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Small Brazilian municipalities: viability, social rights, and local development

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Abstract

There are 5,570 municipalities in Brazil, of which 1,253 have less than 5,000 inhabitants. The Proposed Amendment to the Constitution no. 188/2019 proposes incorporating part of these municipalities into neighboring municipalities with more significant financial capacity; the municipality's revenue is the second criterion provided for in this legislative instrument. Given this context, this study sought to show that municipalities with fewer than 5,000 inhabitants collect more than the municipalities of the group with a larger population per inhabitant. Even the administrative expenses of these small municipalities are not significantly higher. The social rights of citizens, which are provided for in the Federal Constitution, are more efficiently served in smaller municipalities if the per capita values are considered. For instance, in some of the budgetary functions (e.g., health), the differences in investment volumes are quite high. Additionally, small municipalities act as promoters of development by encouraging economic activities and do so with larger investments, once again using the citizen as a unit. Therefore, it is not appropriate to prejudice and condemn municipalities solely based on the number of inhabitants and the amounts they collect. The municipalities, first and foremost, are proponents and executors of public policies where financial profit cannot be constituted as an evaluation measure.

Keywords: Municipalities. Incorporation of Municipalities. Social Rights. Public Incentives.

Os pequenos municípios brasileiros: viabilidade, direitos sociais e desenvolvimento local

Resumo

Existem, no Brasil, 5.570 municípios dos quais 1.253 possuem menos que 5.000 habitantes. A PEC 188/2019 propõe a incorporação de parte destas localidades por municípios vizinhos e com maior capacidade financeira. A receita própria dos municípios é o segundo critério previsto na PEC. Este trabalho mostra que, por habitante, os municípios com população inferior a 5.000 habitantes arrecadam mais que os municípios do grupo com população maior. Mesmo as despesas administrativas destes municípios pequenos não são significativamente maiores. Os direitos sociais dos cidadãos, previstos na Constituição Federal, são atendidos de forma mais eficiente nos municípios menores, se considerados os valores per capita. Em algumas das funções orçamentárias, como a saúde por exemplo, as diferenças nos volumes de investimento são bastante elevadas. Os municípios pequenos também atuam como promotores do desenvolvimento ao incentivar as atividades econômicas e o fazem com investimentos maiores, mais uma vez usando o cidadão como unidade. Não é adequado, deste modo, prejudicar e condenar municípios baseados apenas do número de habitantes e nos valores que arrecadam. Os municípios, antes de tudo, são proponentes e executores de políticas públicas onde o lucro financeiro não pode se constituir em medida de avaliação.

Palavras-chave: Municípios. Incorporação de Municípios. Direitos Sociais. Incentivos Públicos.

Los pequeños municipios brasileños: viabilidad, derechos sociales y desarrollo local

Resumen

In Brazil, there are 5,570 municipalities, of which 1,253 have fewer than 5,000 inhabitants. PEC 188/2019 proposes the incorporation of part of these municipalities by neighboring municipalities with greater financial capacity. Los ingresos propios del municipio son el segundo criterio previsto en el PEC. Esta obra muestra que, por habitante, los municipios con una población inferior a 5.000 habitantes recogen más que los municipios del grupo con una población mayor. Not even the administrative expenses of these small municipalities are significantly higher. The social rights of citizens, foreseen in the Federal Constitution, are met more efficiently in the smallest municipalities, if per capita values are considered. In some of the budget functions, such as health, for example, the differences in investment volumes are quite high. Small municipalities also act as promoters of development by promoting economic activities, and they do so with greater investments, once again using the citizen as the unit. Therefore, it is not appropriate to prejudge and condemn municipalities based solely on the number of inhabitants and the amounts they receive. Municipalities, first of all, are proponents and executors of public policies where financial benefit cannot constitute an evaluation measure.

Palabras clave: Municipalities. Incorporation of Municipalities. Derechos Sociales. Public Incentives.

1 Introduction

Brazil currently has 5,570 municipalities, including the Federal District. This number is the result of several emancipation waves, which occurred in greater or lesser intensity, as shown in Table 1, throughout the republican period of Brazilian history. One explanation for such oscillations comes from the various Constitutions of the Republic, in effect at the times when these municipalities were created, which were complemented by various legal instruments that simplified or restricted the emancipatory processes.

Table 1. Absolute and relative growth in the number of municipalities in Brazil according to the constitutional periods

Constitutional period	Constitution in force	Municipalities created	Relative growth (%)	Total at the end of the period
1891–1934	1891 — The First Republic	475	53.9	1,356
1934–1937	1934 — The Second Republic	81	6.0	1,437
1937–1946	1937 — The New State	217	15.1	1,654
1946–1967	The 1946 Democratic Constitution – the New State	2,235	135.1	3,889
1967–1969	1967 — The Military Dictatorship	1	0.0	3,890
1969–1988	1969 — The Military Dictatorship	233	6.0	4,123
1988–present day	1988 — The Citizen Constitution	1,447	35.1	5,570

Source: NUNES (2017)

The Constitutions of 1946 and 1988 stand out in these diverse periods due to the large number of municipalities created during their terms; they are considered, in this way, “municipalist” Constitutions (NUNES; MATOS, 2019, p. 1). One significant difference between the current Constitution and the others is that, for the first time, the municipality was considered one of the federative entities of the republic (BRASIL, 1988), in addition to simplifying the process of creating new municipalities. The impoundment that existed since the establishment of the Military Government in 1964 was broken, and, in just a few years, a significant number of new municipalities were created (NUNES; MATOS, 2019; SOUZA, 2015).

