

Fiscal Federalism And The Vertical And Horizontal Imbalance Of The Brazilian Northeast Capital Cities Public Revenues

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Abstract:

Background: Fiscal federalism deals with sharing public competencies in equity with intragovernmental administrative, normative, and economic aspects. However, due to the divergences of provisions and attribution existing between the central and subnational instances of government and between geographic strata allocated in the same sphere, in Brazil, fiscal federalism is characterized by marked redistributive actions, marked as intergovernmental transfers. Within this context, this work aimed to highlight the relevance, configuration, and alterations of intergovernmental transfers for the composition of the total revenues of the northeastern capitals in 2017. As an inquiry, the text sought to ascertain the consequences of the budgetary arrangement of each northeastern capital city for the assortment of municipal disparities.

Materials and Methods: The methodology applied is embodied as descriptive for the objective of the research, as documentary as to the procedures in data collection, and concomitantly qualitative-quantitative as to how to approach and respond to the problem.

Results: As an investigation of the results, the discrepancy in the allocation of public revenues in favor of the federal government in terms of the public sector; to the southeast in regional spatial terms; to Bahia, Pernambuco, and Ceará in state spatial terms; and to Fortaleza, Salvador, and Recife in municipal spatial terms, can be praised.

Conclusion: As a laconic appreciation, the excessive dependence of the northeastern states and municipalities (even the wealthiest) on the transfers made in the period under study can be praised, which imposes the eminence of changes in the Brazilian tax arrangement, as a presumed way of solving the current conjuncture in force.

Key Word: Fiscal Federalism; Public Revenues; Intergovernmental Transfers.

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I. Introduction

Federalism is a model of state organization characterized by the segmentation of administrative, normative, and economic power between the central sphere of government and subnational governmental instances. Nevertheless, it is possible to affirm as a general configuration of federalism, a formation under the command of legal power, supported by the alliance between different subnational spheres of government, which despite being instituted of political autonomy remain, bowed to the established forming entity of sovereignty. The degree of autonomy present in the hierarchy of the central power towards the federated members is established in the current Federal Constitution (CF/88), which regulates the federation and the imputations of its entities. Thus, it is the "Magna Carta" as the first law of a nation the document that deliberates the operational mode of the Brazilian federative pact in line with the legal order.

The fiscal aspect of federalism, on the other hand, is instituted through the disaggregation of public services, theoretically accompanied by compliant financial provisions. Therefore, the allowance of fiscal federalism as a financial expression of political federalism seeks the equivalent service to the common good to which must correspond an adequate distribution of national resources, either through the exercise of the power to tax the federated units that are at the same spatial level, or by the vertical redistribution of collection (current and intergovernmental capital transfers).

Specifically, in Brazil, two historical problems characterize the fiscal federative pact: the first concerns the presence of great financial heterogeneities between the central sphere of government (benefited) and the subnational instances (injured) as a result of the excessive concentration of taxes (especially taxes and contributions) under the federal domain. The second comes from broad spatial financial divergences (regional, state, and municipal), originating in the centralist incoherence of the Brazilian economic development, based on Economic Commission for Latin America and the Caribbean (ECLAC) thinking and amplified internal inequality.

Within this context, the present work sought to analyze the correspondence between the levels of public revenues and the configurations of intergovernmental transfers and their administrative implications for each northeastern capital in 2017.

It is noteworthy, as justification, that the choice for the northeast region was influenced by the fact that it is economically the poorest in Brazil (in per capita income), the second in absolute population, and the first in atomization (number of municipalities). The capitals were selected because they have historically conformed as the richest, most populous, and politically most important municipalities of the states. The period was chosen because it is the most actual data availability.

II. Material and Methods

Considering what the present work aimed to analyze fiscal federalism with a focus on the configuration of municipal revenues of the northeastern capitals in 2017, exalting, above all, the absolute and relative composition of own resources and types of intergovernmental transfers, the methodology used in the study was configured, according to the definitions of Zanella (2009) a qualitative-quantitative as to the method and the way to approach the problem; as descriptive as to the objective of the research; and as a documentary regarding the procedures adopted in data collection.

Based on the conception of Chizzotti (2001), the study was qualitative-quantitative because it was composed of quantitative methods and techniques (with the use of partitioned tables, temporal tables, graphs and diagram and position measures) and qualitative (with the use of content analysis, discourse, and aggregation) to achieve a deeper appreciation of local public provisions in the municipalities analyzed.

Based on the understanding of Fachin (2001), the study was descriptive and documental because it is based on outlining the characteristics of the municipal revenues of the northeastern capitals in an ex-post-facto way (from past facts), making the analysis, recording, and interpretation off the data without the manipulation or interference of government finances collected in external and official documents of the government or of research institutions linked to it (also of public exposure and an official character).

It is exalted that the northeast region was selected because it is economically the poorest in Brazil, the second most populous, and the first in the number of municipalities. The capitals were chosen because they are historically configured as the richest, most populous, and most important municipalities of the northeastern states. The period was chosen because it is the most current in data availability.

In terms of variables, total revenues were analyzed in the period under study, subdivided into current and capital revenues, with subclassification between own and intergovernmental transfers (grouped equally into current and capital).

Due to the relevance of the volume involved for the northeastern capitals in comparison with the total current revenues in 2017, current transfers were also segmented as officially exposed in the Registration and Accountability System (SICAP), which is the instrument for collecting data and information, used by the state Public Prosecutors in partnership with the Economic Research Institute Foundation (FIPE). In effect, current transfers were displayed in the following categories: FPM Share, ICMS Share, IPVA Share, ITR hare, LC 87/1996 Transfers, LC 61/1989 Transfers, FUNDEB Transfers, and Other Current Transfers.

