

Participatory Economic Democracy in Action: Participatory Budgeting in Porto Alegre, 1989–2004

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Abstract

This paper is a case study of a particularly important and well known experiment in participatory economic democracy, participatory budgeting (PB) in Porto Alegre under the Workers' Party. Its intention is to draw both positive and negative lessons from this experience. There are three fundamental parts to the paper. The first part sets the frame for understanding this experiment by reviewing several relevant considerations of participatory democracy in general, and then describing the institutional structure of Porto Alegre's PB. The second part is an empirical investigation for this case of three central issues in participatory economic democracy: participation, the nature of choices, and the resulting redistribution. A third part considers a number of limitations of the PB process as it occurred in Porto Alegre from the perspective of economic democracy.

JEL classification: H72, R50

Keywords

participatory democracy, participatory budgeting, fiscal policy, redistribution

1. Introduction

In its election campaign for the city government of Porto Alegre¹ in 1988, the Workers' Party proposed a new type of economic democracy, participatory budgeting (PB). At that time they

¹Porto Alegre, the state capital of Rio Grande do Sul, had 1,420,667 inhabitants in 2007. Its per capita GDP was US\$8,901 in 2005, 1.7 times the per capita GDP of Brazil. The life expectancy was 71.6 years, the illiteracy rate was 3.45 percent in 2000, and the coefficient of infant mortality was 12.37 per 1,000 live births in 2006. Despite these numbers, there are enormous inequalities among the city's neighborhoods.

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had only a broad vision for this democratic political and economic innovation: to increase direct popular participation in the city's economic public policy decisions. A particular concern from the beginning was to actively involve the poor in the projected popular economic management. They had some general ideas about organizing "popular councils" based on the principles of the Paris Commune (Genro 1997), but their ideas were far from concrete enough to be considered a model. Rather, PB has evolved in practice, starting with the first meetings in five regions of Porto Alegre in August 1989 to discuss the budget for the following year.

PB rapidly transcended the limits of Porto Alegre. Wampler (2007) and Cabannes (2004) estimated that between 1990 and 2004 more than 250 municipal governments in Brazil instituted PB, while Cabannes (2006) estimated that more than 1,000 of Brazil's roughly 16,000 municipalities had adopted it by 2006. In the late 1990s and the 2000s much smaller numbers of PB initiatives spread to other countries in Latin America, and then worldwide. Cabannes (2004) discusses 25 experiences in Brazil, the rest of Latin America, and Europe. Allegretti and Herzberg (2004) and Sintomer et al. (2008) consider a number of European experiences. Shah (2007) discusses studies of experiences in five regions and then seven case studies from throughout the developing world. So PB has established itself on a world scale as one of a number of important experiments going on today on how to replace the present economic order, which is characterized by great inequalities not only of wealth but also of economic power, with economic democracy.

A broad definition of PB is relatively straightforward. PB is a form of participatory democracy in which citizens and civil society organizations have the right to participate directly in determining fiscal policy. In particular they take part in determining how and where resources are employed in their communities. But how this broad concept is translated into concrete institutions and practices takes many forms, as one would expect from PB's focus on local concerns and local determination, its need to integrate with existing forms of local governance, and its continual evolution over time even in a specific location, all of which vary greatly. Cabannes (2004) lists seven dimensions in which PB experiences around the world take different forms: (i) direct democracy versus community-based representative democracy, (ii) city-based participatory democracy versus community-based participatory democracy, (iii) what body is in charge of the participatory decision making, (iv) how much of the total budget is controlled by the participatory bodies, (v) who makes the final budget decision, (vi) social control and inspection of works once the budget has been approved, and (vii) the degree of formalization and institutionalization. One could present other dimensions in which the individual experiences differ, but the point here is only to underline that for any experiment one must carefully study in addition to its general nature as PB, the unique specifics of that particular experience in order to meaningfully evaluate its performance.

PB has been recognized as an important institutional innovation in economic democracy for different reasons. The literature on PB, and in particular the significant part of that literature that is on Porto Alegre, has emphasized four particular results. First, it supports the ideal of democracy, and not only in economic matters but throughout society. Second, it has a pedagogical effect in that participants learn about rights and responsibilities. Beyond that, participants develop new capabilities that lead to a desire to further expand their capabilities, rights, and responsibilities. Third, PB improves the fiscal performance of governments. It increases the efficiency of the use of public resources, including the important issue of reducing corruption. Finally, it has distributive effects in the spending of public resources, and in particular it tends to improve the quality of life of the poor.

This paper will study the PB experience in Porto Alegre from 1989 to 2004. With the loss of the municipal government in 2004 by the Workers' Party (*Partido dos Trabalhadores* or PT), PB did continue but under conditions of less support and more actual opposition from City Hall. This

caused a significantly different performance by PB. Because the purpose of this paper is to provide a case study of possibilities, problems, and limitations with this type of economic democracy when it is being seriously promoted, as opposed to this paper being a history of Porto Alegre, we close the period investigated with 2004.

Among progressives in the English speaking world there is not much knowledge concerning the process in Porto Alegre beyond the most general understanding that there is some sort of popular participation in the budgeting process. Two recent books address the Porto Alegre process in rich detail: Abers (2000) and Baiocchi (2005).² Their focus, however, is different from that of this paper. They carefully describe the social-political processes that gave rise to the PB experience, the nature of the society it arose in, the people who constituted it, and the PB institutions they formed and how they functioned. The purpose of this short paper rather is to contribute a more concrete and empirical economic consideration of the PB process as an experiment in economic democracy. This will be done in four parts: consideration of the economic and social nature of the participants in PB, consideration of the projects selected in the PB process, consideration of the economic redistributive nature of PB, and finally consideration of some of the most important limitations of PB as it was implemented in Porto Alegre from the perspective of economic democracy.

We want to stress that we do not subscribe to an economic reductionism, which sees the essence of PB as redistribution, improved standards of living, improved fiscal efficacy, or any other concrete narrow economic goal. We hold that PB, and more broadly any expansion of economic democracy, is about changing the role of humans in society, and through that enabling humans to change both the society and themselves; enabling them to build a better world. It is, however, important to understand what narrow economic results any economic process gives, as well as understand the change in process it involves, as part of understanding its total significance, and this paper will hence do some of both.