This profusion of emancipation produced reactions that put brakes on new emancipation processes, and one of the first was established by Constitutional Amendment no. 15 of 1996, which reworded paragraph 4 of Article 18:

§ 4 The creation, incorporation, merging, and dismemberment of municipalities will be done by state law within the period determined by federal complementary law, and it will depend on the previous consultation, through a referendum with the populations of the municipalities involved, after disclosure of the Municipal Viability Studies, presented and published in the form of law. (BRASIL, 1996)

The National Congress, in turn, also contributed to the difficulties imposed on the new processes of creation, incorporation, merging, and dismemberment of municipalities by not establishing or regulating the set of new legal instruments pointed out in the Constitutional Amendment (CIGOLINI, 2017; NUNES; MATOS, 2019; SOUZA, 2015; TOMIO, 2005). This indifference in the legislative power seems to be deliberate as overcoming these obstacles, if it does happen, allows us to assume a significant number of new municipalities.

Additionally, the Federal Government has also played a preponderant role in the failure to overcome these new obstacles. Despite the apparent lethargy shown by the National Congress, the Presidency of the Republic, on two occasions, fully vetoed initiatives defined by the legislative branch, which established criteria for the necessary regulation of Constitutional Amendment No. 15 (BRASIL, 2013, 2014).

The most recent initiative originated in the executive branch and came in the opposite direction of those observed thus far. In November 2019, the Presidency of

the Republic submitted to the National Congress the Proposal for Constitutional Amendment (PEC) no. 188/2019, which embedded the purpose of extinguishing small municipalities that are not financially sustainable (SENADO FEDERAL, 2019). This intention was apparently in response to numerous manifestations that are routinely proclaimed in organs of the press (CID, 2020; SATURNO, 2019; TRISOTTO, 2019), by various business, industrial, or financial associations, and even by public institutions or the federal executive branch itself (LIMA, 2020; MARTINS, 2020). For these actors, the small municipalities are a burden to the nation as they rely, almost exclusively, on government funding. They also consider that the main interests in creating new municipalities, or maintaining the current ones, reside in economic factors and in the availability of new public positions to be filled, especially those of political nature (NUNES, 2017; REZENDE, 2011).

The submission of this proposal immediately provoked numerous negative reactions, both from the municipalities that would be affected, associations of municipalities, and even other institutions (CNM, 2020). In spite of the possible corporatism manifested by these institutions, they fundamentally represent the interests of the communities involved in an attempt to reject the arguments that emphasize the excess in the number of municipalities and expenses incurred by them.

Through creating a new municipality, the search for social rights is present in most of the manifestations of the citizens involved. Cigolini (2017), Souza (2015), and Nunes (2017) reported numerous studies¹ whose conclusions can be divided into two main points:

- a) There is a lack of public services such as education, health, sanitation, transportation, public lighting, electricity, and housing. These factors are usually associated with the negligence verified in the public administration and with the large territorial extension of the municipality of origin;
- b) The existence of strong economic activity in the emancipationist communities, which are usually related to satisfactory public service infrastructure, no longer justifies the subordination to the municipality of origin.

The creation of municipalities, in this way, can be observed from the perspective of citizens' aspirations, which relate very strongly to Article 6 of the 1988 Federal Constitution, where:

Article 6. Education, health, food, work, housing, transportation, leisure, security, social welfare, motherhood and childhood protection, and assistance to the destitute are social rights in the form of this Constitution. (BRASIL, 1988)

This set of polarized positions obviously represents the lack of consensus concerning the functions of municipalities, mainly those of a social nature, although the opinions that judge the municipality as an exclusively financial entity are louder.

¹ Cigolini cites, in his article, works developed by Breameker (1992), Mello (1992), and Noronha (1997). Souza and Nunes refer to the study done by Breameker.

In the opposite direction, this study aims to show municipalities, especially those considered small, as social entities and main executors of public policies to fulfill social rights provided in the Federal Constitution and promote local development. The intention is to show that, despite being considered by the Federal Government itself and the media, in general, as financially unsustainable and, thus, a burden to the nation, small municipalities, when confronted with their opposites, are more efficient and transfer a greater amount of public resources to their citizens.

Table 2. Municipal distribution according to population range - Brazil - 2019

Population range	Municipalities
< 5,000 inhabitants	1253
5,000–10,000 inhabitants	1199
10,000–20,000 inhabitants	1345
20,000–50,000 inhabitants	1100
≥ 50,000 inhabitants	673
Total	5570

Source: IBGE (2019)

This is a quantitative study in nature and fundamentally based on the budget execution of 5,067 Brazilian municipalities in 2019. This data was obtained from the National Treasury Secretariat (STN) which, through the Brazilian Public Sector Accounting and Tax Information System (Siconfi), stores and makes available accounting information in a database called Finances of Brazil (Finbra) obtained from various public entities, among them the municipalities. To compare the revenue collected and the expenditure by function, the municipalities were separated into several groups (Table 2), in which one can note that the municipalities with a population below 50,000 inhabitants² in the same year (2019); hence, we adopted the population estimates produced by the Brazilian Institute of Geography and Statistics (IBGE).