The general data regarding the public revenues of the northeastern capitals came from the Portal of the Secretary of the National Treasury (STN) linked to the Ministry of Finance. The specific data (intergovernmental transfers) originated from the Transparency Portal, linked to the Ministry of Transparency and Comptroller General of the union.

Finally, it is noteworthy that for the alignment of the data (become real), all values were corrected by the National Consumer Price Index (IPCA), with December 2017 as the basis for updating. The preference for the IPCA came about because it performs three functions. First, it is the official measure of national inflation of the Brazilian government. Second, it is used by the government to establish various points of exchange and monetary policy, such as the Selic rate. Third, it is the index of correction of tax revenue, in addition to being used as a reference for the correction of prices and contractual values of the debts of the states and municipalities with the union.

III. Result and Discussion

The promulgation of the Federal Constitution of 1988 (CF/88) established relevant changes in the Brazilian political-administrative organizational configuration, giving rise to a previously non-existent federative equivalence for local levels of government. Thus, the Citizen Constitution was consolidated as a milestone in the process of political decentralization in Brazil by recognizing municipalities as entities of the federation and by conferring greater powers to local governments. However, due to the latent absence of synchronism between obligations and resources, the continuous incorporation of redistributive actions of public institutions through intergovernmental transfers has become a cardinal characteristic of Brazilian.

As a ratification, the reconfiguration of public provisions in the country in the last thirty years is evidenced mainly by the unfavorable mismatch of revenues to the detriment of municipal governments, which causes as a result, the constant inversion of federal and state resources guided by a series of vertical norms in force (always transposing resources from the most endorsed public spheres to others with repressed budgetary potential, i.e., from the top down).

It is noteworthy that, even in Brazilian municipalities with a larger local budget, such as administrative capitals, the budget situation is mostly pending when confronted with the volume of attributions and own revenues. This becomes more evident, especially in the poorer states and regions of the country, as in the country.

Within this context, this section aims to expose the composition of the public revenues of the northeastern capitals in the year 2017, highlighting especially the participation and the absolute and relative arrangement of intergovernmental transfers (current and capital) in the formation of local provisions and the degree of subordination of these instances of government.

Fiscal Federalism and the National Situation

Imbalance as an economic adjacency already confirms negative market perceptions. When used in the sharpening of the functioning of the public sector, it gains social roots. When led to thee an understanding of public finances, administrative inefficiency is associated. When alluded to Brazilian fiscal federalism, it marks the exasperated vertical antagonism of revenues and expenditures between the three levels of government (union, states, and municipalities).

As a materialization of the above, in 2017, the Brazilian budget order demonstrated a series of imperfections that ratify the history of the concentration of public revenues for the benefit of the central sphere of government. In numbers, the total revenue of the union reached R\$ 1.756.348.046.448,87 of its own collection, equivalent to 64,96% of all national public revenue for the year under analysis. The states and municipalities, on the other hand, had their collection amounts proportional to R\$ 755.619.140.952,99 and R\$ 473.377.143.402,03, respectively. This is equivalent to saying that in the sum, the 26 states and the federal district plus the 5.570 Brazilian municipalities accounted for 45.46% of all national public revenue for the aforementioned period.

Table 01 - Absolute Composition of Public Revenues by Level of Government in 2017

| Sphere of Government | Own Collection | Transfers | Available Revenue |
|----------------------|-----------------------------|----------------------|-----------------------------|
| Union | 1.756.348.046.448,87 | - 281.729.474.199,46 | 1.474.741.471.877,84 |
| States | 801.658.244.723,04 | - 45.963.541.855,96 | 755.619.140.952,99 |
| Municipalities | 145.731.465.060,95 | 327.693.016.055,42 | 473.377.143.402,03 |
| TOTAL | 2.703.737.756.232,86 | 0,00 | 2.703.737.756.232,86 |

Source: Author, 2023. (Based on data from the Secretary of the National Treasury).

Naturally, due to the marked discrepancies exposed, it was necessary to apply corrective measures (as has historically occurred in Brazilian fiscal federalism). As a mitigating factor, in 2017, the federal government passed on in the form transfers the amount of R\$ 281.729.474.199,46 to states and municipalities. Of this total, 5,90% went to the states, and 4,52% went to the municipalities.

The states, as an intermediate instance of the government, in turn, received R\$ 159.520.527.617,74 from the union and transferred R\$ 205.484.069.473,70 to the municipalities, that is, they received in the form of transfers from the federal government the equivalent of 5,9% of the total government revenue and passed 7,6% to local governments.

The municipalities at the governmental level with greater budgetary restrictions receive R\$ 122.208.946.581,73 from the union and R\$ 205.484.069.473,70 from the states, which totals R\$ 327.693.016.055,42. In relative terms, the states passed on 7,6% and the federal government 4,52%, which is correlated to 12,12% of the total public sector revenue for the year 2017.

Table 02 - Relative Composition of Government Revenues by Level of Government in 2017

| Sphere of Government | Own Collection | Transfers | Available Revenue |
|----------------------|----------------|-----------|-------------------|
| Union | 64,96% | - 10,42% | 54,54% |
| States | 29,65% | - 1,7% | 27,95% |
| Municipalities | 5,39% | 12,12% | 17,51% |
| TOTAL | 100% | 0% | 100% |

Source: Author, 2023. (Based on data from the Secretary of the National Treasury).

As a laconic assessment based on the studies of Gasparini and Miranda (2006), it is observed when observing the absolute and relative composition of the total revenue of the Brazilian public sector for the year 2017 that transfers are configured as an indispensable budgetary variable for the functioning of the states and municipalities. However, considering the volume and its relative representativeness for the regional and local finances of the public administration, the effective impossibility of financial autonomy for the sub-national

instances of government in Brazil is latent, maintaining the form of composition of the coeval governmental provisions.