The paper is organized as follows. Sections two and three are necessary background for understanding the main contributions of the paper. Section two is a short discussion of participatory democracy, the concept which PB is intended to apply to the economic sphere, and to the budgeting process in particular. Section three then presents just enough of the concrete details of the PB process so that the reader can understand the relation of that process to the results discussed. Sections four to six then discuss the economic and social nature of the participants, the process and nature of their social choices and their effects, and the overall redistributive nature of PB. Section 7 considers a number of limitations of the PB process as it occurred in Porto Alegre from the perspective of economic democracy, considerations that hopefully can lead to making the next generation of PB experiences still better than this generation. Section 8 concludes.

2. Participatory Democracy

The freedom for the participants to collectively determine their own institutions and practices precludes that there can be a precise detailed definition of participatory democracy. In the literature, it is broadly defined in opposition to the elitist conception of democracy represented by

²While the focus of Wampler (2007) is PB throughout Brazil, it not only has a chapter devoted to Porto Alegre (comparing it to another experience), but also much of the material in its chapters on the general nature of PB in Brazil applies to Porto Alegre. Its broad approach is like Abers (2000) and Baiocchi (2005), and is a valuable addition to those works.

the Schumpeterian definition.³ As a starting point for indicating the general nature of participatory democracy one can begin with the criteria proposed by Dahl (1989) to consider a decision-making process to be democratic. These are:

- Effective participation: all citizens have equal opportunities to express their preferences.
- Voting equality at the decisive stage: votes are counted with equal weight at the final stage of a collective decision.
- Enlightened understanding: each citizen must have equal opportunity to learn about the issue to be decided in the democratic process.
- Control of the agenda: citizens must control the issues to be decided by the democratic process.
- Inclusion of adults: the demos must include all adult citizens.

Participatory democracy emphasizes the participation of the politically, economically, and socially weaker sections of society, and their equality in the decision-making process with the elites. When this does not happen, existing inequalities are reproduced. This participation goes beyond a formal equality of voting at the final stage of decision making, and includes in particular that ordinary citizens or their representatives have a central role in the determination of the agenda. Once this happens, the questions which are debated and decided become those that are linked directly to the problems of the majority low-income social sectors. For example, as we will see, the social choices in the PB process in Porto Alegre are dominated by the debates about infrastructure and public services for the poor areas of the city.

There are two (related) central ways that participatory democracy transcends the standard liberal concept of authentic democracy as indicated above. Both of these are dynamic issues, while the mainstream concept of democracy is static. These are:

1. Participatory democracy goes far beyond the aggregation of previously defined preferences as a process to make decisions. The interactions in the social process of participatory decision making constitute a learning process, in which people are very likely to change some of the preferences they had before they entered the process, particularly as they come to understand the situations and points of view of other people. The literature on “discursive democracy” or “deliberative democracy” emphasizes this process of people changing their preferences through social interaction in decision making.⁴ This is particularly true because participation is not restricted to the voting process, but it also occurs in the determination of the agenda to be considered, and in the implementation and monitoring of the decisions. Since one can have increased participation in the decision-making process alone, in Brazil the literature has developed a distinction

³Schumpeter proposed a minimalist conception of democracy: “The democratic method is that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote” (Schumpeter 1942: 269). People’s participation is restricted to choosing by a vote a section of the elite which will control the government. See Santos and Avritzer (2002).

⁴For a brief overview of deliberative versus liberal democracy, see Miller (1993). Deliberative or discursive democracy is actually limited in comparison to participatory democracy in that (i) it focuses on the decision-making process alone, and not the larger process of agenda setting, decision making, implementation, and monitoring; and (ii) it does not address the transformation of the participants’ capabilities and desire to participate in the process. But it does discuss extensively and richly the issue of changing preferences in the process.

between this, which is called participatory democracy of low intensity, and the cases where there is also participation in agenda design, implementation, and monitoring, which is referred to as participatory democracy of high intensity. Sen (1999) argues that the method by which choices are made not only reacts back on the participants' preferences as just indicated, but it also reacts back on the menu that the group considers, from which it makes its social choices.

2. In the process of participatory democracy the participants themselves are changed, such that both their skills for exercising democracy and their desire to do so are expanded. Pateman (1970) calls attention to the role that participatory democracy has in developing capabilities in the participants in such processes in their local communities, workplaces, etc. There are two types of learning. First, people develop their knowledge about the topic through the debate and exchange of information. This not only directly changes their ability to decide by giving them more information, but it can also cause them to change to using more intelligent criteria for making decisions (Feld and Kirchgässner 2000).⁵ Second, the participants become full political actors with the development of "psychological aspects and the gaining of practice in democratic skills and procedures" (Pateman 1970: 42). In addition, "the desire to participate and the ability to participate develop in a symbiotic relationship ... participation feeds on itself" (Devine 1988: 159).

The concept of the equality of all participants at first seems to indicate that all votes should necessarily be treated equally at the decision phase. However, consideration of the historical treatment, and from that the internal attitudes, of various social groups as they enter a participatory democratic process suggests that it might be more authentically representative to allow higher weights for sub-represented social groups in the first stages of the voting process (Dahl 1989: 110). This pro-poor policy has been incorporated into a few PB experiences. For example, in São Paulo (Brazil) the groups referred to as "vulnerable sectors" have a higher delegate to constituent ratio than other participants.

Participatory economic democracy, the extending of the participatory democratic process to the economic sphere, is among the main goals of participatory democracy. It has two aspects: what economic institutions it involves and what economic decisions it involves. First, the participatory democratic process must embrace all economic institutions: those in the government sector, public and private firms, cooperatives, unions, economically oriented NGOs, etc. (Pateman 1970). Second, all economic decisions should be made using participatory democracy. This includes decisions on what economic activities to conduct, how the economic activities are conducted, and what to do with the product of the economic activities.

The PB process is a concrete example in today's world of such an economic participatory democratic process. Citizens debate and decide how taxes, a part of the social surplus, will be expended in their cities.

3. How PB Works

PB in Porto Alegre, Brazil, was established in 1989, after the victory of the Workers' Party in the municipal elections. It is an innovative institutional arrangement from the perspective of economic democracy. Citizens both as individuals and through their civil society organizations participate in all three phases of the local investment budgetary process: the definition of the

⁵These authors also consider the effect participation has on changing preferences, the previous point considered.

citizens' preferences, the translation of these preferences into the investment budget, and the monitoring and control of its execution.