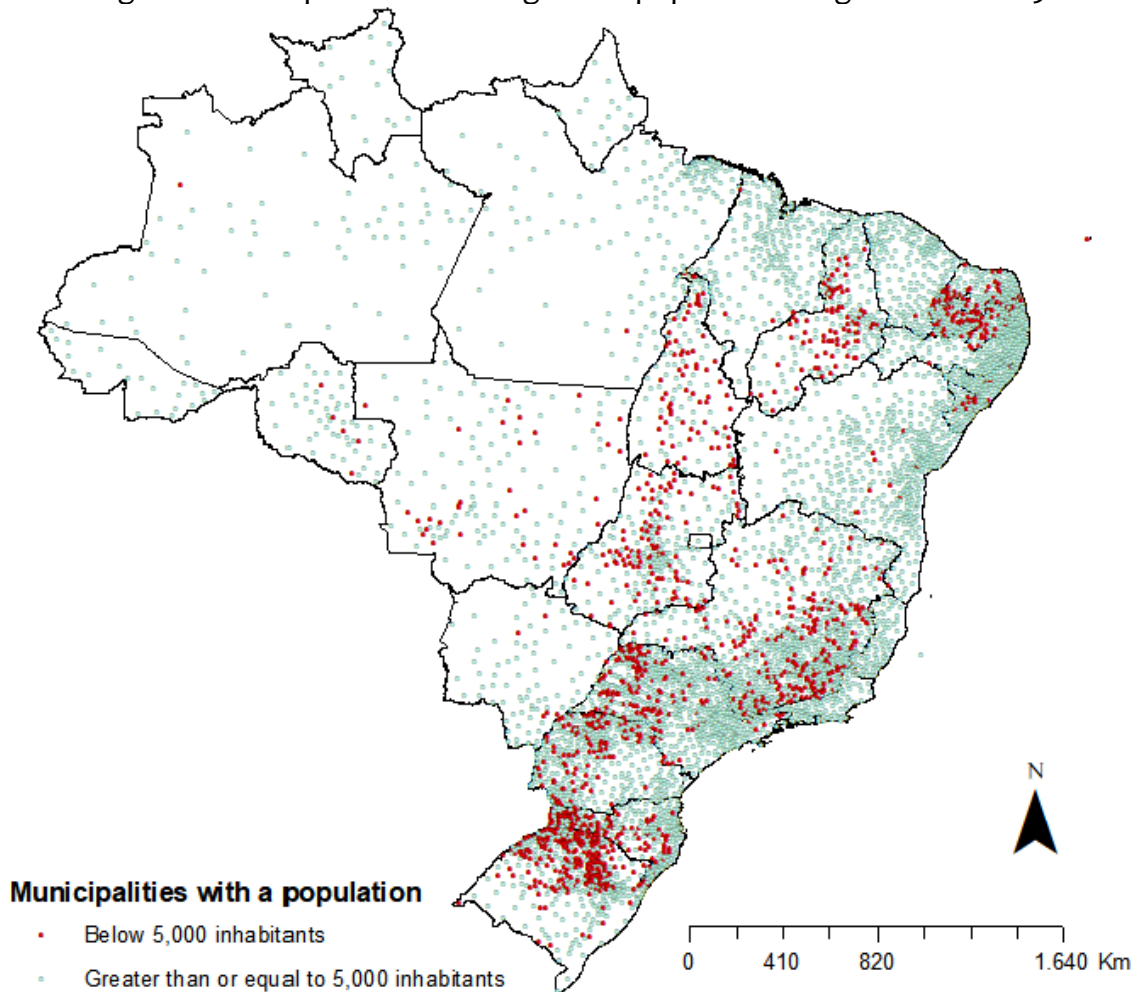
In addition to this introduction, this article is composed of three other sections. The first section presents the geographical distribution of Brazilian municipalities, emphasizing those with populations of below 5,000 inhabitants. In the following section, the municipalities are analyzed from the point of view of their financial sustainability, as suggested by PEC no. 188/2019. In the last section, we look at how the municipalities meet the social rights of their citizens, as provided for in the Federal Constitution of 1988, in addition to verifying the incentives concerning their economy, especially agriculture, commerce, energy, and industry. The final considerations finish off this manuscript by analyzing the main information presented.

² The municipalities with a population of above 50,000 inhabitants were included in a single range because the main objective of this study to observe small municipalities as well as the need for the various population ranges not to contain a discrepant number of municipalities.

2 The geographical distribution of small Brazilian municipalities

The distribution of the municipalities in the Brazilian territory, as can be seen in Figure 1, where each point represents a locality, is not consistent. The southern, southeastern, and northeastern regions are intensely populated and contain most of the municipalities. The northern and central-western (at least a part of it) regions, however, have a smaller number of municipalities. The map also shows the intense concentration of municipalities throughout the coastal area and its surroundings.

Figure 1. Municipalities according to the population range - Brazil - 2019



Source: IBGE (2019)

The second half of the Brazilian States contains the remaining 1,227 municipalities, which shows that the existence of municipalities with a population below 5,000 inhabitants is not exactly a national problem. Minas Gerais and Rio Grande do Sul States lead in absolute numbers: each with 231 municipalities candidates for extinction according to PEC no. 188/2019 (SENADO FEDERAL, 2019). São Paulo, Paraná, and Santa Catarina States have less expressive numbers but over 100 municipalities each. Elsewhere, Goiás, Piauí, Tocantins, and Paraíba States all have over 50 municipalities, which must be mentioned.

This ranking changes when constructed from the relative point of view. Besides the fact that these 1,253 municipalities represent almost a quarter of the

Brazilian municipalities in some states, this proportion is even higher. Tocantins (49.64%) and Rio Grande do Sul (46.48%) States could lose practically half of their municipalities. With slightly lower rates, but still significant, are Goiás, Santa Catarina, Piauí, and Paraíba States, all with rates above 30%. Lastly, with percentages above those verified at the national level, are Rio Grande do Norte, Minas Gerais, Paraná, Mato Grosso, and São Paulo States.

3 The municipalities and their economic viability

At the Federal, State, and Municipal levels, the public administrations in Brazil have their budget execution, especially their expenses, regulated by Complementary Law no. 101, which is known as the Fiscal Responsibility Law (BRASIL, 2000). One of the reasons for the existence of such an instrument was, without a shadow of a doubt, the lack of control and mismatch between revenue and public spending. Another objective, even if indirect, is to ensure the economic viability of such public entities. It is also worth noting that the law discriminates neither the type nor the size of the public entity.

The Federal Constitution of 1988 establishes the alternatives for public entities to obtain the financial resources necessary to execute their functions (BRASIL, 1988). In the case of municipalities, this includes their revenues, resulting from the collection of specific taxes and transfers of part of the state and federal collections. These transfers, by force of legislation, comprise municipal revenues and, except for voluntary transfers, do not constitute any kind of financial aid or benefit from the governments of higher instances to Brazilian municipalities.

