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**EXPLAINING INNOVATION IN LOCAL GOVERNANCE**

**AN IN-DEPTH LOOK AT PORTO ALEGRE, 1989-1997**

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## **GREATER POSSIBILITIES FOR LOCAL GOVERNMENT\***

The recent trend toward political decentralization in Latin American countries has provided greater opportunities for subnational governments to play more active roles in policy innovation and promoting social justice. There is now unprecedented variation of performance and models of subnational governance, particularly at the local or municipal level. City officials from different countries are meeting and exchanging experiences, and even forming international bodies such as Mercociudades (the cities of Mercosur). International financial institutions now offer direct assistance to city or county governments. Several Latin American cities have received recognition for outstanding governmental performance from the United Nations.

One example of internationally recognized city is the municipality of Porto Alegre, Brazil. Governed by the Workers' Party (PT) since 1989, Porto Alegre has become a showcase local government for the Latin American Left in the 1990s. The city was commended for its Participatory Budget program at the United Nations Habitat Conference in 1992. Porto Alegre has also achieved a major increase in its fiscal capacity, substantial improvements in infrastructure, and increased confidence in government in the period since 1989. At the same time, many of its policies have been directed towards improving the lot of the poor. Perhaps more telling than the international prize is the overwhelming electoral support with which the city's citizens have reelected the PT during this period.

What explains good governance at the local level in places like Porto Alegre? I contend that parties in opposition to national governments that are considered "neoliberal" have the incentive to search for a coherent governmental paradigm that is distinguishable from neoliberalism, as well as from discredited models of the past. "Progressive pragmatism" is the name I use to refer to a new paradigm

that seeks to reshuffle the traditional terms of Latin American political debate. In this paper I explain how the case of Porto Alegre fits this paradigm and discuss the possibilities of and limits to its extension to other areas.

An analytic framework and knowledge of historical context are both necessary in order to demonstrate how the concept of “progressive pragmatism” differs from other forms of governance. The first section of the paper provides both of these by developing a systematic classification of Latin American governance models and outlining the historical processes through which each one has developed. The second section presents the case study of Porto Alegre as an example of the new model. The paper concludes by speculating whether “progressive pragmatism” represents a genuine alternative for governance in other areas of Latin America.

## **CYCLES OF GOVERNANCE IN LATIN AMERICA**

### ***CLIENTELISM***

At the time of the establishment of republican systems of government in Latin America, patron-client politics brought lower classes formally into the political process without a subsequent recognition of their participation as a group. There were no accompanying anti-elite rhetoric or appeals to “the people.” One of the best known studies of clientelism in the study of Latin American politics is that of the Brazilian scholar Victor Nunes Leal (1949). Leal describes a system through which large landowners traded favors with their peons in exchange for votes for the political figures to whom the landowners owed support.

Like most conceptualizations of forms of governance, however, clientelism has many shades and meanings. The definition is often expanded to include any system of political practices rooted in

personalistic relations rather than group consciousness of any sort. Thus, while most scholars recognize that urbanization and industrialization effectively broke the rural oligarchies' monopoly on national power in more advanced countries such as Argentina, Brazil, Mexico, and Venezuela, books and articles continued to be written about clientelistic practices in those areas. The development of the modern state, it is believed, allowed politicians to engage in clientelistic politics directly with people rather than through the intermediating landowner. As urban popular sectors began to negotiate for benefits, clientelistic practices began to involve larger and larger groups of people.

Clientelistic practices are blamed for all sorts of evils, from discouraging the development of strong party systems, to helping maintain hegemonic parties in power, to preventing the implementation of effective public policy. These charges often overlook the fact that clientelism is often the oil that allows politics to run smoothly in advanced democratic countries, but the implications of a political model based entirely upon personalistic relations are clear: in such a system, voters are unable to hold politicians or parties accountable for overall effectiveness.