While all three phases have important aspects of expanded democratic input, the first phase is the most different in this regard from previous standard local budgetary processes. Social preferences are determined by direct democracy in public meetings in which all citizens have the right to participate, speak, and vote. To make this form of direct democracy meaningful, a first consideration was to establish an appropriate scale for this procedure. Hence the newly elected municipal government divided Porto Alegre into sixteen regions as a first step in the process of introducing PB. The regions were established on the basis of creating some degree of economic and social homogeneity among the constituents, and as a result their size varied considerably. The largest, Downtown (Centro), had a population of 266,896 in 2000, while the smallest, Northeast (Nordeste), had a population of 28,518. All the regions, however, were limited to a size at which it was felt the proposed structure could generate direct participation in a way that it would not be able to if the entire city was treated as one unit.

Until 2001, the PB process started with a series of meetings in each region from March to June. There were two main regional meetings, called first and second rounds. These were coordinated by City Hall, but the agenda was set jointly by the local regional leaderships and City Hall. In addition, the communities organized several local meetings called "intermediaries" between rounds.⁶ These regional meetings based on direct democracy had two fundamental tasks.

The first purpose of the regional assemblies was to discuss local questions and then to democratically decide on local investment priorities. Input into the discussion that served as the basis for the decision could come from any citizen, local civil society organizations, and spokespeople for City Hall. Each regional assembly then chose three from a uniform set of urban investment priorities.⁷ Most of the services indicated by these priorities were of course better provided to the middle class than to the poor. This thus gave the poor a strong incentive to participate in the PB process in order to increase their consumption of those urban services that they considered the most important.

The second purpose of the regional assemblies was to choose delegates for later stages in the PB process that involved representative democracy. Members were elected to the city-wide PB Council, which we will discuss further below, and to the Forum of Delegates. This latter group monitored public works, kept the community informed during the PB process, and collected new demands for future work.

Parallel to the regional meetings were the city-wide thematic assembly meetings. Their purpose was to discuss themes of general interest to the city,⁸ and to improve the planning capacity of PB. They were introduced in 1994 as the process continually modified itself, and like the regional assemblies these were open to the direct participation of citizens, their civil society organizations, and spokespeople for City Hall.

⁶The process of direct citizen participation changed in 2002 to simplify public participation. We will here outline only the process up to 2001, because that covered most of the time period we are considering, but also because the changes after that were only technical and did not change the essence of the process.

⁷The choice set of priorities was: basic sanitation; water and sewage system; land, human settlement regulation, and housing construction; street paving; education; social assistance; health; transport and circulation; parks; leisure and sports; public lighting; economic development and tax system; culture; and environment.

⁸The thematic assemblies are: city organization and urban and environmental development; health and social assistance; economic development and taxation; transport and circulation; culture; and education, sport, and leisure.

The second phase of the PB process of determining the investment budget began after the second round in June, and involved representative democracy. The PB Council consisted of 48 members, two each elected from each region and each thematic group, two others,⁹ and two from City Hall that have voice but no vote. Each councilor had a one-year mandate, with the possibility to be elected for only two consecutive terms. During this phase the PB Council met at least once a week, and the meetings were all open to the public.

The investment budget was determined in two steps. In the first step the PB Council selected the three main priorities for the city as a whole for the coming year. This was done on the basis of the priorities determined by each regional assembly and the proposals from the thematic assemblies. City Hall could again make suggestions in this phase. The city government had an additional important role in providing technical knowledge and support by personnel linked to the Mayor's Office for the elaboration of the investment budget.

At this point the city-wide priorities that had been determined through this extensively democratic process were subject to a much discussed limitation, which we will mention again in section 7. City Hall specified to the PB Council how much the total investment budget could be. Operating under this constraint, the PB Council then proceeded to elaborate the investment budget for the city.

The investment budget document was submitted to the City Council at the end of September. Thus technically it was the City Council and not the PB Council that determined the investment budget. However, while the city councilors did propose some changes, given the extensive public involvement in the creation of the PB Council's proposal it was generally accepted largely as proposed.

Having determined the city-wide investment in accord with the democratically determined priorities, the PB Council then turned to the second step in establishing the concrete investment budget: distributing the resources among the regions. The criteria for the allocation were the following:

- lack of public services and/or infrastructure in the region;
- total population in the region;
- correspondence of the priorities chosen by a region with those chosen by the city as a whole.

Each criterion gave a certain number of points for a region. The resources were then invested in proportion to the points obtained by a region. These criteria had the goal of benefiting the poor areas of the city, and were known by many of PB participants when they made their decisions.

The process of allocation among the regions was worked out in October and November. By December the PB Council prepared a written presentation of this final stage of the investment determination, the Plan of Investment and Services (PIS). This booklet listed the entire configuration of the budget and all public works finally approved for all regions. The implementation of the budget by the executive branch then started in January.

The third phase in the process of democratically determining investment was monitoring to assure that the popularly decided investment projects were actually executed. There were four main channels of monitoring. All of them were democratic in nature, two of them representative and two of them direct and participatory. The first was the continued oversight by the PB Council, which continued its existence until the new PB Council was elected after the second round of the local assemblies. The second representative channel was the elected Forum of Delegates, whose

⁹One from the civil servants' trade union and one from the Association of Community Organizations of Porto Alegre.

Table 1. Participation in Porto Alegre by Household Income Distribution—2002, %

	Rounds	Delegates	Council-members	Porto Alegre
Up to 2 monthly minimum wages	39.4	23.7	21.7	22.7
From 2 to 4 monthly minimum wages	29.9	31.8	28.3	20.8
Above 4 monthly minimum wages	30.7	44.5	50.0	56.5

Source: CIDADE (2003); ObservaPoA (2007).

monitoring responsibilities were mentioned above. A first direct and participatory channel was the local and thematic meetings that began again in March. Report-backs on the results from the previous year were part of the discussion for preparing the priorities for the coming year. The final direct and participatory channel involved the PIS. This booklet indicating all the public works finally approved was distributed among the citizenry. This then empowered the entire population of each region to directly monitor the city government to see if it was executing the agreed upon projects.

4. Popular Participation

One of the central questions about the PB experience is who the citizens are that participate in this process. The answer to this question is directly linked to the effects of the PB experiences on the lives of the participants and on the life of the city as a whole. As indicated above, the participants determine the preferences of the municipality, their representatives coordinate the elaboration of the budget and the plan of investment and services, and they monitor the delivery of the public services. If an important goal of PB is to empower the social sectors traditionally excluded from governmental politics, the social sectors formed by the poor citizens must participate. Otherwise one would expect that the result of PB would be similar to the results obtained by standard representative democracy.