Despite all the legal framework that applies to public finances, the consequent and necessary control and verification on the part of municipal legislative powers and supervisory bodies, the manifestations of various institutions and class associations, mainly governmental, political, business, and financial, are frequent regarding small municipalities, or, as they characterize, economically unviable. An example is the explanatory statements present in the messages of the presidential vetoes to the bills approved by the National Congress (BRASIL, 2013, 2014) and PEC no. 188/2019 (SENADO FEDERAL, 2019), which emphasize, above all, the increase in expenses without the reciprocity of the necessary financial collection, elevating the problem of the new municipalities to a simple question involving fiscal responsibility in public entities.

Another aspect in the same direction, which will be analyzed in this section, is the government proposal embedded in PEC no. 188/2019 (SENADO FEDERAL, 2019), which establishes the financial sustainability index as an additional criterion, in addition to the population under 5,000 inhabitants, to define both the municipalities to be incorporated and the incorporating municipalities. The proposed text contains:

§ 1 The financial sustainability of the Municipality is attested by proof that the respective product of the collection of taxes referred to in Article 156 of the Federal Constitution corresponds to at least ten percent of its revenue. (SENADO FEDERAL, 2019)

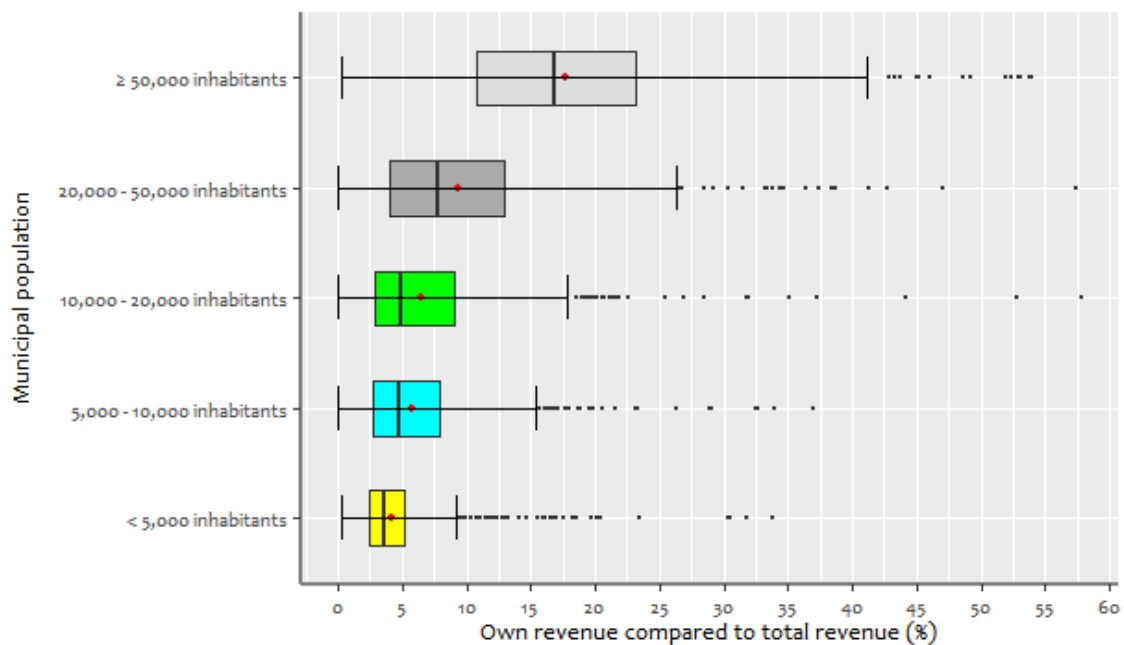
This index of 10% of revenue in relation to the total revenue of a municipality is, with no need for further explanation, completely random, even if combined with

the population factor of the municipality in question. The text of the PEC does not present any reasons as to why municipalities that do not reach or exceed this percentage would be financially unsustainable or sustainable, as the case may be.

Figure 2 illustrates the behavior of the relationship between the municipalities' own and total revenues according to their population. The graph also shows, in the red points, the arithmetic mean of the relationship studied. In all the groups of municipalities shown, this statistical measure is above the median, demonstrating, in a way, that the atypical values are influencing it.

Municipalities with a population below 5,000 inhabitants, in fact, have a lower index of financial sustainability if the definition contained in PEC no. 188/2019 is adopted. As shown in Figure 2, almost all municipal entities in this group are below the 10% threshold. If the PEC is approved, few municipalities are above this level and, therefore, are not at risk of being merged with neighboring municipalities.

Figure 2. Relationship between revenue and total revenue in Brazilian municipalities - 2019



Source: STN (2019)