Fiscal Federalism and the Regional Situation

In support of Brazilian fiscal distortions and considering the classification of Federal Law N°. 4.320/64, in article 11, which establishes the definition of the total budget revenue of the public sector, the aggregate amount of the 26 states and the Federal District in 2017 totaled R\$ 755.619.140.952,99, for an absolute population estimated by the Brazilian Institute of Geography and Statistics (IBGE) of 208.494.900 million inhabitants, distributed in a territory of 8.514.876 km². Following the national logic, the regional apportionment shows great spatial distortions. In absolute terms, the sum of the budget revenues of the nine northeastern states reached only R\$ 152.388.915.098,31, which is equivalent to 20,17% of the national total, however, the total population of the region for the same year corresponds to 56.760.780 million inhabitants (27,22% of the country's population) and a territory compatible with 1.554.257,0 km² (or 18,25% of the national total).

In the southeast region (the richest in the country), which includes only four states, the sum of budget revenues reached R\$ 345.446.186.656,17 in the same period, which is equivalent to 45,72% of the national total (greater than the sum of all the resources of the 19 states and the federal district that makes up the northeast, north and center-west regions). However, the estimated population of the region for the same year corresponds to 87.711.946 million inhabitants (42,07% of the country's population) and a proportional territory of 924.511,3 km² (or 10,86% of the national total).

Table 03 - Absolute and Relative Total of Regional Revenues in 2017 (R\$)

| Region | Population | Territory | Absolute Revenue | Relative Revenue |
|--------------|--------------------|---------------------------------|---------------------------|------------------|
| North | 18.182.253 | 3.853.397,2 km ² | 66.066.811.708,97 | 8,74% |
| Northeast | 56.760.780 | 1.554.257,0 km ² | 152.388.915.098,31 | 20,17% |
| Midwest | 16.085.885 | 1.604.850,0 km ² | 70.553.537.141,83 | 9,34% |
| South | 29.754.036 | 576.409,6 km | 121.163.690.347,71 | 16,03% |
| Southeast | 87.711.946 | 924.511,3 km ² | 345.446.186.656,17 | 45,72% |
| TOTAL | 208.494.900 | 8.514.876 km² | 755.619.140.952,99 | 100,00% |

Source: Author, 2023. (Based on data from the Secretariat of the National Treasury and of the Brazilian Institute of Geography and Statistics).

Although not the focus of this study, Mendes (2002) points out that the source of this disparity lies in the trajectory of Brazilian economic formation, based on actions that sought not only to centralize public investments predominantly in specific sectors and areas of the southeast region (both in industry, agribusiness and services), as well as solidified by a Collection system that privileges tax revenue based on taxes linked to the production and distribution of goods and services along intra and inter-regional displacements.

As a palliative solution for the solvency of the regional oligarchy of public revenues, a significant volume of income transfers was implemented in 2017 in favor of the poorest regions. As a finding, of the total absolute revenue of R\$ 152.388.915.098,31 available for the northeast region, R\$ 57.827.288.083,85 (compatible with 37,95%) was the result of intergovernmental transfers. In the northern region, the numbers are even more expressive for the period under analysis. Of the total absolute revenue of R\$ 66.066.811.708,97 in 2017, R\$ 27.308.990.997,82 (analogous to 41,34%) was the implication of intergovernmental transfers.

Table 04 - Share of Transfers in Regional Revenue in 2017 (R\$)

| Region | Recipe Absolute (A) | Absolute Transfer (B) | Percentage = (B/A) x 100 |
|--------------|---------------------------|---------------------------|--------------------------|
| North | 66.066.811.708,97 | 27.308.990.997,82 | 41,34% |
| Northeast | 152.388.915.098,31 | 57.827.288.083,85 | 37,95% |
| Midwest | 70.553.537.141,83 | 14.514.050.189,21 | 20,57% |
| South | 121.163.690.347,71 | 21.588.727.718,35 | 17,82% |
| Southeast | 345.446.186.656,17 | 43.585.571.502,94 | 12,62% |
| TOTAL | 755.619.140.952,99 | 164.824.628.492,17 | 21,81% |

Source: Author, 2023. (Based on data from the Secretary of the National Treasury).

Henceforth, in the face of significant redistribution of public revenues, for Nunes (2004), the problem is not satisfactorily remedied since one of the central principles of a federative system is based on equality of opportunity, which of course, is based on the proximity of the availability of resources for each citizen (regardless of their geographical location within the country). This should also be applied, to each segment of public activity: health, education, security, transportation, and mobility, among others. And not just in macroeconomic government actions.

In antagonism to the above, in the relative aspect, considering the volume of resources and the size of the population, we have an annual availability of public revenues per capita national of R\$ 3.624,16, for the

northeast of R\$ 2.684,76 (25,92% below the national average) and the southeast of R\$ 3.938,42 (8,67% above the national average). Naturally, because of the comparative results, it is clear that equal opportunities for northeastern citizens are being prevented under the prominent inferiority of resources available for the edifying application of their social welfare.

Fiscal Federalism and the Situation of the Northeastern States

Considering only the total revenue of the northeastern states, large fiscal disparities, are also found since the absolute public revenue of the states of Bahia, Pernambuco, and Ceará (the three richest in the northeast region) totaled 2017 the amount of R\$ 92.404.534.991,98, which corresponds to 60,64% of all regional revenue in the period. The sum of the public revenues of the other states totaled R\$ 59.984.380.106,33, which was equivalent to 39,36% of the regional revenue. Individually, only the state of Bahia had 26,68% of the total revenue of the northeast region, which exceeds the sum of the revenues of the states of Sergipe, Paraíba, Piauí, and Alagoas which was equivalent to 22,95%.