The Center for Urban Studies and Advising, CIDADE, an active non-governmental organization in the city of Porto Alegre, conducted research on the social and economic profiles of the PB participants in 1995, 1998, 2000, and 2002. The profiles of the participants were similar in all four years. The results show strong participation by traditionally underrepresented groups in three dimensions: income, education, and gender.

Table 1 presents the participation in PB in Porto Alegre by household income in 2002. The typical participant in the rounds has a monthly household income of up to four times the minimum wage (69.3 percent of the participants). Narrow majorities of both the delegates (55.5 percent) and council-members (50.0 percent) still have household incomes in this range. Since only 43.5 percent of households in Porto Alegre are this poor, we see that the PB process not only does not discriminate against traditionally underrepresented low-income people, it actually incorporates them in a greater percentage than their weight in the population as a whole. As expected, this overrepresentation of the poor is strongest in the direct participation part of the process, the rounds.

Table 2 breaks down the participants in PB in Porto Alegre by formal education in 2000. Here the data are recorded with an entry for participation in the PB process, but that is essentially equivalent to the entry in Table 1 for participating in the rounds, since so many more people participate in the rounds than are elected delegates or council-members. 50.8 percent of the participants in PB have no formal schooling or do not have a complete primary education. This same group represents 37.1 percent and 23.1 percent of the Forum of Delegates and the PB Council, respectively. Although as one would assume the council-members are typically somewhat more educated than the delegates, who in turn are somewhat more educated than the general participants in PB, the overall system has a significantly higher representation of less educated people than

Table 2. Participation in PB in Porto Alegre by Education—2000 (%)

	Delegate	Council-member	PB
No formal schooling	0.6	–	6.4
Some primary	36.5	23.1	44.4
Complete primary	12.6	15.4	13.3
Some secondary	9.4	10.3	7.8
Complete secondary	17.6	18	16
Some university	20.1	28.2	12
No answer	3.1	5.1	0.1

Source: CIDADE (2003).

Note: Primary education comprises the first eight years of school. Secondary education comprises the following three years.

Table 3. PB Participation by Gender in Porto Alegre—2005

	Female	%	Male	%	No answer	%	Total
Regional	5815	58.9	4036	40.9	23	0.2	9874
Thematic	1757	51.9	1624	48.0	2	0.1	3383
Total	7572	57.1	5660	42.7	25	0.2	13257

Source: Gugliano et al. (2008).

the population as a whole. Again by this second measure PB serves to generate strong participation by people traditionally underrepresented in traditional democratic processes.

We want to consider PB's record in regards to the third dimension of social exclusion, gender, in four different ways. Table 3 presents the profile of PB participants by gender in Porto Alegre¹⁰ in 2005.¹¹ It reveals that women comprise more than half of the participants in both regional and thematic assemblies. It also shows that women participate in a slightly higher percentage in the regional assemblies than in the thematic meetings. Once again in this third dimension PB is seen to strongly include traditionally excluded actors.

As discussed above, the regional and thematic assemblies are more directly participative than the elected PB Council. It might be expected that given the history of a much greater number of males in elected positions in Brazil (as in almost all countries in the world), the elected PB Council would continue this tradition despite the majority participation by women in the thematic and regional assemblies (where recall the latter elects the PB Council). Figure 1 displays the evolution of the percentage of female and male counselors in the PB Council. It shows in fact an important change in this regard over time. Women constituted only about 10 percent of the PB Council in the beginning, but by the second decade this had risen to fluctuate around 45 percent.

Table 4 presents a third way to consider effects of gender on social exclusion, the interaction of gender and income among PB participants. It presents an interesting and important extension to the results indicated in Table 3. Women achieve their majority participation in the face of a more difficult income situation. Table 4 indicates that a significantly greater percentage of female participants in PB, 43.5 percent, have a household income in the low poverty range of less than

¹⁰Gugliano et al. (2008) obtained these numbers from the lists of attendance that participants in the regional and thematic assemblies sign. The East region (região Leste) is not counted because this information was not in the files at City Hall.

¹¹A study by CIDADE (2003: 18) found very similar percentages.

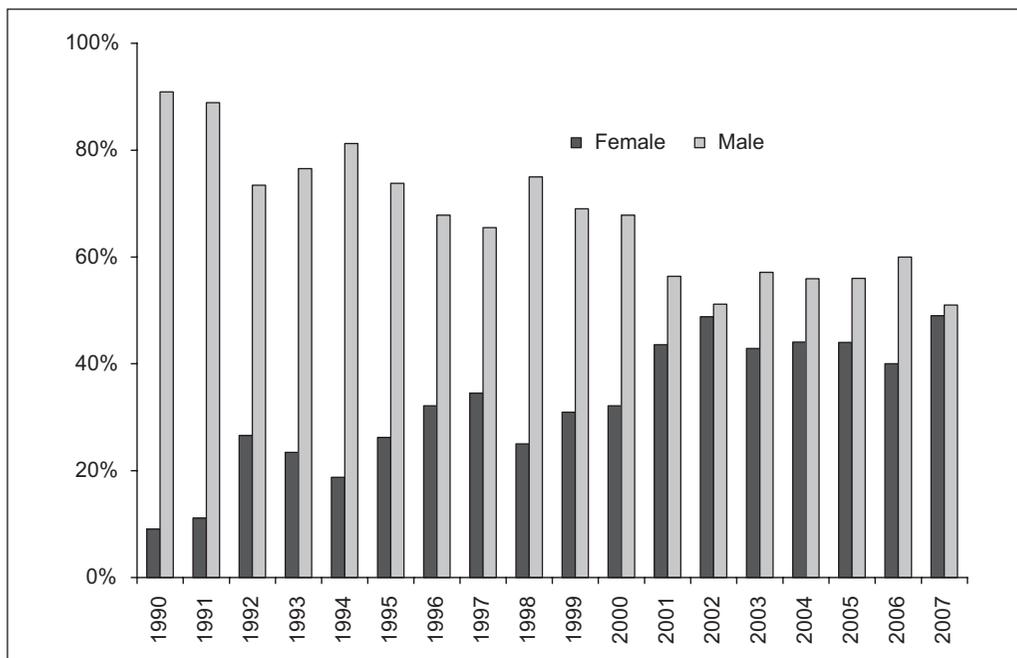


Figure 1. Composition of the PB Council by gender, 1990-2007 (%)
Source: CIDADE (2009a).

twice the minimum wage. This compares to only 34.1 percent for male participants, while only 22.7 percent of all families in Porto Alegre are that poor.