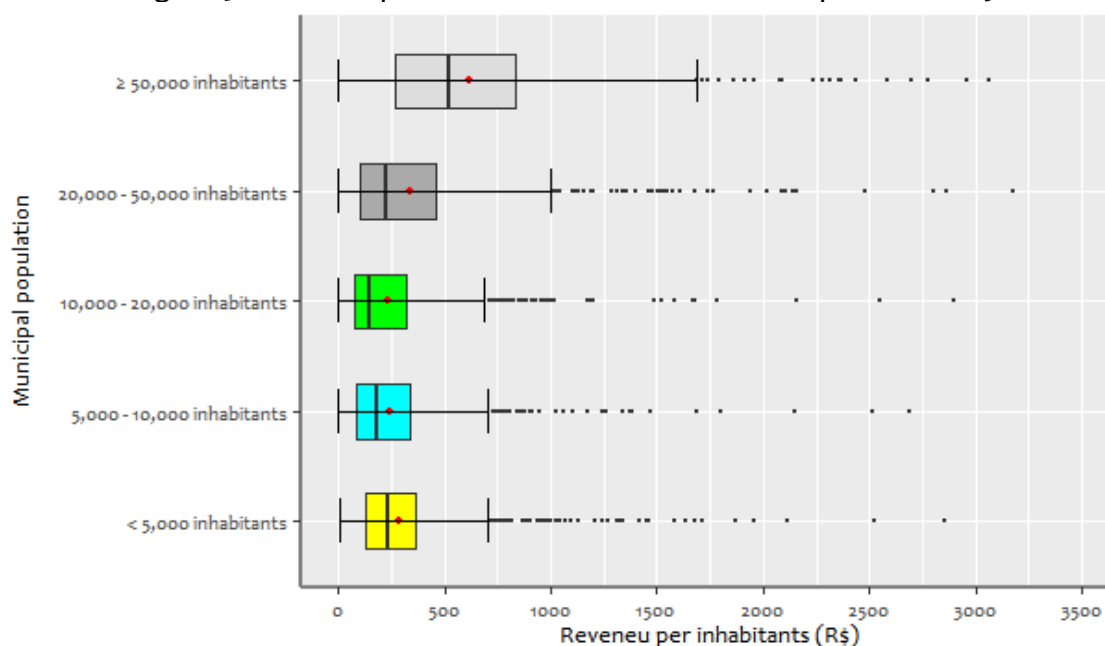
A picture that, if not the same, is very similar to small municipalities is the one presented by a portion of municipalities with over 5,000 inhabitants. The majority of the municipalities with populations below 20,000 inhabitants, together with a good part of those with a population between 20,000 and 50,000 inhabitants, have a ratio between their revenue and total revenue below the 10% established by the PEC. At least the way it was proposed, this index is not adequate to identify financially unviable municipalities. If this were the case, over 2,500 municipalities could be incorporated, receding into a similar scenario of the first republic.

Figure 3 proposes an analysis from a different angle, although the object is the same: the municipalities' revenue. The reduction in collecting at the individual level for each inhabitant shows the various groups of municipalities with practically identical behavior. In the first five population groups, including municipalities with populations below 100,000 inhabitants, almost all have per capita collection below

R\$ 500.00. The similarity between these distributions shows that, in the worst case, the smaller municipalities have the same level of tax collection efficiency as the municipalities with larger populations. The graph also points to the hypothesis that the inferiority of small municipalities may be due to government funding that contributes to the municipality's total revenue when it comes to the financial sustainability index, and this may be due to government funding that contributes to the municipality's total revenue. The volumes of these transfers, when in absolute values, are significant in relation to the small municipal revenues.

The administrative expenses, which are necessary for the administrations of the municipalities, constitute a counterpoint to the questions raised when analyzing municipal revenues. In the Administration and Legislative functions, the liquidated values, relative to the 2019 budget, are shown in Figure 4, once again in per capita. The first observation is that, in all groups of municipalities, the expenses for administration are much higher than the expenses for the legislative function. Therefore, it is evident that the cost of City Councils, with the exception, perhaps, of municipalities with less than 10,000 inhabitants, is small in relation to administrative expenses.

Figure 3. Revenue per inhabitant in Brazilian municipalities - 2019



Source: STN (2019)

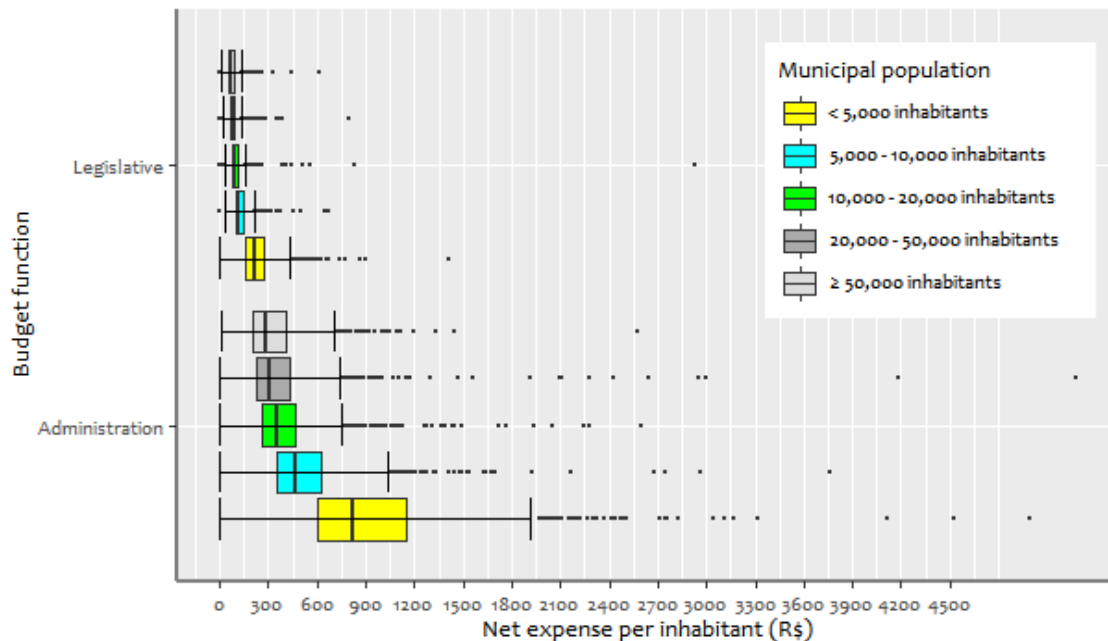
Another evident point in the graph is that the larger the municipal population, the lower the administrative and legislative costs if one considers per capita values. In this sense, the premise is true that small municipalities spend higher amounts than municipalities with populations above 5,000 inhabitants, both in the municipal administration (administration function) and in the city council (legislative function). In the administration function, however, the differences are much more significant. Two brief reasons can be listed for such behavior:

- Public administrations require a minimum structure for their functioning. Besides the mayor and vice mayor (as per the Federal Constitution of

1988), there is a need to provide services to the population. The set of resources, human and financial, employed to carry out these services is not proportional to the size of the population.