### ***POPULISM***

The term populism is employed in even more vague and messier. Two key ideas may be filtered through the endless discussions about its definition. First, populism involves some sort of appeal to "the people." This appeal is often offered through the charisma of a particular leader, but it can be presented through other vehicles, such as parties. Many scholars emphasize the lack of institutionalization of this form of governance, however. Populism, they argue, is anathema to the establishment of effective parties, legislatures, judiciaries, and so forth. Others go even further, arguing that populism necessarily leads to authoritarianism. Continuing institutional legacies of populism, such as the Peronist Partido

Justicialista in Argentina or the Brazilian Partido Democrático do Trabalho belie these assertions. It is more accurate to say that it is the participation of the masses *as a group* that characterizes populism and distinguishes it from clientelism. More than personalistic appeals, it is large scale redistribution that holds the populist bond together. Populism developed in the twentieth century as a reaction to the growing strength of urban labor and middle classes in countries such as Argentina, Brazil, Mexico, Peru, and Venezuela (Conniff 1982). Politicians like Vargas, Perón, Cárdenas, and Betancourt appealed to these classes as a group, favoring them with economic policies, rather than just as individual patrons. These appeals effectively brought the masses into the political system in unprecedented numbers.

Populist governments have often resorted to maneuvering economic policy in order to achieve painless redistribution in the short term at the expense of long term growth and development. Irresponsible economic policy is thus the second key element of the definition of populism. Not surprisingly, this second aspect of populism has been emphasized more by economists than political scientists. Dornbusch and Edwards (1991), for example, argue that never-ending cycles of populism have characterized Latin American economic history. At the national level, populist programs rely upon expansive fiscal policy, borrowing, and overvalued currencies to generate growth and finance short-term redistribution. The problem with such cycles is that they ultimately result in high inflation and general economic crisis. The next step inevitably becomes the severe stabilization that is required for relief from the International Monetary Fund (IMF).

Although most academic treatment of populism focuses upon the national level, both elements of the definition presented here may be present at subnational levels of government. Countless mayors and governors have appealed to “the people” in order to build a base of support. Governors and mayors may also engage in deficit spending, borrowing, and short-term redistribution. The nature of the tasks

of local government makes the distinction between populism and clientelism somewhat ambiguous, however. For example, it is difficult to determine the point at which does paving streets or providing sewage service turn from particularistic benefits to public goods. The clearest distinction seems to be at the level of rhetoric. Open appeals to large social groups tend to be populist.

### ***LIBERALISM AND NEOLIBERALISM***

Liberalism was prominent in Latin American political and economic discourse in the latter half of the nineteenth century and the early twentieth century. After a long wave of statist and protectionist policies, the region experienced a neoliberal resurgence in the 1970s, 1980s, and 1990s. The economic principles of the two waves of liberalism are essentially the same: both valued the free operation of markets and conservative macroeconomic policies. Liberals have also traditionally favored republican forms of government, but have not necessarily valued the full participation of the masses. As workers gained political strength in many parts of Latin America in the twentieth century, populism thus replaced liberalism as the dominant governance paradigm.

The current neoliberal paradigm arose in reaction to the economic difficulties associated with populism and its seeming associated statist development model. The neoliberal recipe for governance is found in the publications of international financial institutions. Its most common tenets of neoliberalism are fiscal conservatism and a greater reliance upon market mechanisms. Strikingly, among the best known examples of neoliberal governance programs are those which have been implemented by the members of formerly populist parties.

Really existing neoliberalism has been neither entirely negative nor entirely positive for Latin America's lower classes. Economic stabilization in particular has brought noteworthy benefits and

permitted increases in consumption. Yet the neoliberal model is self-admittedly oriented toward improving conditions for economically powerful actors. While international institutions and politicians alike have increasingly called for attention to social policy and the alleviation of poverty, in practice these issues have taken a back seat to other economic policy priorities. Neoliberalism may be viewed as an economistic model that takes no clear position regarding mass participation in the political process. Many of its proponents distrust democracy and participation, however, and continue to view Pinochet's rule in Chile as a neoliberal ideal.