A fourth way to consider the effects of gender on social exclusion is to note the difference between the genders in the participation in the different thematic assemblies (Table 5). The thematic assembly concerned with healthcare and social assistance, concerns that many would argue are “traditional female concerns” (tied to their role as prime caregivers and guardians in the family), was strongly dominated by women. The rest of the assemblies were fairly evenly balanced, with women comprising a small majority in education; sport and leisure; and city organization and urban and environmental development. Men constituted a small majority in culture; transport and circulation; and economic development and taxation. In the next section we will further consider an aspect of social choices that is related to gender.

Another characteristic of PB participants that is both interesting and important for building democracy more broadly is their links to various associations in the city. Despite the slight fall over time in the share of participants who have such links, 61.1 percent of round attendees in 2002 participated in at least one organization. These organizations are mainly neighborhood associations, community centers, and street associations. This connection transmits influences both ways: on the one hand it brings improved organizational capabilities to these sometimes poorly organized or even chaotic groups, while on the other hand it solidly anchors the PB process in local concerns.

Consideration of participation in PB also presents the question of what groups are underrepresented or missing from the process. Three groups stand out. Two groups would be expected to be underrepresented and many progressives would find this non-problematic, given all the other channels of power they have at their disposal. The underrepresentation of the third group both needs explanation and is a concern for many progressives.

Capitalists and businessmen are underrepresented. The attempt of the new administration to attract these social groups to the PB was a failure. Basically, the cause for this underrepresentation

Table 4. Distribution of PB Participants in Porto Alegre by Household Income and Gender

	Female	Male	Porto Alegre
Until 2 monthly minimum wages	43.5	34.1	22.7
From 2 to 4 monthly minimum wages	28.6	31.5	20.8
Above 4 monthly minimum wages	27.9	34.4	56.5

Source: CIDADE (2003); ObservaPoA (2007).

Table 5. Participation in the Thematic Assemblies by Gender in Porto Alegre—2005 (%)

Thematic	Female (%)	Male (%)	No answer (%)	Total
City organization and urban and environmental development	53.8	46.3		480
Economic development and taxation	46.3	53.7	0.2	420
Culture	45.7	54.3		825
Health and social assistance	69.2	30.8		364
Transport and circulation	45.9	54.1		518
Education, sport, and leisure	56.4	43.4	0.1	776

Source: Gugliano et al. (2008).

is that because PB was designed with the goal of attracting the participation of the poor and marginalized, the PB agenda is dominated by their concerns, and therefore is of minimal interest to the concerns of capitalists and businessmen. A second group (whose members overlap with the first group but only partially) is underrepresented for the same reason, though less so: the middle and upper-middle classes.

A third group of a very different nature that is underrepresented in PB is unions and unionized workers. The basic argument they usually presented to explain their limited participation is the regional character of PB, which is not consistent with their structure. In addition, unions consider themselves to be responsible for many issues related to general working conditions that lie outside the sphere of municipal government responsibility. Related to these concerns, it is important to note that unions are the associations with the largest participation in the thematic assembly of economic development and tax system. This is the thematic assembly which most closely approximates the role played by unions in Brazil.

Thus, PB has as intended attracted participation by poor people from disadvantaged neighborhoods. In addition, it has attracted elevated participation by people traditionally underrepresented in democratic process along dimensions of marginalization other than poverty: education and gender. An important contribution to increasing the social influence of PB is the high percentage of participants who are organized in a series of community associations. As one would expect, delegates and council-members have higher economic and educational levels than the typical participant in the base rounds, but they also are poorer, less educated, and a higher percent women than the average population of the city. Marquetti et al. (2008) shows similarly that in São Paulo, Belo Horizonte, and Belém the majority of the participants in the main assemblies come from the poor.

5. Social Choices and Their Effects

Table 6 reveals two types of information concerning the social choices made in Porto Alegre. The first shows which of the thirteen possible choices PB prioritized. Less immediately but in many

Table 6. Evolution of Priorities in the PB in Porto Alegre, 1992-2007

Priorities	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Basic sanitation																
Housing	1st	1st	1st	1st	1st	1st	3rd	1st	1st	3rd	3rd	2nd	3rd	3rd	1st	1st
Street paving	4th						2nd	1st	3rd	2nd	1st	3rd	2nd	1st	3rd	
Education	2nd	2nd	2nd	3rd	3rd	3rd	1st	2nd	2nd	1st	2nd	1st	1st	2nd	2nd	3rd
Social assistance	3rd	4th	4th	3rd	2nd	2nd										2nd
Health		3rd						3rd								
Transport and circulation																
Parks																
Leisure and sports																
City organization																
Economic development																
Culture																
Environment																

Source: PMPA (2007).

regards more interestingly, one can see how certain priorities changed over time, reflecting the resolution of certain priority concerns of the marginalized population.

Throughout the 1990s, housing, street paving, and basic sanitation were the top priorities. But the evolution of these three concerns was different. Basic sanitation started off being generally the top concern. By 2000 it had essentially ceased to be a concern, reflecting major improvements effected in this period. The Municipal Department for Water and Sewage (DMAE) was responsible for the expansion of these services. It is a public enterprise with its own budget, which charges for the consumption of water and the use of the sewage system. We can thus draw two conclusions from the experience of PB with basic sanitation in Porto Alegre in the 1990s: first, that democratically receiving a high priority in the PB process can promote the resolution of a social problem; and second, contrary to the anti-democratic ideology of privatization that is a piece of neoliberalism, public enterprises may be the appropriate vehicles in at least some cases to address the needs of the poor population and generally to promote social development.

The experience with street paving was essentially the same. Up to 2001 it was generally the first or second priority. This too led to efforts that we will see shortly, after which it dropped to third, fourth, or a lower priority.

The history of the priority given to housing, however, reflects the failure to resolve that problem despite its democratic priority. In the 1990s PB assigned it a priority that fluctuated between third, second, and first. The combination of the great improvements in the two priorities from the 1990s that were generally higher with the lack of progress in improved housing, however, moved housing up to nearly consistently first priority from 2000 to 2007.

Again, it was the success of the system in addressing the democratically chosen priorities of basic sanitation and street paving that allowed education to move up to second priority from 2002, and social assistance to become the next most consistent high priority from 2003.