- b) The number of councilmen follows a discrete scale according to the Federal Constitution of 1988. Any municipality with any population will have at least nine councilmen. This is the case for municipalities with less than 5,000 inhabitants. This fixed structure for legislative activity certainly drives its cost per inhabitant. (BRASIL, 1988)

Figure 4. Administrative expenses per inhabitant in Brazilian municipalities - 2019



Source: STN (2019)

The comparison between revenue and administrative expenses, in few opportunities, will be favorable in small municipalities, either using their absolute values or using the per capita values. The simultaneous observation of Figures 3 and 4 makes this even more evident. On one hand, 75% (or more) of the municipalities with less than 5,000 inhabitants have revenues that do not reach R\$ 500.00 per inhabitant. On the other hand, almost all these municipalities spend more than R\$500.00 per capita on “administration” expenses alone.

Municipalities larger than 5,000 inhabitants, in turn, also commit a significant part of their revenues, or their total expenses, to their administrative and legislative activities. The information available in Siconfi allows establishing the proportion (STN, 2019), in percentages, existing between the administrative expenses of municipalities and their total revenues and expenses. In addition to corroborating that this context occurs with greater intensity in small municipalities, it also illustrates that the differences for larger municipalities are not expressive.

A concrete example can be presented by ordering these relations, the expenditure share, and the revenue commitment. The demarcation line of the first quartile shows that the administrative expenses of 75% of the municipalities with less than 5,000 inhabitants comprise at least 17.4% of their total expenses, while in 75% of the group of larger municipalities (considering all population groups), this index is

12.6%. Looking now at the revenue, the difference is similar; 75% of the smallest municipalities commit at least 14% of their total revenue. In the municipalities of the second group, 75% of them consume over 10.9% of the total revenue. It is not possible to affirm, without more specific analyses, the significance of these differences. It can, however, be recognized that they are also significant values.

Analyzing these questions from a purely economic point of view can lead to inappropriate directions, as is the specific case of PEC no. 188/2019. It is recommended to remember that the municipalities, all of them, since the promulgation of the Federal Constitution of 1988, have become proponents and executors of public policies and services, especially in health and education. Therefore, it is fundamental to observe the role, especially of the small municipalities, in this context. The next section deals with these and other citizens' rights established by the current Constitution.

4 Municipalities, social rights, and stimulating economic activities

The definition of municipalities as federative entities, according to the Federal Constitution of 1988, meant their recognition and, above all, brought with it an expressive increase in political, financial, and administrative autonomy. This autonomy entails, besides greater freedom for self-organization, a wider set of responsibilities, translated into new competencies and attributions. Among these responsibilities is the formulation and implementation of policies that result in the provision of public goods and services to citizens and that, practically and concretely, are translated into the social rights referred to in Article 6 of the Constitution (BRASIL, 1988).

When studying district emancipations, some researchers have devoted attention to the effectiveness of small municipalities in relation to social advances in these localities. When addressing this issue, Souza (2018, p. 109) was emphatic in saying that “emancipation provided advances and contributed to local development in several small Brazilian municipalities.” In another study, Klering, Krueel, and Stranz analyzed management indicators, which

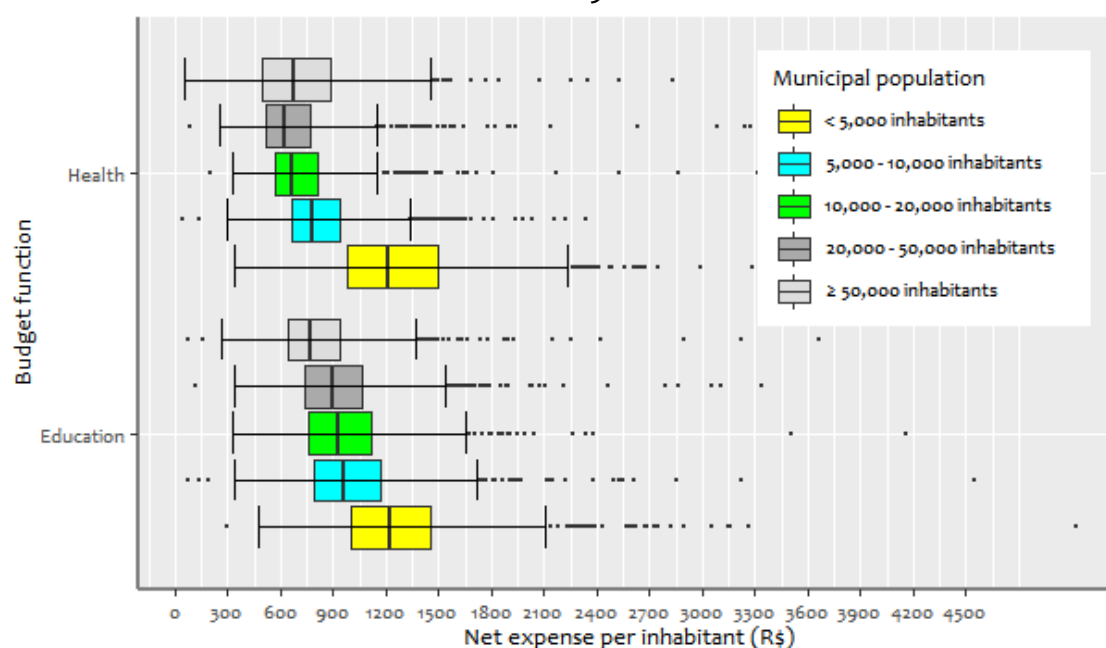
show that the decentralization of public administration has very positive effects on improving municipalities' performance or management quality. It can thus be confirmed that being small is interesting and strategic, in terms of improving the quality of life, especially for the local populations directly interested in solving their needs, as for their respective states and even for Brazil, with everyone gaining advantages. (KLERING; KRUEEL; STRANZ, 2012, p. 42)

The attention that municipalities devote to the set of social rights established in the Constitution can be measured in several ways. This work employed the liquidated expenses per budget function from the Finbra database (STN, 2019) database. Although not all budget functions are directly related to these rights, some can be taken as proxies to allow the study in question. Thus, of the 28 budget functions provided for municipal expenditures, nine functions were analyzed: social assistance, sports and leisure, education, housing, sanitation, health, public security, labor, and transportation. The two main ones, health and education, are presented

in Figure 5, which presents the percentile distribution for each of the five established population groups.