### ***A SYSTEMATIC CLASSIFICATION OF GOVERNANCE MODELS***

The historical review suggests that we may distinguish generally among models of governance in Latin America by the importance they attach to two variables: the degree of macroeconomic or fiscal responsibility and the level of inclusion or participation of the masses. Figure 1 displays this system of classification in graphical form. Clientelism is associated with low levels of fiscal responsibility and low levels of popular participation, populism with low levels of macroeconomic responsibility and high levels of popular participation, and liberalism with high levels of macroeconomic responsibility and low levels of popular participation. The remaining combination of high levels of both high levels of fiscal responsibility and popular participation does not correspond to any well-known model of governance. This is the category I refer to as progressive pragmatism.

**Figure I.**

**Models of Governance**

<b>Fiscal Responsibility</b>	<b>Popular participation</b>	
	<i>Low</i>	<i>high</i>
<i>High</i>	(neo)liberalism	Progressive Pragmatism
<i>Low</i>	Clientelism	Populism

Surprisingly few other broad and systematic analyses of forms of governance exist in the political science literature about Latin America. Weyland (1995) develops a typology of models of democracy based upon the degree to which the organization of citizens is predominantly bottom-up or top-down and the degree of “special weight” given to social movements or interest organizations. While this typology captures the variations of participation with greater specificity than the one I have proposed, it leaves out the dimension of economic policy. Economic policy and performance are so central to citizens’ views of their governors, and so often the central focus of political debate in Latin America, that including it in the classification adds much to the power of an analytic framework for studying governance.



## **PROGRESSIVE PRAGMATISM IN PORTO ALEGRE**

Porto Alegre and the state of Rio Grande do Sul, home of the populist leader Getúlio Vargas, have a history of opposition to more conservative national governments. The strongest political force in the state prior to the military coup of 1964 was the populist party created by Vargas, the Partido Trabalhista Brasileiro (PTB). Municipal elections in the capital city were dominated by competition between the PTB and an alliance of two rightist parties. The military regime of 1964-1985 abolished existing parties and restructured the system in an attempt to consolidate its rule. Under the military's system, the Aliança Renovadora Nacional (ARENA) represented the regime, and all opposition was limited to one party, the Movimento Democrático Brasileiro (MDB). Although municipal elections never completely ceased, the military prohibited the election of mayors in state capitals and other cities of "strategic importance." Elections for city council continued everywhere, however. In Porto Alegre, the former PTB supported the MDB and the former rightist forces supported ARENA. Reflecting the original dominance of the PTB, the MDB maintained a majority in the Porto Alegre City Council throughout the military period. When it realized the MDB was gaining support nationally, the military decided to allow multiple parties to participate in elections, hoping in this way to splinter the opposition. ARENA was transformed into the Partido Democrático Social (PDS), and the MDB added the word "party" to its name to become known as the PMDB. Most of the former PTB supporters left the MDB to form the Partido Democrático do Trabalho (PDT) under the leadership of Leonel Brizola, brother-in-law of João Goulart, the president deposed in 1964. True to its Varguista roots, the PDT is considered a populist party.

In 1985, as another result of the military regime's slow *abertura*, mayoral elections were finally held in the capitals. The winner of the election in Porto Alegre was Alceu Collares of the PDT. The combination of national economic crisis and poor management resulted in economic and political

disaster for the Collares administration. The municipality was in debt, but did not have good enough record-keeping to distinguish among its creditors. Almost (and sometimes more than) all of its resources were spent on personnel, leaving no funds for investment. The conditions of the 1988 mayoral elections were therefore favorable to new political forces.

### ***THE ELECTORAL EMERGENCE OF THE PT***

The Workers' Party, or PT, was well-placed to step into the political vacuum left by Collares' departure. The new party had been created by the new union movement in the ABC region of São Paulo in the 1970s (Keck, 1992). It was modeled after European labor and socialist parties rather than traditional Latin American populism. Rio Grande do Sul was the first region outside of the southeastern states of São Paulo and Rio de Janeiro where the PT won a good deal of support. In 1982 it elected one Council Member in Porto Alegre. Since then the south has been the PT's most significant support base after the southeast. Nonetheless the party remained a minor one in Rio Grande until the mayoral elections of 1988 (Passos and Noll 1996). That year municipal elections were held in all cities for both council members and mayors. The PT candidate Olivio Dutra won the mayorship that year, and the PT also increased its representation on the City Council. The PDT won 11 of the council seats, followed by the PT with 9, the PMDB with 5, and the PDS with 4.