Table 7 gives more evidence demonstrating the response to the democratically established priorities of PB. In the 1980s before the institution of PB the provision of garbage collection and new road pavement were relatively stable. These both showed a large increase between 1989 and 2000, during the PT's first, second, and third mandates. It was only during the PT's last mandate from 2000-2004 that garbage collection dropped marginally and new paving dropped sharply. We have already addressed what we consider the fundamental reason for this. As we saw above, by 2000 the population considered basic sanitation to have been satisfactorily (relative to other concerns) addressed, and similarly for street paving by 2002. A second reason for the decrease that was particularly important in its effect on new street paving was the large city financial deficit that developed at that time.

Access to drinking water and connection to the sewage system were also essential basic sanitation issues. The percentage increases here do not strike one immediately as dramatic, but they represented significant investment by the city, especially considering that some of these were particularly costly to connect, which is why they had not been connected before. In 1989, 95 percent of the population of Porto Alegre had access to drinking water and 70 percent of the households were connected to a sewage system. The Municipal Department for Water and Sewage (DMAE) managed to connect 163,000 household units to its water supply and drain pipes during that period, and by 2001 almost the entire city had access to drinking water (99 percent). The connection to the sewage system increased by an even greater percent, reaching 83 percent of the households. The increase in the supply of these public services was higher in the poor areas of the city where the population also grew at the fastest rate.

6. Redistribution

As shown in section 4, the typically marginalized actors constitute the majority at all levels of PB in Porto Alegre. The influence on PB decisions of still broader circles of typically underrepresented

Table 7. Evolution of Provision of Garbage Collection and New Pavement—1982-2006

Years	Garbage collection (ton)	New asphalt (m ²)
1982	157,213	121,979
1985	145,094	327,197
1988	147,258	290,454
1989	179,448	81,399
1990	186,118	235,122
1991	220,247	396,686
1992	171,13	519,151
1993	185,904	411,177
1994	189,516	444,758
1995	218,994	502,565
1996	245,208	947,816
1997	265,618	871,809
1998	282,321	667,557
2000	280,163	819,555
2001	285,479	613,431
2002	276,080	440,250
2003	255,051	275,335
2004	254,429	318,955
2005	255.138	185.335
2006	278.410	156.524

Source: PMPA (2005, 1999, 1992).

actors than those who actually participate in PB is then effected through the high level of membership by PB participants in many organizations in the city. As we will see in this section, the empowerment of poor and organized citizens has had important distributive effects in the city. Navarro (1998) compares the redistributive aspect of PB in Porto Alegre to an affirmative action program.

The Workers' Party administration explicitly stated as one of its central goals the "principle of inversion of priorities" of the municipal expenses. This involved transforming City Hall through economic participatory democracy from a place where the interests of the wealthy were hegemonic into a place which redistributed social resources obtained through taxes to the poor neighborhoods. As an indication of the potential importance of such redistribution, the total receipts of City Hall corresponded to 12.2 percent of the gross domestic product of Porto Alegre in 2003.

As any large city, Porto Alegre is characterized by large neighborhood differences in population, public services, political organization, income per capita, educational level, housing conditions, etc. It is important for understanding the process of PB to understand that the division of the city into various regions for the purposes of this program of redistribution was itself part of PB. This was one of the first actions of the PB process, and it was carried out through negotiations between the Workers' Party, city administration, and the local communities. The aim was to define the regions to have maximal similarities within them and maximal differences between them in terms of social indicators and community organization. The process resulted in defining 16 regions in the city.

As described above in section 3, near the end of the yearly cycle of PB a Plan of Investment (PIS) is elaborated. This contains all the projects proposed by PB, which are referred to as "demands." The data below will refer to all the demands executed or in the process of execution. Not all demands in the yearly PIS get executed. After the first two start-up years for PB in 1990 and 1991, the number of demands stayed relatively constant for the rest of the Workers' Party

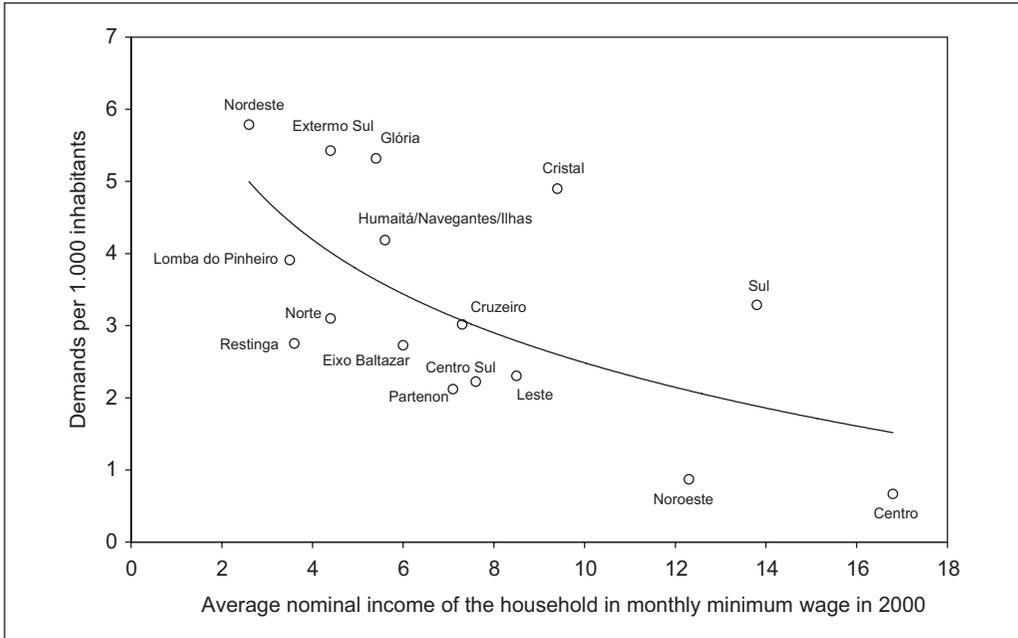


Figure 2. Average nominal income of the household head in monthly minimum wages and the number of public works per thousand inhabitants in the PB regions in Porto Alegre—1990-2004
Source: ObservaPoA (2007); PMPA (2004).

period between a high of 482 and a low of 329. After 100 percent of the demands were met in the two start-up years, the percent executed dropped marginally to around 95 percent by the last three years of the 1990s. With the onset of the financial crisis for the city in 2000 referred to above, the percent executed dropped to 90, 80, 77, 68, and 77 percent respectively in the last five years of the Workers' Party administration of City Hall, 2000-2004 (CIDADE 2009b).