Table 05 - Share of State Revenue in Regional Revenue in 2017 (R\$)

| State | Population | Territory | Absolute Revenue | Relative Revenue |
|---------------------|-------------------|-----------------------------------|---------------------------|------------------|
| Ceará | 9.075.649 | 148.920,5 Km ² | 24.133.353.807,63 | 15,84% |
| Bahia | 14.812.617 | 564.733,2 Km ² | 40.659.245.898,59 | 26,68% |
| Pernambuco | 9.496.294 | 98.148,3 Km ² | 27.611.935.285,76 | 18,12% |
| Maranhão | 7.035.055 | 331.937,5 Km ² | 15.363.262.458,42 | 10,08% |
| Piauí | 3.264.531 | 251.577,7 Km ² | 8.899.706.379,46 | 5,84% |
| Alagoas | 3.322.820 | 27.778,5 Km ² | 9.089.044.893,20 | 5,96% |
| Rio Grande do Norte | 3.479.010 | 52.811,1 Km ² | 9.637.898.170,69 | 6,32% |
| Paraíba | 3.996.496 | 56.469,8 Km ² | 9.614.160.594,39 | 6,31% |
| Sergipe | 2.278.308 | 21.915,1 Km ² | 7.380.307.610,17 | 4,84% |
| NORTHEAST | 56.760.780 | 1.554.291,7 km² | 152.388.915.098,31 | 100,00% |

Source: Author, 2023. (Based on data from the National Treasury Secretariat and the Brazilian Institute of Geography and Statistics).

In terms of composition, all northeastern states had a high dependence on intergovernmental transfers in 2017. In absolute terms, R\$ 57.827.288.083,85 was transferred to the region in the period, which was analogous to 37,95% of all regional public revenue. Naturally, although the richest states such as Bahia (R\$ 12.397.850.799,06), Pernambuco (R\$ 9.094.329.796,37), and Ceará (R\$ 7.953.003.320,78) received in monetary terms a higher volume of transfers, in percentage terms there was greater relative dependence for poorer states such as Sergipe (51,86%), Piauí (49,12%), Paraíba (47,88%) and Rio Grande do Norte (47,64%).

Quadro 06 - Share of Transfers in State Revenues in 2017 (R\$)

| State | Recipe Absolute (A) | Absolute Transfer (B) | Percentage = (B/A) x 100 |
|---------------------|---------------------------|--------------------------|--------------------------|
| Ceará | 24.133.353.807,63 | 7.953.003.320,78 | 32,95% |
| Bahia | 40.659.245.898,59 | 12.397.850.799,06 | 30,49% |
| Pernambuco | 27.611.935.285,76 | 9.094.329.796,37 | 32,94% |
| Maranhão | 15.363.262.458,42 | 6.898.643.601,22 | 44,90% |
| Piauí | 8.899.706.379,46 | 4.371.145.634,13 | 49,12% |
| Alagoas | 9.089.044.893,20 | 4.089.971.061,63 | 45,00% |
| Rio Grande do Norte | 9.637.898.170,69 | 4.591.125.316,24 | 47,64% |
| Paraíba | 9.614.160.594,39 | 4.603.453.076,97 | 47,88% |
| Sergipe | 7.380.307.610,17 | 3.827.765.477,45 | 51,86% |
| NORTHEAST | 152.388.915.098,31 | 57.827.288.083,85 | 37,95% |

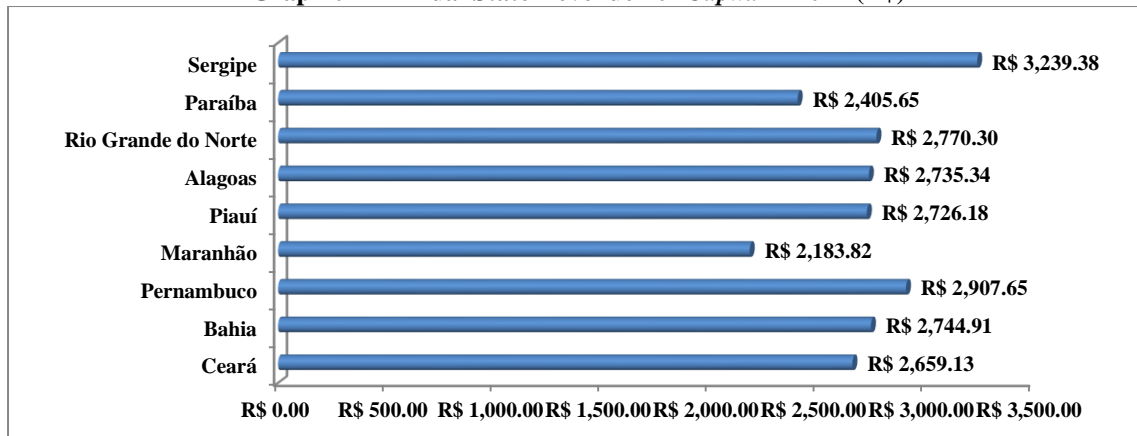
Source: Author, 2023. (Based on data from the Secretary of the National Treasury).

To Gomes (2014), due to the model of productive and tax arrangement allocated in the Brazilian economy, as already mentioned, the states of Bahia (with strong development of the chemical, petrochemical, agro-industrial, computer, automotive, and tourist segments), Pernambuco (with high training of the naval, automotive, chemical, metallurgical, electro electronics, non-metallic minerals, food and clothing industries) and Ceará (with covered tourist complex, textile, footwear, chemical, steel, and metalworking), even pending significant transfers from the federal sphere, are mostly providers of their revenues.