PT candidate Tarso Genro (vice-mayor of the Dutra administration) won the next mayoral race (in 1992). His victory marked the first time in the city's history that the incumbent party succeeded at electing its own candidate for mayor.<sup>1</sup> The composition of the council remained roughly the same as in

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1988. The mayor elected in 1996 was Raul Pont, who had been vice-mayor under Genro. The PT thus had a dramatic increase in support between 1985 and 1988, and then retained the mayorship and shared dominance of the City Council with the PDT through the 1992 and 1996 elections.

Brazilian analysts attribute the PT's continued electoral dominance in Porto Alegre to its decision to appeal to middle class support (Utzig 1996). The party won the mayoral election in 1988 because the financial crisis had brought a political vacuum. Once in office the party suffered an internal dilemma over whether it would target its traditional base of support or try to cast a broader net. Centrist elements triumphed over the more radical leftists, and the party opted to attempt to build a broader constituency. It implemented many policies that appealed to the middle classes, such as the renovation of the historic downtown market, the improvement of important roads, and increased environmental protection for the Guaíba River. The most striking aspects of the PT's municipal program, however, were the ways it increased citizen participation in government and turned around city finances.

### ***POPULAR PARTICIPATION***

Beginning in its first mayoral administration (that of Olívio Dutra), the party developed a mechanism for community participation in the municipal budget process, called the Orçamento Participativo, or Participatory Budget. Its creators viewed this program as a form of direct democracy and an alternative to the centrist, bureaucratic models espoused by the traditional left (Augustin F. 1994) (Fedozzi 1997). They also viewed it as an alternative to what they perceived as the technocratic and undemocratic neoliberalism of the national government. Finally, the Participatory Budget was an alternative to the clientelistic budget processes of the past under both democratic and military national regimes.

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<sup>1</sup> Reelection of individual mayors, governors, and presidents was prohibited by the Brazilian Constitution until June 1997.

The PT, which had almost no experience in government at that time, developed the Participatory Budget mostly by trial and error. The origins of the program lie in the Platform for the Mayoralty of Porto Alegre approved by the PT convention that nominated Dutra as a mayoral candidate. This platform called for the creation of Popular Councils, which would introduce elements of direct democracy into the mayoral administration. The plan was not very specific as to how to promote greater inclusion. This ambiguity, along with the party's inexperience and the poor economic situation, made the Participatory Budget a clear failure in Mayor Dutra's first year in office. In following years, however, both participation in the process and the scope of the Participatory Budget increased.

The immediate reason for the initial failure was that the PT did not coordinate its fiscal policy with the Participatory Budget process. The newly elected administration organized two rounds of discussions with the community which it had divided into micro-regions, in 1989. Each micro-region elected representatives to plan the 1990 budget jointly with the municipal Planning Ministry. The first version of the Participatory Budget proposed a great number of public works. Almost none of these were accomplished, due to the disastrous situation of municipal finances. This situation led to a high degree of tension between different branches of the mayoral administration. The Planning Ministry, in particular, was frustrated at what it viewed as the Participatory Budget's obliviousness to the need for financial prudence and good bookkeeping.

Outside the Planning Ministry, PT leaders considered the tension a result of a contradiction between the technical concerns of the Planning Ministry and the democratic nature of the Participatory Budget. To alleviate this problem, the next year the program was transferred from the Planning Ministry to the Mayoral Office (the mayor's closest advisors). Due to the previous year's disappointing performance, a smaller number of people showed up for the meetings. Those who did appear

selected sanitation and paving as their top priorities, and this time the budget was carried out in its entirety by the administration. In the following years, community participation in the Participatory Budget increased, and the prefeitura and City Council continued to respect the popularly planned budget.

