sovereignty, citizenship, the dignity of human beings, the social value of labour, the contribution of private business, and political plurality. Article 2 states that the fundamental objective of the federal republic is to build a free, just and united society, to guarantee national development, to eradicate poverty and to reduce social and regional inequalities.

However, history shows that the shape of Brazilian federalism has neither been one of centralization nor decentralization. It has consistently been adjusted according to the political and economic context of the times. Since the first attempt to implement a federal system in 1831, Brazil's constitutional development has not been systematic. Under the terms of the 1988 Constitution, Brazilian federalism can be best described as "cooperative" or "collusive," depending upon the issue under discussion, although decentralization has recently been a constant imperative. Political circumstances have also played a key role in determining the direction of Brazil's constitutional history.

Observers believe that federalism in Brazil must advance in the following directions: improved management of the metropolitan areas, improvement of public services (water supply, sanitation, health, education, social assistance), assistance for infants and the elderly, development of organizations for local consultation and, most importantly, budgetary laws must become mandatory.

The budgetary system is one of the major challenges facing the Brazilian federation. There are currently three separate budgets, one for each order of government, which are not well coordinated and do not share the same priorities. Decentralization within the 1988 Constitution renders the coordination of macroeconomic policies more difficult and it is now virtually

impossible to identify where public money has been spent. Budgets in Brazil are not mandatory, but only permissive, except for those earmarked as public expenditures. In this sense, they are only indicative of the assignments to which public expenditures may be allocated.

There are also other reasons why Brazilian federalism faces considerable challenges in the future. One of which is the way the 1988 Constitution was designed. It aimed to introduce new democratic rules and to address current social and regional inequalities. It embodied an ongoing tendency towards decentralization. This tendency resulted in a number of public services, especially in the social sectors, being decentralized. Unfortunately, this has taken place without the appropriate budget accountability and with an unclear distribution of powers and responsibilities.

The substantial increase in transfers to the states has had a great impact on the public finances of the country. The social nature of these objectives was never in dispute, but the exact source of funds to finance them was. Fifteen years after the adoption of the Constitution, public finances have not yet reached a fiscal equilibrium. The national government is still struggling to raise revenues and reorganize public expenditure in order to achieve permanent and sustainable rates of growth. The states and municipalities, for their part, have constitutional and statutory authority to raise revenues. However, they have only recently engaged in a disciplined fiscal policy, since a Fiscal Responsibility Law was approved in mid-2000.

The excessive emphasis on decentralization has thus become a source of great difficulty. In the present Brazilian context, it can be regarded as an effective mechanism for the supply and quality of public goods and services, as well as a means to achieve greater transparency. However, it can be costly. Some states are much better positioned to absorb these costs than others, exacerbating the regional inequalities that the Constitution is designed to address.

Stable fiscal equilibrium is another important issue for the Brazilian federation, especially in terms of greater economic stability and reduction of regional and social inequalities. The structure of Brazil's constitutional revenue sharing system is unbalanced. Because the constitutional transfer of funds is asymmetrical and not yet clearly aimed to deal with social priorities and equal opportunities, Brazilian federalism is failing in its attempts to address the regional and income disparities in the country.