As a complement, Guimarães Neto (2010) mentions that similarly to what happens with other states in other regions, Bahia, Pernambuco, and Ceará have their public revenues densely linked to the national macroeconomic context, that is, as most of the revenues come from productive taxes and the incidence on the circulation of goods and services (above all, the Tax on Operations Relating to the Circulation of Goods and on

Services of Transport Interstate, Intermunicipal and Communication - ICMS), the volume collected annually is linked to factors not controlled by state management (this is very bad).

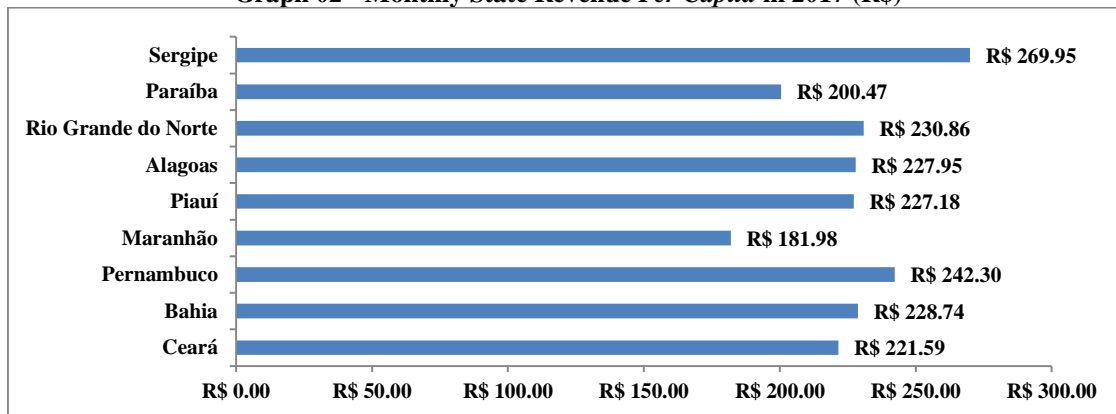
Graph 01 - Annual State Revenue Per Capita in 2017 (R\$)



Source: Author, 2023. (Based on data from the National Treasury Secretariat).

As a supplement, it is also worth mentioning the *per capita* comparison of state public revenues in the northeast. In national terms, in 2017, all northeastern states were below the *per capita* income of the country (R\$ 3.624,16). At the regional level, the states of Maranhão (R\$ 2.183,82), Paraíba (R\$ 2.405,65), and Ceará (R\$ 2.659,13) had *per capita* income lower than the northeast (which was R\$ 2.684,76). On the other hand, the other states received higher amounts, as shown in the decreasing chain: Sergipe (R\$ 3.239,38), Pernambuco (R\$ 2.907,65), Rio Grande do Norte (R\$ 2.770,30), Bahia (R\$ 2.744,91), Alagoas (R\$ 2.735,34) and Piauí (R\$ 2.726,18).

Graph 02 - Monthly State Revenue Per Capita in 2017 (R\$)



Source: Author, 2023. (Based on data from the National Treasury Secretariat).

Another relevant point exposed by the data is the marked restriction of the public budget at all levels (national, regional, and state), eliminating a false perception of common sense based on the high availability of resources. As a finding, at the national level in the period, the availability of monthly public revenues per citizen was equivalent to R\$ 302,01. In the regional scenario, the limit was even higher, with the availability of monthly northeast public revenues *per capita* corresponding to R\$ 223,73. The state of Sergipe, Rio Grande do Norte, Alagoas, Piauí, Pernambuco, and Bahia presented averages higher than the regional value. The state of Paraíba, Maranhão, and Ceará had lower results than the regional context.

Fiscal Federalism and the Situation of the Northeastern Capitals

Analyzing only the formation of the total revenue of the northeastern capitals, significant inequalities in the budgetary provisions are again revealed.

In a vertical term, although the northeast region has allocated in the territory of its nine states a total of 1.794 municipalities, the sum of the revenues of the northeastern capitals in 2017 totaled R\$ 29.975.260.916,04, which represents 19,67% of all regional revenue (in only nine cities). It is worth mentioning that a large number of municipalities in poor states with small territories. Paraíba is suitable as an example because it has a territory

of only 56.469,8 Km² (which disposes of the state as the 6th smallest in the region) and a total of 223 municipalities (which qualifies the state as 3rd the number of cities).

Table 07 - Number of Municipalities per Northeastern State in 2017

| Bahia | Piauí | Paraíba | Maranhão | Pernambuco | Ceará | Rio Grande do Norte | Alagoas | Sergipe |
|-------|-------|---------|----------|------------|-------|---------------------|---------|---------|
| 417 | 224 | 223 | 217 | 185 | 184 | 167 | 102 | 75 |

Source: Author, 2023. (Based on data from the Brazilian Institute of Geography and Statistics)

For Ferrari (2016), the Federal Constitution of 1988 generated the realization of a vast process of political decentralization in Brazil because by engaging the municipalities the character of a federative entity allowed the states to determine the criteria by which the municipalities emancipated themselves. For the author, the process was extremely damaging to fiscal federalism. Firstly, because it is very dissipative to the public accounts, without proven compensation for the well-being of the populations of these new municipalities. Second, since 1989, a limit value of the Municipal Participation Fund (FPM) per state has been set that is, each state has its share of the FPM defined, so whenever the formation of new municipalities occurs, the resources be disposed to these new locations will be withdrawn of the amounts of the other municipalities that form the same state.

Turning horizontally to the quantitative evaluation of the revenues of the northeastern capitals, the aggregate values show that Fortaleza (R\$ 6.424.138.511,45), Salvador (R\$ 5.941.328.753,93), and Recife (R\$ 4.568.652.808,17), had together in the period a total revenue corresponding to R\$ 16.934.120.073,55, which was equivalent to 56,49% of the total revenues of the northeastern capitals and 11,11% of the total revenue of all the municipalities of the region.