The scope of the Participatory Budget increased over time. At first the program was highly regional or local in content. Its main effect was to provide basic services to needy areas. A weighting system, based on criteria such of percentage of extremely poor inhabitants and overall population (and some others, which varied over the years) determined which neighborhoods would receive investment priority. In 1994, the Genro administration began to hold five yearly thematic meetings in addition to the sixteen regional ones. These sessions were supposed to provide for greater expertise in the planning of different policy sectors. The thematic sessions were formed for the following categories: transportation; education, leisure, and culture; health and social services; economic development and taxation; and city organization and urban development. Each session elects delegates to sit with the regional delegates on the Participatory Budget Council. The thematic sessions, while open to everyone, generally have involved participation by groups such as labor unions, business entrepreneurs, and professional organizations, who were less likely to participate in the regional meetings. A leftist faction within the government, led by then vice-mayor Raul Pont, called for corporatist-style organic participation of labor unions in the thematic sessions, but more moderate elements defeated this proposal. The thematic sessions introduced some elements of specific expertise into the planning process, while retaining the popular participation aspect.

The Participatory Budget is structured chronologically. Regional assembly meetings, in which city administrators and participants review the Investment Plans of the previous year, are held in March

and April. In June and July, the administration makes a presentation about revenue collection and the funds that will be available for investment in the following year. The regional sessions also rank their investment priorities for the year and elect delegates to sit on the Participatory Budget Council. This body discusses the executive administration's budget and develops the next Investment Plan according to the weighting system and the rankings of the regional assemblies. In September, the Participatory Budget Council follows the progress of the bill in the City Council and discusses the details of implementation of the investment plan with the municipal bureaucracy.

In the last few years there have been attempts to introduce participation into the area of city administration. The Participatory Budget has been limited mainly to investment spending, which constitutes a small portion of the budget. As in most Brazilian cities, the largest chunk of Porto Alegre's budget goes to pay the salaries of personnel. These personnel costs generated tension within the Party, which faced trade-offs between different factions of its traditional base of support--syndicates, public employees, and popular movements. As of July 1997, the Brazilian Constitution prevented governments from substantially altering the salaries, job stability, retirement, or other benefits of government employees, making much of this area of the budget beyond popular control. During the Dutra administration, however, the Participatory Budget began to include personnel nomination as part of its responsibilities (jointly with SIMPA, the municipal employees' syndicate), giving the community direct control over the creation of new positions in public administration. The Tripartite Commission, as this organ is called, has representatives from the Council of the Participatory Budget, the mayoral office, and SIMPA. The latter's participation was somewhat reluctant. It was difficult for a *petista* mayor's office to attempt to cut personnel costs at the same time that the party was fighting administrative

reform at the national level.<sup>2</sup> The tension with municipal employees led to tremendous factionalism within the party. The Pont administration initiated a project called the Internal Participatory Budget, the aim of which was to “democratize” relations within the government, which presumably alleviate the struggle over personnel costs. This plan includes such measures as the election rather than appointment of some department leaders and managers. It is too early to make any judgment about the results of this program. Thus far, its creators admit that democratizing state-society relations has been easier than democratizing the state apparatus itself.

A final area of expansion has been the attempt to increase popular participation in long as well as short term planning. In addition to irresponsible spending, Brazilian municipal governments have traditionally suffered from “incrementalism,” meaning that this year’s budget is formulated on the basis of last year’s (Fedozzi 1997). Following this pattern, the original Participatory Budget involved only short-run planning. The Pont administration initiated what it called the Plurianual Plan in 1996. The purpose of the four-year investment plan is to expose long as well as short-range planning to the Participatory Budget process (Lucena 1997).

Prospects for the long term institutionalization of the Participatory Budget appear mixed. The discussion above showed that the PT has build considerable political capital with the program, and therefore many of the members are committed to the program and to expanding its scope further. Yet it is not clear whether the citizens of Porto Alegre will be interested in perpetuating and expanding the participation process. Between 1989 and 1992 the total number of people who attended planning sessions increased tenfold, although participation has leveled off and even decreased in recent years.

