

AIRGRAM

DET
MAC
POL 18 BRAZ NSS
XR POL 2 BRAZ
FOR RM USE ONLY

RM/R	REP	AF
1		
ARA	EUR	FE
NEA	CU	INR
		5
E	P	IO
	2	
L	FBO	AID
		9
		STP
AGR	COM	FRB
INT	LAB	TAR
TR	XMB	AIR
		5
ARMY	CIA	NAVY
4	20	5
OSD	USIA	NSA
34	10	3
		NSC
		6

75

UNCLASSIFIED

NO.

HANDLING INDICATOR

TO : Department of State

RECEIVED
DEPARTMENT OF STATE

BC

INFO : Amembassy RIO DE JANEIRO, BRASÍLIA

4 11 57 AM 1969

RS/AN
ANALYSIS BRANCH

FROM : Amcongen SÃO PAULO

DATE: April 25, 1969

SUBJECT : Effect on Municipalities of Cut in Participation Fund

REF : São Paulo's A-51, dated April 3, 1969

DEPARTMENT OF STATE
BUREAU OF
INTER-AMERICAN AFFAIRS
MAY 5 - 1969

POL 2 BRAZ

SUMMARY

The Federal Government's action in February in cutting the amount of money going to municipalities under the "participation fund" has had serious adverse effects on the finances and programs of municipalities in Paraná. In wealthier São Paulo the effect has been minimal.

1. Effect on Municipal Finances: The Federal Government's decision in February to reduce the amount of money to municipalities under the so-called "participation fund" has adversely affected the finances of cities in Paraná, according to officials with whom the reporting officer talked in Curitiba, Apucarana and Londrina. The capital, Curitiba, was not as seriously affected as other cities due to other resources available to it; however, in many municipalities, projects for installing and/or expanding water and sewage systems, paving of streets and other projects had ground to a halt for lack of funds. Some municipalities were having difficulty in paying their employees. Even the relatively wealthy cities of Apucarana and Londrina in the rich agricultural belt of northern Paraná were hurt by the reduction in funds.

2. Long-term Effect: While the short-term effect is to create at least temporary financial hardships, some observers saw the long-term effects as being more serious. They asserted

UNCLASSIFIED

FOR DEPT. USE ONLY

In Out

FORM DS-323

Drafted by: POL:JBlacken:msg

4/25/69

Contents and Classification Approved by: EXEC:WWight

Clearances:

[Handwritten signature]

DECLASSIFIED
Authority WND 969006

1969 MAY 4 PM 3 15

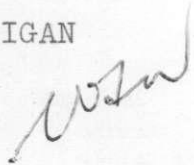
COPYFLO-PBR

that the increased money available to municipalities since 1967 under the fund had been an important factor in promoting local initiative and in changing the traditional attitude in Brazil that all initiative must come from a paternalistic national government. Thus, these observers felt that the Federal Government in reducing the funds for municipalities had removed a factor contributing toward developing local initiative in Brazil.

3. Secondary Economic Effect: The slowdown or halting of municipal projects and the reduction of local expenditures by municipalities was also said to be having a dampening effect on retail trade in the communities.

4. Comment: The adverse effect on municipal finances of the cut in the participation fund appears to have been identical in the states of Paraná and Mato Grosso (see São Paulo's A-51, April 3, 1969). In São Paulo, where per capita income was much larger and the relative amount of money being returned to the municipalities was less, the Government's action appears to have had very little adverse effect.

CORRIGAN



UNCLASSIFIED

DECLASSIFIED

Authority WND 969000