In relative terms, the capitals that had the largest participation in state provisions in 2017 were Teresina (29,22%), Fortaleza (26,62%), and Maceió (24,01%). In other words, of the total revenue of Piauí, Ceará, and Alagoas, the respective capitals were more than 24% of the entire reinstate it. For Diniz (2002), this ratifies an excessive disparity in favor of state political-administrative representations, which further accentuates the distortions of local finances and consequently the Brazilian social ills.

Table 08 - Total State and Capital States in 2017 (R\$)

| States | State Revenue (A) | Municipality (Capital) | Municipal Revenue (B) | Percentual = (B/A) x 100 |
|---------------------|---------------------------|------------------------|--------------------------|--------------------------|
| Ceará | 24.133.353.807,63 | Fortaleza | 6.424.138.511,45 | 26,62% |
| Bahia | 40.659.245.898,59 | Salvador | 5.941.328.753,93 | 14,61% |
| Pernambuco | 27.611.935.285,76 | Recife | 4.568.652.808,17 | 16,55% |
| Maranhão | 15.363.262.458,42 | São Luís | 2.610.273.978,86 | 16,99% |
| Piauí | 8.899.706.379,46 | Teresina | 2.600.406.964,28 | 29,22% |
| Alagoas | 9.089.044.893,20 | Maceió | 2.182.131.427,39 | 24,01% |
| Rio Grande do Norte | 9.637.898.170,69 | Natal | 2.037.048.557,25 | 21,14% |
| Paraíba | 9.614.160.594,39 | João Pessoa | 1.930.702.253,92 | 20,08% |
| Sergipe | 7.380.307.610,17 | Aracajú | 1.680.577.660,79 | 22,77% |
| TOTAL | 152.388.915.098,31 | TOTAL | 29.975.260.916,04 | 19,67% |

Source: Author, 2023. (Based on data from the System of Collection of Accounting Data of the Entities of the Federation).

As a result of the previous table, all the northeastern capitals figured in 2017 in first place in the total volume of resources available for the composition of local public revenues. In a comparative hierarchical way, the three capital cities stood out not only in regional terms but also nationally. Fortaleza ranked 1st in the northeast and 5th in Brazil; Salvador ranked 2nd in the northeast and 7th in the national ranking; and Recife ranked 3rd in the northeast and 8th in Brazil.

On the other hand, three northeastern capitals were in the same period at the national level, behind municipalities that are not capitals. Natal, which ranked 7th in the northeast and 29th in Brazil; João Pessoa, which remained 8th in the northeast and 33rd in the national level; and Aracajú, which was allocated 9th in the northeast and 36th in Brazil.

Table 09 - Ranking of Total Municipal Revenue in Spatial Terms in 2017

| Municipality | Brazil | Northeast | State |
|--------------|--------|-----------|-------|
| Fortaleza | 5° | 1° | 1° |
| Salvador | 7° | 2° | 1° |
| Recife | 8° | 3° | 1° |
| São Luís | 20° | 4° | 1° |
| Teresina | 21° | 5° | 1° |
| Maceió | 25° | 6° | 1° |
| Natal | 29° | 7° | 1° |
| João Pessoa | 33° | 8° | 1° |
| Aracajú | 36° | 9° | 1° |

Source: Author, 2023. (Based on data from the Secretary of the National Treasury).

Observing the configuration of the revenues of the northeastern capitals for the year under study, it was found that all of them had a high dependence on transfers made by the Union and the respective states. On average, 58,94% of all available revenue to the capital cities came from transfers, 58,25% of which came from current transfers and 0,69% from capital transfers.

The capitals with the highest dependencies in absolute terms (total value) were Fortaleza, Salvador, and Recife. In relative terms (compared to total revenue) were João Pessoa, São Luís, Teresina, and Maceió. João Pessoa had 70,81% of its revenues coming from transfers; São Luiz 69,79%; Teresina 69,40%; and Maceió 65,49%.

For Mendes, Miranda, and Cosio (2008), this volume of transfer to states and municipalities, especially political-administrative, should be restricted to the financial support necessary for them to expand their network of public services due to the increase in demand resulting from the activities necessary to increase or maintain the quality of social welfare. Moreover, for the authors, the current system of sharing makes municipalities, even capitals, even more, dependent on the transfer of external resources, expanding, rather than reducing, municipal administrative inefficiency.

Table 10 - Relative Share of Current and Capital Transfers in 2017 (R\$)

| Municipality | Current Transfers | Percentage of Current Transfers in Total Revenues | Capital Transfers | Percentage of Capital Transfers in Total Revenues |
|--------------|-------------------|---|-------------------|---|
| Fortaleza | 3.740.714.768,76 | 58,23% | 42.477.137,36 | 0,66% |
| Salvador | 2.884.830.780,64 | 48,56% | 65.968.175,48 | 1,11% |
| Recife | 2.287.067.749,35 | 50,06% | 32.714.196,66 | 0,72% |
| São Luís | 1.821.257.993,02 | 69,77% | 628.125,00 | 0,02% |
| Teresina | 1.776.357.973,28 | 68,31% | 28.337.984,22 | 1,09% |
| Maceió | 1.426.454.232,58 | 65,37% | 2.683.752,68 | 0,12% |
| Natal | 1.244.545.667,22 | 61,10% | 968.000,00 | 0,05% |
| João Pessoa | 1.338.320.786,08 | 69,32% | 28.672.219,58 | 1,49% |
| Aracajú | 941.274.668,96 | 56,01% | 3.600.656,74 | 0,21% |

Source: Author, 2023. (Based on data from the Secretary of the National Treasury).