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<sup>2</sup> Similar conflict over administrative reform resulted in the expulsion of Victor Buaíz, governor of the state of Espírito Santo, from the PT. He joined President Fernando Henrique Cardoso’s *Partido Social Democrático Brasileiro* (PSDB) in 1997.

Another problem for the Participatory Budget is that so far the PT has not managed to reach an agreement regarding the institutional structure of the program. Because the party has consistently controlled the mayorship since the Participatory Budget began, it is difficult to determine whether it is a municipal program or a project unique to the party in power. The Secretary of Planning during the Dutra Administration, Clovis Ilgenfritz, who first organized the Participatory Budget in 1989, ended up leaving the administration, in part because of conflict between the technical problem of solving the city's severe economic crisis and the investment-oriented direct democracy of the budget process (Fedozzi 1997). Ilgenfritz favored a more regulated environment for community participation. In 1991, Ilgenfritz, by then a member of the city council, presented a bill to institutionalize and regulate the Participatory Budget (with the support of the civil society organizations mentioned earlier), but as of July 1997 the bill had not been passed into law (Ilgenfritz da Silva 1997).

Disagreement about the bill center around its legal implications for the role of the legislature, and probably also the knowledge that thus far there has been no serious electoral challenge to the PT in the city. Members of the PT who oppose the bill characterized the Budget as an autonomous, self-regulating entity, belonging to the public, non-State sphere (*esfera pública não estatal*) that does not require official recognition (Porto Alegre N.D.).<sup>3</sup> The bill's supporters claimed that regulation was necessary both to protect the program from being dismantled by future non-PT administrations and to ease the technical-democratic tension. Problems also arose with pre-existing urban popular movements, which had traditionally been an important base of political support for the PT. Some well-established representatives of *vila* residents claimed the Budget process was reducing their autonomy. According to

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<sup>3</sup> The idea of a public, non-state sphere is also promoted by the Cardoso administration (Federal Government of Brazil 1996) (Fedozzi 1997).



one PT analyst, some of the movement leaders, accustomed to clientelistic negotiation for local benefits, did not favor the more universalistic, public process of the Budget (Fedozzi 1997).

The Participatory Budget's institutional status is thus a shaky one, but the PT's popularity in Porto Alegre indicates that the program is likely to continue in the foreseeable future.

### *FISCAL RESPONSIBILITY*

During the 1980s, Porto Alegre experienced a decline in both investment and public salaries (due to the national economic crisis), a decline in municipal tax collection (due in part to greater federal funding but also to governmental incompetence), and an increase in the number of public employees (due to the new patronage opportunities that accompanied the transition to democracy). The first PT mayoral administration (Olívio Dutra, 1988-1992) successfully cleaned up the city's catastrophic financial situation and maintained a sound fiscal policy. Such a feat is not uncommon for the first two years of a municipal administration in Brazil, but the fact that the Dutra administration did not follow up its sanitation efforts with two years of irresponsible spending is unusual (Utzig 1996). The Dutra administration spent its first two years cleaning up city finances. Due to the lack of resources, it failed to keep its campaign promises of investments that would favor the poorer segments of society. Although the *prefeitura* promoted meetings to develop the Participatory Budget, none of the community's suggestions were actually implemented, resulting in severe public criticism of the administration. By the third year in office, however, the municipality was able to make available considerably more money for investment (decided by the Participatory Budget), without incurring further debt. The Dutra administration achieved the financial reform, by cutting spending, improving relations with creditors, and implementing a tax reform and a partial administrative reform. The two administrations that followed (Genro and Pont) continued the policy of responsible finances, effectively

breaking the cycle of austerity followed by uncontained populism that had plagued Porto Alegre in the past. The economic policies of the PT administrations are described in the next few paragraphs.