In the two budget functions, it is possible to see that the largest per capita amounts are spent by municipalities with smaller populations, especially those with less than 5,000 inhabitants. It is not possible to establish a general rule because there are many overlaps, but the appearance of a ladder in the graph, together with a possible grouping of two or more population groups, indicate a greater concern of small municipalities for both education and health care.

Figure 5. Health and education expenditure per inhabitant in Brazilian municipalities - 2019



Source: STN (2019)

In education, none of the population groups stands out completely from those that follow. Although the graph indicates the supremacy of the smaller municipalities, it is necessary to take into account that the inverse is also true, meaning many municipalities with a larger population invest more in education, in per capita values, than localities with fewer inhabitants.

Health expenditures, as shown in the figure, underline three significant points. Firstly, the municipalities with populations of less than 5,000 inhabitants are disaggregated so that almost all of them have per capita values higher than any other population group. It also shows, for the other groups, the same behavior seen in the investments in education, meaning the differences between the population groups are not evident. Finally, a different behavior can be seen in the larger municipalities, especially those with a population above 50,000 inhabitants. In these population groups, there is an inversion in the tendency to decrease investments in health per inhabitant.

Table 3 lists the separating measures³ (identified as quartiles) referring to the use of municipal resources, in per capita values, in each of the nine budget functions adopted to analyze the fulfillment of social rights defined in the Federal Constitution. Quartile 1 represents the municipalities that spent the least on each budget function, while Quartile 4 encompasses those that spent the most.

Table 3. Distribution of municipalities according to the budget function of a social nature, investment groups, and population ranges - Brazil - 2019

Budget function (*)	Quartile	<5,000 inhab.	5,000– 10,000 inhab.	10,000– 20,000 inhab.	20,000– 50,000 inhab.	≥50,000 inhab.
Social assistance (1264)	1	1.90%	11.23%	26.27%	32.28%	28.32%
	4	65.59%	20.65%	8.47%	3.80%	1.50%
Sports and leisure (1191)	1	9.82%	17.55%	27.54%	26.53%	18.56%
	4	44.97%	22.57%	15.52%	10.57%	6.38%
Education (1264)	1	4.98%	19.94%	25.40%	24.92%	24.76%
	4	48.46%	19.37%	16.76%	11.30%	4.11%
Housing (309)	1	14.56%	13.27%	18.77%	22.65%	30.74%
	4	42.39%	19.42%	14.24%	9.06%	14.89%
Sanitation (734)	1	12.67%	19.07%	27.38%	25.61%	15.26%
	4	28.16%	16.60%	15.92%	18.37%	20.95%
Health (1264)	1	0.55%	11.31%	31.88%	36.08%	20.17%
	4	65.43%	15.35%	6.17%	6.33%	6.72%
Public security (588)	1	15.31%	18.88%	25.34%	22.96%	17.52%
	4	11.04%	8.32%	14.26%	25.81%	40.58%
Labor (224)	1	8.04%	4.91%	11.61%	28.13%	47.32%
	4	46.43%	18.30%	12.05%	10.71%	12.50%
Transportation (968)	1	10.02%	19.83%	23.35%	27.27%	19.52%
	4	57.07%	23.12%	13.00%	5.06%	1.75%

Source: STN (2019)

* The numbers correspond to the number of municipalities in each quartile in the respective budget function.

The data referring to education and health ratify and complement the impression obtained when analyzing Figure 5. In education, almost half of the municipalities in Quartile 4, that is, those that apply the most resources, have below 5,000 inhabitants, and almost 20% are in the next population range, with a population of below 10,000 people. In Quartile 1, of those that invest in education the least, per inhabitant, only roughly 5% are classified as small municipalities. In health, the smallest municipalities stand out even more notably. In the last quartile, over 80% of the municipalities have less than 10,000 inhabitants, and almost all of them belong to the first population group, with less than 5,000. These same municipalities, in Quartile

³ Separating measures, in this specific case the quartiles, are determined by the increasing order of the values under study and, this roll, separated into four parts containing the same number of observations. The measure referring to the first quartile identifies that 25% of the members of the population studied, or sample, present values below a certain value (of the quartile) and, consequently, 75% show values above the corresponding measure.

1, make up less than 1% of the total. The next municipal group (5,000–10,000 people) comprises a little over 10% of the members of this quartile, indicating that in the three remaining population ranges are located the great majority of the localities that least concentrate budget resources in the health area.

The other seven budget functions present diverse models. The first is that in only one of the functions (public security), municipalities with over 50,000 inhabitants, as a whole, spend higher amounts than the other groups of municipalities. In other functions, the pattern observed in education and health where small municipalities stand out for larger investments is repeated, as is the case of social assistance, sports and leisure, transportation, housing, and labor. In the first three, a few municipalities with over 50,000 inhabitants are among those that apply the most financial resources. Finally, among the municipalities that apply the least resources in these areas, identified in the first quartile, a similar distribution can be observed among the various population groups where none of them stands out compared to the others.

The performance of the municipalities with fewer inhabitants in these budget functions, which reflect in fulfilling the social rights of citizens, as advocated in the Federal Constitution, is far superior to the other municipalities. In some of them (e.g., health and education), where the legal order determines minimum investment parameters for all the federal entities, this ascendancy is even more significant.