Analyzing the composition of current and capital transfers it can be seen that in absolute volume the FPM Share for the capital of Salvador (R\$ 816.789.362,67), São Luís (R\$ 510.493.300,28), and Maceió (R\$ 510.493.300,28) was configured in the period as the main external source of municipal resources. It is noteworthy that the FPM Part Quota is according to the taxonomy when conditionality, an unconditional redistributive transfer, whose transfer coefficient to the capitals is limited to 10% of the total of the fund and is conditioned, by two indicators (the participation of the population of the capital city in the total sum all capitals; and the inverse of the index relative to *per capita* income of the state where the municipality, is located). Therefore, more populous capitals with low *per capita* income are favored, by the volume transferred.

Table 11 - Typification of the Changes and Responsibilities of the Northeastern Capitals in 2017 (R\$ - M)

| Items | Fortaleza | Salvador | Recife | São Luís | Teresina | Maceió | Natal | João Pessoa | Aracajú |
|---------------------------|-----------|----------|---------|----------|----------|---------|---------|-------------|---------|
| FPM Part Quota | 782.429 | 816.789 | 514.577 | 510.493 | 468.203 | 510.493 | 294.044 | 312.971 | 261.372 |
| ICMS Part Quota | 936.614 | 694.299 | 804.350 | 474.697 | 463.250 | 244.135 | 309.619 | 340.286 | 198.494 |
| Quota-Part of IPVA | 240.342 | 198.404 | 195.012 | 86.642 | 80.892 | 81.069 | 78.565 | 71.490 | 66.610 |
| ITR Part Quota | 185 | 5 | 7 | 24 | 241 | 65 | 3 | 66 | 13 |
| Transfers from LC 87/1996 | 2.788 | 2.484 | 1.529 | 2.572 | 742 | 1.093 | 433 | 379 | 434 |
| Transfers from LC 61/1989 | ----- | 6.603 | ----- | 5.154 | 153 | 786 | 362 | ----- | 155 |
| FUNDEB Transfers | 620.779 | 454.156 | 292.663 | 327.905 | 274.447 | 125.538 | 176.582 | 185.903 | 108.491 |
| Other Current Transfers | 1.157.574 | 712.087 | 478.926 | 413.768 | 488.452 | 463.272 | 384.934 | 426.795 | 305.700 |

| | | | | | | | | | |
|--------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|
| TOTAL | 3.740.714 | 2.884.830 | 2.287.067 | 1.821.257 | 1.776.384 | 1.426.454 | 1.244.545 | 1.337.898 | 941.274 |
|--------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|

Source: Author, 2023. (Based on data from the Transparency Portal - Ministry of Transparency and Comptroller-Gerald).

As for city Recife (with a total value of R\$ 804.350.981,02), the main source of transfer in the year was the ICMS Quota. It is, exalted that the Quota-Part of the ICMS is according to the taxonomy when the conditionality, an unconditional return transfer, whose apportionment coefficient establishes that 75% of the total resources are for the states and 25% for the municipalities, and of the municipal percentage, 75% is the tax portion distributed by the criterion of the Fiscal Value Added (VAF) and 25% is autonomous portion, divided by criteria of state lei (in this case, established by the government of Pernambuco).

As a complement, all the other northeastern capitals (Fortaleza, Teresina, Natal, João Pessoa, and Aracajú) have the heading "Other Current Transfers" as the main source of transfers of funds. In this heading, there are transfers of resources from the Unified Health System (SUS), from CIDE-Combustive, from financial compensation for and exploitation of resources in actuary, among others.

Table 12 - Typification of Current Transfers from Northeastern Capitals in 2017 (%)

| Items | Fortaleza | Salvador | Recife | São Luís | Teresina | Maceió | Natal | João Pessoa | Aracajú |
|---------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| FPM Part Quota | 20,92% | 28,31% | 22,50% | 28,03% | 26,36% | 35,79% | 23,63% | 23,39% | 27,77% |
| ICMS Part Quota | 25,04% | 24,07% | 35,17% | 26,06% | 26,08% | 17,11% | 24,88% | 25,43% | 21,09% |
| Quota-Part of IPVA | 6,43% | 6,88% | 8,53% | 4,76% | 4,55% | 5,68% | 6,31% | 5,34% | 7,08% |
| ITR Part Quota | 0,00% | 0,00% | 0,00% | 0,00% | 0,01% | 0,00% | 0,00% | 0,00% | 0,00% |
| Transfers from LC 87/1996 | 0,07% | 0,09% | 0,07% | 0,14% | 0,04% | 0,08% | 0,03% | 0,03% | 0,05% |
| Transfers from LC 61/1989 | 0,00% | 0,23% | 0,00% | 0,28% | 0,01% | 0,06% | 0,03% | 0,00% | 0,02% |
| FUNDEB Transfers | 16,60% | 15,74% | 12,80% | 18,00% | 15,45% | 8,80% | 14,19% | 13,90% | 11,53% |
| Other Current Transfers | 30,94% | 24,68% | 20,93% | 22,73% | 27,50% | 32,48% | 30,93% | 31,91% | 32,46% |
| TOTAL | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% |

Source: Author, 2023. (Based on data from the Transparency Portal - Ministry of Transparency and Comptroller-Gerald).