Upon assuming office in January of 1989, the Secretário Municipal de Fazenda, João Verle, found that data showing the financial situation of the city were practically inexistent (Cassel and Verle 1994). The maneuvering room in 1989 was extremely scarce, given that the previous administration had determined the budget and the fiscal structure could not legally be changed. The salaries of municipal employees constituted 98 % of the budget. The administration's first move was to reach agreements with creditors and suppliers to establish a schedule for the payment of debts. It improved its credibility with the creditors and suppliers by making this schedule available for public inspection. The administration also took out some short term loans, which it repaid by mid-1990. Additionally, it underwent an internal audit.

The Dutra administration achieved financial stability by cutting spending, improving relations with creditors, and implementing a tax reform. The most significant achievement in the area of fiscal policy was the turnaround in city income. The Dutra administration submitted 15 tax bills to the City Council in 1989, of which 14 were approved. The bill that was rejected called for progressivity in the Imposto sobre Transmissão de Bens Imóveis "inter-vivos" (Tax on Non-Inherited Property Transfers or ITBI). This bill was subsequently rejected two more times. The most important reform involved the urban property tax, the Imposto Predial e Territorial Urbano (IPTU). The PT reform made this tax much more progressive, increasing the number of brackets for both buildings and urban lots, and increasing the onus for the latter. It also improved collection of the Imposto sobre Serviços de Qualquer Natureza (ISSQN), a service tax. Of several other new taxes created, only one or two remained active for more than a year or so, but between 1989 and 1992, the percentage of the city's income due to local

tax collection increased from 47.9% to 59.1%. As part of the strategy to persuade the public to accept the tax reform, the Dutra administration promised that income from the property tax would be used to fund investment (rather than pay for salaries or debt).

In addition to increasing both progressivity and the general tax rate, the PT also greatly reduced municipal tax evasion, which had previously been a serious problem. In a new approach, it adopted the principle of no tax amnesty as one of its formal pledges, claiming that two previous amnesties by the Collares administration had only encouraged tax evasion. It published a list of debtors to the city in local newspapers, as an “invitation” for them to pay what they owed (rather than as a threat, which would have been illegal).

Upon entering office, the PT encountered an administrative situation that was as bad or worse as the problems with tax collection. In December of 1988 (upon leaving office), the Collores administration passed a law increasing municipal employees’ salaries almost threefold and providing for bisemester readjustments. Although the economic crisis had resulted in lower salaries for public employees nationwide (the real salary of the lowest paid municipal employees in December 1988 was 62.31% what it had been in 1985) (Campello 1994), the municipality’s budget was still overloaded by the demands of its payroll.

In June 1990 the Dutra administration implemented a law governing salaries that provided for bimonthly adjustment according to inflation so long as expenditure on personnel did not exceed 75% of current account spending. This administrative reform actually provided an effective raise to employees. The same basic policy on salaries was maintained by the Genro and Pont administrations. In the 1990s, almost no other Brazilian municipality provided a twice-monthly adjustment: some provided them monthly, and others less regularly. All three administrations experienced problems with the employees’

union, SIMPA, however. The Pont administration has on the whole very bad relations with SIMPA, which picketed City Hall complaining about low salaries. Specifically, SIMPA called for the use of a different measure of inflation in the indexation of salaries. (While the PT relied on official government statistics, SIMPA wanted to use the generally higher figures of the non-profit Getúlio Vargas Foundation.)

The PT achieved the best economic policy Porto Alegre had had in at least fifty years without actually cutting the administrative apparatus. The administration managed to reduce the percentage of the budget devoted to salaries, and to maintain this percentage close to the constitutional limit of 60%. This reduction was achieved mainly through increases in revenue rather than spending cuts. There was no actual reduction of the size of the state. While it implemented no drastic administrative reforms (and claims not to support policies implemented by the national government to reduce administrative costs, such as voluntary retirement schemes), the PT does seem to have resisted the temptation to favor a specific group belonging to one of its core bases of support (government employees) by engaging in political patronage, as demonstrated by its willingness to allow the Participatory Budget to control the creation of new public positions. At the same time the PT also managed to direct the government spending toward the social arena and to favor the poor. One clear trend within the PT's administrative policy was increasing attention to social services over other kinds of government employment.<sup>4</sup>