The analysis below of the PB redistributive effects takes into account 3,323 demands executed or in execution in the regions over the period 1990-2004.¹² First we consider the redistribution in regards to the economically disadvantaged. Figure 2 shows the relationship between per capita demands per region in the period 1990-2004 and the average nominal income of the household head in monthly minimum wages in 2000. The figure demonstrates a clear negative association between the average nominal income of the household head in the region and the number of demands per capita executed in the region. PB has a clear redistributive effect toward the economically disadvantaged. It should be noted that these public works not only in themselves improve the living quality in these regions, but further they also have an effect in raising the value of the assets of people living in the poor areas. And of course as everywhere, inequality in the distribution of assets is higher than in the distribution of income.

It is theoretically possible that the richer neighborhoods got significantly more costly projects and so measurement by demands greatly overstates the redistributive nature of this spending. Figure 3 confirms that when measured by per capita investment, the relation is nearly identical. The important point here is that using the per capita demands as a measure of resources going to an area is appropriate.

Figure 4 considers the issue of redistribution toward the educationally disadvantaged. This dimension of exclusion gives the same result: the democratic nature of PB makes it strongly redistributive toward the disadvantaged.

¹²The information is available on the official website of the PB (Orçamento Participativo).

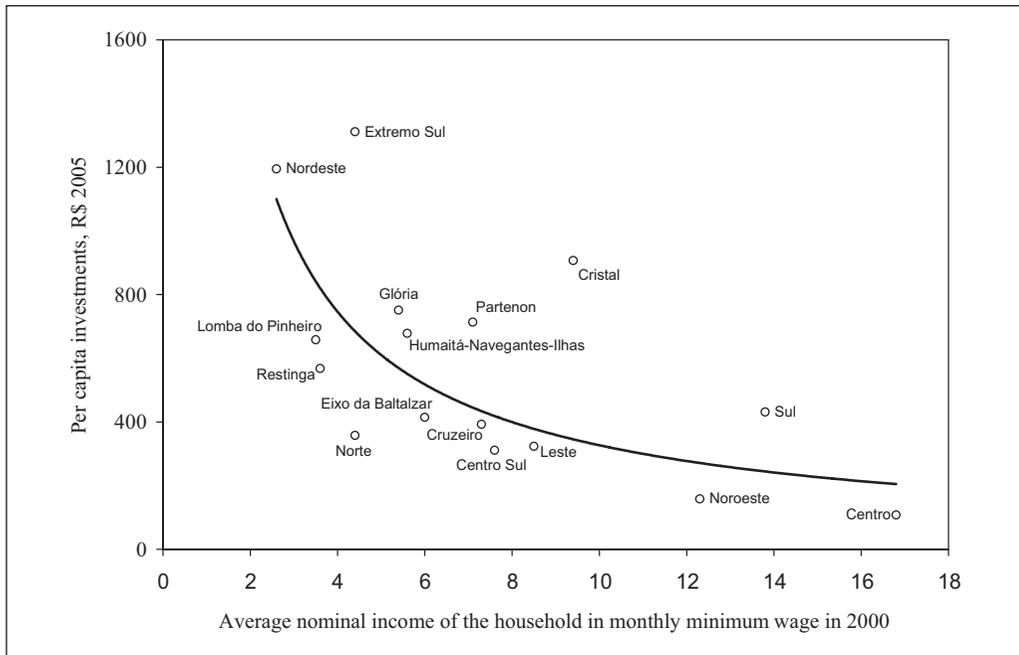


Figure 3. Average nominal income of the household head in monthly minimum wages and the per capita investments in the PB regions in Porto Alegre—1996-2005
 Source: ObservaPoA (2007); PMPA (2004).

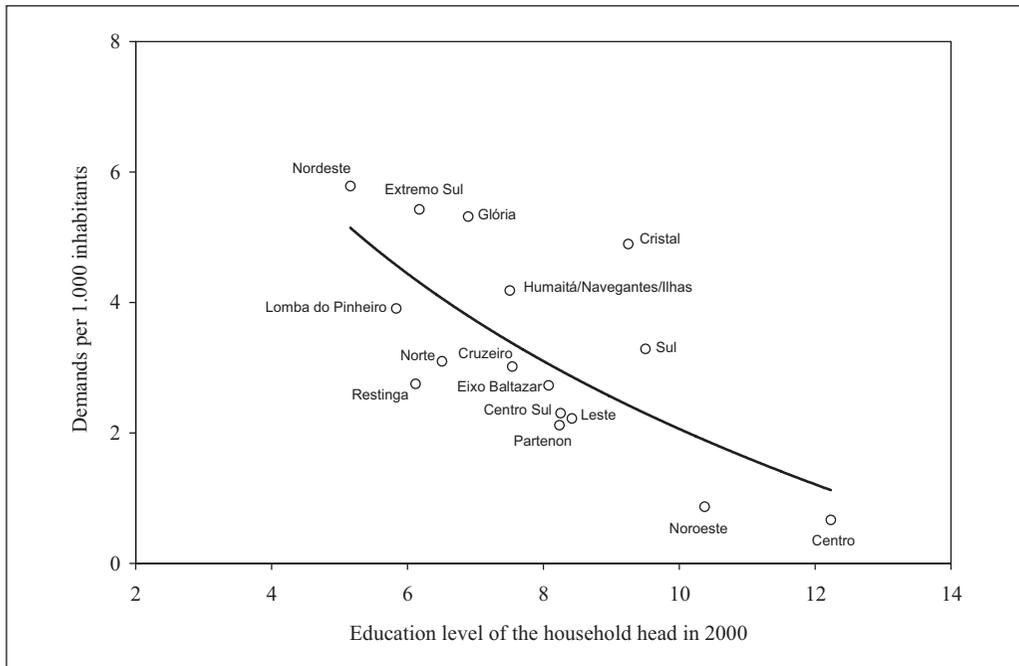


Figure 4. Education level of the household head and the number of public works per thousand inhabitants in the PB regions in Porto Alegre—1990-2004
 Source: ObservaPoA (2007); PMPA (2004).

7. Limitations of PB in Porto Alegre

Based on the above evidence we consider the PB experience in Porto Alegre under the Workers' Party administration to have been an experiment in economic democracy of world importance. It has opened channels of direct political participation for the poor population and the working class to influence the state, and in particular the executive power, which has the main responsibility for the definition and implementation of most public policies. For the first time in Brazilian history, these social groups are playing an influential role in the definition of public policies.