In relative terms, more than 27% of the transfers received in 2017 by Fortaleza, Natal, Teresina, João Pessoa, and Aracajú came from transfers classified as others. As for Recife, 35% came from the ICMS Quota Part. For Salvador, São Luís, and Maceió, more than 28% of the external resources were due to transfers from the FPM Quota-Part. For Rezende (2006), evaluating the vertical and horizontal equalization (purpose of this research) in 2017, transfers do not fulfill their role in the northeastern capitals. For example, when observing that 35.17% of the resources of the FPM Part Quota are destined exclusively for Recife, the 3rd capital with the largest volume of government revenue, it is explicit that the unconditional redistributive purpose does not apply either in relation to the other northeastern capitals or to the other municipalities of Pernambuco. On the contrary, it further widens local and regional disparities. The same can be mentioned in relation to the ICMS Part Quota in favor of Salvador, São Luís, and Maceió, however, because it is a transfer of a devolution nature, it is not expected that the ICMS will have positive results for regional fiscal equalization.

IV. Conclusion

The political re-democratization, the insertion in the global conjuncture, the search for national monetary stability, and the reconfiguration of the functions of the State, with the rise of social obligations and economic competencies, were determining points for the formation of the new Brazilian federative relations, normatively executed by the Federal Constitution of 1988, which was characterized by a restricted and distribution of tax resources and with limited autonomy over the destination of the same by the states and municipalities.

As an implication, either due to the historical and abyssal regional and local disparities or due to the mismatch between obligations and resources, post-constitution fiscal federalism has not been able to mitigate the vertical and horizontal imbalances of Brazilian states and municipalities (especially in the northeast).

Proof of this are the discrepancies of own revenues available between spheres of government (vertical) and in the internal geographical spacing (horizontal), as well as the absolute and relative volume of resources destined as reparative mechanisms (transfers), carried out from top to bottom (from the higher to lower instances of government), during the year 2017.

Conclusively to the problem exposed, in the period under analysis, the vertical divergences mentioned above were latent since, in terms of the division of government provisions, the union took 64,96%, the states with 29,65%, and the municipalities with 5,39%. After the intergovernmental transfers, the revenue situation was precariously alleviated, with the union taking 54,54%, the states at 27,95%, and the municipalities at 17,51%. It is noteworthy that this context is a consequence of the favorable concentration of taxes (seven), fees (twenty), and

contributions (social, intervention of economic domain, professional interest, and improvement) in the federal tax sphere (determined in the constitution in force).

Likewise, horizontal disharmony is observed in the regional, state, and municipal contexts. In regional terms, in 2017, of the total available revenues, 45,72% were allocated exclusively in the Southeast, against 8,74% in the North, 9,34% in the Midwest, 16,03% in the South, and 20,17% in the Northeast. In addition, 41,34%, 37,95%, and 20,57% of the provisions of the northern, northeastern, and central-western regions, respectively, were composed of transfers.

In concord, the state scenario is also exposing horizontal disagreement. In the Northeast (the area selected for the study), in the interval evaluated, the revenue of the three main states (Bahia, Pernambuco, and Ceará) absorbed 60,64% of all existing resources. Even so, all three states mentioned have a high dependence on transfer (more than 30% of the resources tax). As a justification for this situation, the great concentration of the resources of the Superintendence of Development of the Northeast (SUDENE) in favor of Pernambuco and Bahia can be exposed. Ceará, in turn, was the majority consequence of internal actions of productive recovery applied from the nineties by the state government.

Finally, in the local Northeast framework in 2017, the horizontal distortions were both inter-municipality (between groups of municipalities – the capitals and the other municipalities) and intra-municipalities (within the same group of municipalities – the capitals cities). In the inter-municipal term, in isolation, the nine northeastern capitals accounted for 19,67% of all local resources (while the other 1.785 municipalities shared 80,33%). In the intra-municipal term, the three main capitals (Fortaleza, Salvador, and Recife) in the volume of available revenue totaled together in the period the equivalent of 56,49% of the total revenues of the northeastern capitals and 11,11% of the total revenues of all the municipalities in the region.

Specifically, considering the external transfers, the northeastern capitals were predominantly dependent on unconditional transfers (57,63%). Of this total, 32,02% were refunds (ICMS Share, IPVA Share, LC 87/1996 Transfers, and LC 61/1989 Transfers), and 25,61% were tax collections (Municipal Participation Fund Part Quota - FPM).

Although not in the majority, conditional transfers also stood out, especially the mandatory ones, configuring itself as the third largest individual source of funds from transfers to all northeastern capitals (through the transfers of FUNDEB with the equivalence of 14,70% in 2017).

In terms of grouping, Salvador, São Luiz, and Maceió depended predominantly on the FPM (unconditional redistributive transfer) Quota; Recife da Cota-Part of ICMS (unconditional return transfer); and Fortaleza, Teresina, Natal, João Pessoa and Aracajú from other current transfers (which included, CIDE-Fuels, and all mandatory conditional transfers).

As a perception, considering that most of the Northeastern intergovernmental transfers in 2017 were unconditional, the richest northeastern capitals in aggregate should receive the largest share and their transfers in a devolution way (Fortaleza, Salvador, and Recife) and the poorest redistributive (São Luís, Teresina, Maceió, Natal, João Pessoa, and Aracajú).

In practice, Fortaleza, Salvador, Recife, São Luís, Teresina, Natal, João Pessoa, and Aracajú receive a higher percentage of unconditional return transfers. Only Maceió in a redistributive way, which contradicts the logic of federalism itself.

As an outcome, it should be noted that this study focused its analysis on federalism included in an economic feature of the northeastern capitals, seeking to demonstrate the urgency in the application of definitive corrections of vertical and horizontal fiscal distortions that both impact and foster social inequalities. For this, fiscal federalism with less concentrated provisions, with greater transparency and surrender to the budget balance (between competencies and resources) is required since it is notable for each local government that the acerbic burden of disciplining the adjustment of revenues to social needs, historically repressed in poor regions, such as the Brazilian northeast, is required.

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