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<sup>4</sup> In 1985, the municipality spent 13% of its budget on education and health: by 1995, it spent 36% (Porto Alegre 1996), and the number of municipal schools quadrupled. The causes behind this increase are most likely the decentralization of Brazilian health service, and the constitutional requirement that all municipalities spend at least 25% of their budgets on education (Porto Alegre has its own law raising the requirement to 30%), both of which came into effect during those years. It is interesting that education is rarely the top priority chosen by regional councils within the Participatory Budget: this lack of emphasis may be due to the traditional dominance of the state government in providing education in Rio Grande do Sul. Most of the time, citizens elect to provide access to water or pave the roads of their neighborhoods over education. Health and education do receive attention in the thematic sessions.

## PORTO ALEGRE AS A “PROGRESSIVE PRAGMATIC” GOVERNANCE MODEL

Developing sound fiscal policy and promoting popular participation were the twin pillars of the PT’s electoral success. The party has attempted to draw attention to this success, by choosing Porto Alegre as the meeting place for leaders of the Latin American Left in recent years. Ex-mayor Olívio Dutra was elected governor of Rio Grande do Sul in 1998. Ex-mayor Tarso Genro was the top contender after party leader Lula for the party’s candidate in the 1998 presidential race. Because it is the Left, the PT has emphasized the Participatory Budget more than the economic achievements of the administration. Greater participation characterizes many other governments run by the PT, but none of these have the same showcase quality. Again, the difference in Porto Alegre was the combination of a sustained economic turnaround and the emphasis on popular participation.

What made this combination possible in Porto Alegre and not elsewhere in Brazil? The socioeconomic structure of the municipality was surely a contributing factor. Southern Brazil is generally much richer and has a more equal distribution of wealth than the northern and western parts of the country. In 1994, the state of Rio Grande do Sul’s gross product ranked fifth in the country. The state’s per-capita income of US\$4,458 is one thousand dollars over the national average. Porto Alegre is consistently cited as among the most desirable Brazilian cities in which to live. The city’s relative wealth contributed to the PT’s successful fiscal reform, particularly with regard to the service tax. Poorer municipalities with lower tax bases must by definition be more dependent upon federal and state transfers. The importance of socioeconomic factors to the success of programs like the Participatory Budget is less obvious, however.

The history and culture of Rio Grande do Sul (the birthplace of former president and dictator Getulio Vargas and founder of the populist PDT Leonel Brizola) are also potential explanations. Many

of the PT's voters in Porto Alegre and the rest of the state are former PDT supporters. In the presidential elections of 1994, Lula received a majority of the votes in Porto Alegre and in Rio Grande (the only state in which he did so). In fact, Rio Grande do Sul has a great historical tradition of opposition politics. And as shown in the section on the PT's electoral victories, Porto Alegre's electorate is historically more slanted toward the left than the national average.

I argue that the main factor pushing the PT toward the successful creation of a new model of governance has been its opposition to the coalition of parties in power at the national level. The model may have been more successful in Porto Alegre because of the other factors mentioned, but the reason for its creation was the need to show that the Left could present a viable alternative to neoliberalism that was equally successful at controlling a fiscal crisis. The PT is not the only Brazilian political party that has faced this challenge, however. Centrist political leaders in the state of Ceará turned that state government into another showcase of governance (Tendler 1997). Their success launched the national political career of 1998 presidential contender Ciro Gomez.

Opposition parties all over Latin America face the challenge of building political capital at the local level. Another indication that the Participatory Budget is not unique to Porto Alegre is that other governments are directly copying it. Mayoral administrations from the neighboring cities of Montevideo and Buenos Aires (both governed by opposition parties) have looked to Porto Alegre for guidance in developing similar programs. Similar participation programs have been implemented independently in Mexico, El Salvador, Peru, and Chile with varying degrees of success. Comparative in-depth studies of some of these cities would reveal whether successful participation programs are associated with improvements in fiscal capacity. Most existing studies focus on one aspect or the other, perhaps

because of authors' disciplines and ideological leanings, but a more systematic understanding of what makes good governance must include both policy and process.

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