Nevertheless, in the frame of desirable economic democracy, there are many limitations to the Porto Alegre PB experiment. Here in a very abbreviated form we will indicate seven important limitations. We will not explicitly discuss what would be necessary to overcome these to extend economic democracy, since in all cases that is obvious simply from stating what the limitations are.

- (1) A first limitation is the inadequate financial resources of City Hall. For example, the total revenue of City Hall represented 12.2 percent of Porto Alegre's GDP in 2003, while investments represented between 10 and 15 percent of total revenue. Therefore, even if PB participants deliberated over the total amount of investments, this would represent less than 2 percent of Porto Alegre's GDP. This represents inadequate resources in relation to the needs of the population. This constitutes a limitation not only in the sense of the resulting inadequate resources, but also in the important sense that the PB process itself has no control over the amount of the resources available to it. That is determined outside the PB process.
- (2) This problem of inadequate resources is exacerbated when the city faces a financial crisis as happened in Porto Alegre starting in 2001. As we commented above, this began a process of delay in the execution of most of the demands defined by the PB process. As in the first point just discussed, this represents a limitation in two ways: both in the sense of even more restricted resources, and again also in the sense that this further restriction comes from something that PB has no control over, in this case a downturn in the economy.
- (3) A third limitation has both an aspect of a limitation on resources and an aspect of a limitation on the set of projects that can be democratically considered. PB has been almost entirely restricted to operating at a city level. Hence it neither has access to the resources of, nor is it allowed to democratically determine the economic decisions on, the state or national level. Of course, PB itself would have to be adapted from how it is structured on the city level to operate on these new scales. However, the essence of PB that it allows the low-income and marginalized sectors of population to have greater influence and control over the economy would remain the central issue.¹³
- (4) Porto Alegre beginning in 2005 reflected a fourth limitation of PB. The potential for the PB process depends among other necessary factors on the political commitment of the mayor and other municipal authorities who are elected outside of the PB process itself. In the case of Porto Alegre, the new administration that came to power in 2005, while it did not feel it could eliminate the PB process given its history and popularity in Porto Alegre and the number of such processes nationwide, has worked to weaken the process. While as mentioned above this deterioration of PB in Porto Alegre after

¹³Operating on the national level would include in particular participatory control of the central bank, with all the democratic control that would give to what is now a fully neoliberal relation of the Brazilian state to finance capital.

2004 is not the topic of this paper, one measure of the undermining of PB is the sharp drop in the number of demands per year and the resources they represent, and further by the sharp drop in the execution of even this reduced number of demands.

- (5) A fifth limitation on the PB process is the sensitivity of its outcomes, and even its success versus failure, on the specifics of its institutional engineering. There are many significantly different PB experiences (Wampler 2007). Its design is important to determine both the technical functioning of the process, and the democratic issue of the real empowerment of the participants over the process. There are three main aspects associated to the design of PB. The first is how preferences of the city are defined, which involves who the participants are, how participation is organized, and what issues it is organized to address. The second is how the process of decision making works, which is related to how the budget is written and who writes it. The third is related to how the monitoring process is organized.
- (6) A sixth limitation is PB's focus, because of its focus on the composition of the budget, only on short- and some medium-term issues (these latter through the effects of some of its investment choices). It is only marginally concerned with long-term and other medium-term issues, as addressed typically in any system by city planning. The PB emphasis on local problems in the different regions of the city reinforces this short-term outlook. There is no conceptual barrier to organizing a participatory urban planning component to PB, but this has not occurred in experiments to date.
- (7) Finally, perhaps the broadest limitation of PB from the perspective of economic democracy is that, notwithstanding the importance of what it is concerned with, it is only concerned with the government budget in economies that are dominantly private. As an important example of the sort of limitations this yields concretely, PB in Porto Alegre produced a very limited number of income generating programs for the low-income population. From the late 1990s forward, the municipality did undertake a few projects to stimulate the micro-economy in certain neighborhoods. The city established recycling facilities, promoted the formation of cooperatives, and organized a micro-credit institution called Portosol. However, these efforts were extremely minimal when compared to the socio-economic problems of the poorer segments of society.

This limitation on the ability to influence income generation and distribution allowed the occurrence of the following slightly ironic result. Notwithstanding the significant improvement in the conditions of their lives that resulted from the demands from the PB process, the income share of the poorest 20 percent declined from 2.6 percent in 1991 to 1.9 percent in 2000, while the income share of the richest 20 percent rose from 60.3 percent to 64 percent. While of course this deterioration of their income position could not be caused by a lack of a particular mechanism to improve their income position and must have been caused by something else,¹⁴ this inability of PB to influence income generation and distribution in favor of the poor prevented these from being available to mitigate or offset their income deterioration that did occur.

8. Conclusion

Participatory budgeting is an important democratic experiment and experience about how ordinary people can share and debate ideas and from that make (economic) decisions. Crucial to this

¹⁴A very plausible cause, almost certainly accompanied by others, is the increasingly neoliberal structure of the Brazilian economy over the past two decades.

process is how they can come to understand the needs of both their neighborhood (not just their family), and beyond that and particularly important the needs of neighborhoods they are not part of. People become engaged and responsible in defining government policies to run the whole city, and in so doing change the way they see the world and thus change themselves.

Participatory budgeting is an institutional innovation from both the democratic and fiscal perspectives. From the fiscal perspective participatory budgeting has promoted a more efficient, transparent, and accountable administration of public resources, an outstanding achievement in itself. By using fairness criteria in budget allocations and bottom-up processes, it has also improved the living conditions of poor and marginalized communities by reversing priorities that were used to favor higher income areas.

Our concern in this paper has been in particular the inclusive democratic aspects of participatory budgeting. This process has opened new possibilities by involving citizens and civil society organizations in the elaboration of the fiscal policy of their municipalities, taking part in the definition of how and where they will be employed in their neighborhoods and their city. It is a new form of making fiscal policy. Indeed, ordinary people are active agents during the decision-making process, which is central to most radical progressive agendas for building a new more democratic and humane world.

The process of participatory budgeting is becoming more complex, and the cause is the increasing demand for more power by the popular participants. This involves not only the budget but also other spheres of the government, both its economic and non-economic functions. Thus, the participatory budgeting experience has given some preliminary indications that it can be at least part of the bridge to transform society's understanding of (economic and from that all) democracy from its currently passive to a more active concept, and through that transform ourselves from objects to subjects of all the social processes that we are part of.

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