Municipalities dedicate portions of their budgets to areas where the legislation does not explicitly oblige them but are seen as important for local development. These are the cases, among others, of incentives granted to agriculture, industry, energy, and commerce and services. Thus, in addition to social issues, municipalities have played an important role in promoting economic development, although there are usually no transfers of resources from the state and federal levels of government for these specific functions. Hence, in order to expand commercial, industrial, or agricultural activities, the municipalities have used their own resources or, occasionally, resources resulting from the support of congressmen through the use of amendments to the budget of the Republic (DEGENHART; VOGT; ZONATTO, 2016; KLERING *et al.*, 2011; SIMÕES, 2004).

Agriculture, for the smaller municipalities, represents a new highlight. The great majority of small municipalities invest more resources, per inhabitant, in this function. It is also natural that this happens because, as illustrated in Figure 1, most small municipalities are located in the countryside of Brazil, and agriculture is the engine of their economic activities (SILVA NETO; FRANTZ, 2003). In any case, the amounts spent by the smaller municipalities are significantly higher than those of the other groups of municipalities. Table 4, which was constructed along the same lines as the previous one, makes this fact evident. Consequently, the large municipalities are hardly noticed among those that are most active in this area.

Table 4. Distribution of municipalities according to economic-type budget function, investment groups, and population ranges - Brazil - 2019

Budget function (*)	Quartile	<5,000 inhab.	5,000–10,000 inhab.	10,000–20,000 inhab.	20,000–50,000 inhab.	≥ 50,000 inhab.
Agriculture (1158)	1	6.74%	17.18%	25.22%	27.20%	23.66%
	4	59.97%	22.52%	12.42%	4.75%	0.35%
Commerce and services (530)	1	11.51%	17.55%	23.58%	21.51%	25.85%
	4	26.55%	21.56%	21.47%	20.34%	9.98%
Energy (409)	1	15.40%	20.29%	31.05%	25.43%	7.82%
	4	35.85%	20.49%	18.05%	16.59%	9.02%
Industry (210)	1	8.57%	16.19%	19.52%	22.86%	32.86%
	4	43.81%	20.48%	15.71%	13.81%	6.19%

Source: STN (2019)

* The numbers correspond to the number of municipalities in each quartile in the respective budget function.

In the expenditures related to the energy and industry functions, they are also the majority among those that employ the most resources. In the first case, the municipalities with less than 5,000 inhabitants represent over 35% of the total, and when the next population group is incorporated, this proportion exceeds 55%. These numbers are even more expressive in the industry as the first population group alone accounts for almost 45% of the total. It is pivotal to point out that the larger municipalities, with populations of over 50,000 inhabitants, represent the smallest shares in these two budget functions. Finally, in the municipal investments related to commerce, we cannot see any group of municipalities that stands out because there is a reasonable balance in the two quartiles presented.

5 Concluding remarks

This study sought to deconstruct the preconceived idea that small Brazilian municipalities, notably those with less than 5,000 inhabitants, are unviable and, as proposed by PEC no. 188/2019, should be incorporated by others with greater financial capacity. This prejudice, on the part of various actors, only considers the arithmetic result of their tax collection capacity, and they fail to consider, on the other hand, their fundamental role as promoters and executors of public policies.

According to estimates for 2019, Brazil had 1,253 municipalities with fewer than 5,000 inhabitants and 4,317 with a population equal to or greater than this parameter. As an additional criterion, the PEC established that these smaller municipalities, in order to continue existing, must present a financial sustainability index equal to or greater than 10%. Thus, over 1,000 municipalities would cease to exist in the snap of a finger. All of this is without a deeper investigation of the performance of each municipality, even those with a larger population.

It is correct to say that very few municipalities in the group with the smallest population would exceed the 10% limit in the relationship between revenue and total revenue. The same phenomenon occurs, however, with the more populated ones. This question involving how much each municipality can collect follows a purely economic logic, as if the municipalities were entities governed by a purely commercial

standard. Nonetheless, the Federal Constitution attributes to the municipalities by decentralizing the functions of the State, a considerable set of responsibilities.

Moreover, the administrations of the small municipalities, truly enough, weigh more heavily on their budgets than those of the opposite group. However, it should be noted that this is an almost undeniable truth only if they are considered in absolute values. With budget execution at the per capita level, this fact is no longer so simplistic since it is also true for the largest municipalities. Thus, the administrative cost, encompassing the executive and legislative branches, cannot be a single evaluation parameter.

It is evident that, again in absolute values, the smaller municipalities have smaller budgets, which prevents them from making large investments. They are, on the other hand, closer to their citizens, and the little they have, they transfer more efficiently to their residents. The so-called social rights, explicit in the Federal Constitution, and portrayed through equivalent budget functions, show perfectly a better distribution of the public resources available in the municipalities.

Small municipalities still perform their functions as promoters and inducers of local development. In some areas, such as agriculture, they are much more incisive. In other areas, such as industry, commerce, services, energy, and science and technology, they also outperform municipalities with larger populations, even if this superiority has less impact.

It is possible that the balance of the equation revenue minus administrative expenses, in small municipalities, is negative. On the other hand, these municipalities transfer the existing resources, their own or received from other governmental spheres, at higher levels to each of their inhabitants. Even if this account is in the red, there are greater investments for the municipal citizens.

One can question the fact that these statements are based on amounts spent by municipalities and on a per capita basis. It can be argued that municipalities do not adequately spend their resources. However, it should be noted that these claims must apply to all (small and large) municipalities. The intention to condemn small municipalities must be substantiated more categorically. There is a risk, however, of drawing attention to much larger problems, not necessarily located in municipalities with smaller populations.

This work used, as a cut-off point, the limit of 5,000 inhabitants for the differentiation of small municipalities. This was a pure and simple consequence of the parameter indicated in PEC no. 188/2019. There are no elements that allow us to infer otherwise for a locality with 5,001 inhabitants. Numerical and discrete parameters are not always adequate for decision-making, even more so when considering something as complex and important as the extinction of municipalities.

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